

The recovery is finally ready to take off in France

As France starts vaccinating all of its adult population and shops and businesses reopen, the end of the crisis seems to be in sight, and economic indicators confirm the trend. The prospects for a rapid recovery strengthened in May and point to strong GDP growth in the second half of the year



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Sunshine on household morale and business climate in May

As health restrictions gradually ease, the French are once again optimistic.

The latest sentiment surveys of households and businesses confirm a clear improvement in confidence as the summer approaches. All components of the household confidence index are up for May, and the trend is similar for business leaders. The business climate also improved enormously in May, suggesting a strong recovery in activity in the second quarter of 2021. The overall business climate has now returned to its pre-pandemic levels.

The overall business climate has now returned to its pre-crisis level.

Business confidence indicators (Level) improved in May 2021

Confidence indicators (Level)		Value	-1M	-3M
Business climate	May-21 ✓	108	95.7	90.4
of which Services	May-21 ✓	107	92	89
Manufacturing	May-21 ✓	107.4	104.1	97.9
Retail trade	May-21 ✓	107.2	90.5	89.2
Employment climate	May-21 ✓	100	92	86

Rebound for services and retail trade

The economic upturn suggests a strong increase in economic activity in late spring and during the summer. However, the overall level of activity has not yet returned to its pre-pandemic levels. The latest estimate suggests that GDP was almost stable in 1Q21 (-0.1%) but still 4.7% below its pre-crisis level.

In comparison [to the first estimate of GDP growth for 1Q21](#), investment are actually revised downward. The opening of vaccination to all adults from 31 May should continue to bolster the strong recovery of activity in the service sectors (particularly accommodation and restaurants, supported by scheduled gradual reopenings) and in retail trade (with the reopening of so-called "non-essential" shops on 19 May). These sectors were still well behind their pre-crisis levels at the end of the first quarter of 2021.

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Construction and industry are also benefiting from a favourable economic climate with order books filling up. The production outlook for these sectors remains favourable, despite short term supply-side issues (shortages of raw materials [including electronic chips](#), higher freight prices, difficulties in hiring in some sectors). We anticipate further upward pressures on prices for all these reasons, reflected already in the harmonised consumer price index (CPI), where inflation increased by 1.8% YoY in May.

Covid-19 in the labour market

In the labour market, the employment outlook is logically improving. The employment climate returns to its long-term average in May (100). Households' concerns about unemployment fell sharply in May to their lowest level since March 2020. The physical return of companies is confirmed for 9 June, putting an end to the working from home trend.

The impact on unemployment of the third lockdown was greater than that of the second lockdown

Nevertheless, the latest statistics about job seekers in April by the Ministry of Labour confirms the impact of Covid-19 on the most precarious, with the [risk of rising inequality as the crisis ends](#). The third lockdown, which spread over the month of April, provoked a 1.7% increase in jobseekers who did not work at all in April compared to March (category A). Overall, the effect of the third lockdown on unemployment was greater than that of the second lockdown, in fall 2020. The government's latest budgetary efforts of almost 20 billion euros to feed the "whatever it takes" emergency schemes should limit the risks of business failures after the summer.

The economic horizon is brightening

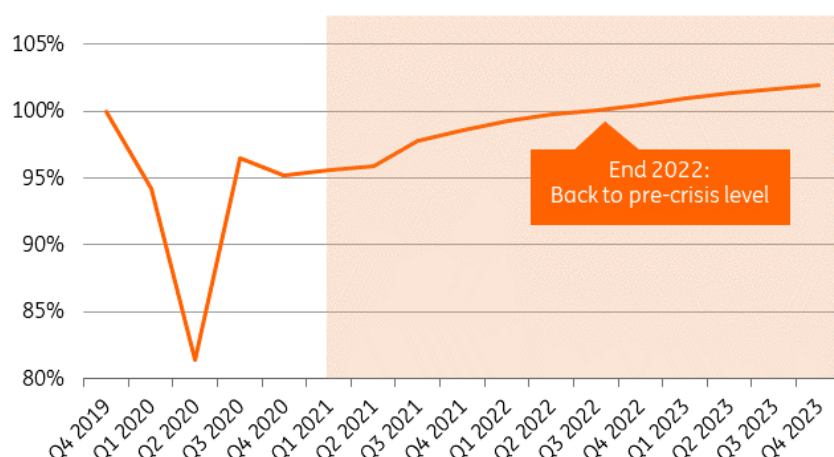
The prospects for a broad-based recovery in France are therefore excellent for the second half of the year.

After plunging by 8.3% MoM in April, consumer spending should come back strongly in the summer and the beginning of sales, postponed by one week to June 30, especially since households have already accumulated additional savings of around 165 billion euros. According to the national statistics institute (INSEE), spending around 20% of these "Covid-19 involuntary savings" on drinks, food and outings could generate 1.7% additional GDP growth.

Consumer spendings should come back strongly with the summer period and the launch of the sales

The investment component should also rebound strongly. The latest INSEE surveys in industry, for example, indicate a 10% rebound in value terms in 2021 compared to the previous year, particularly in the manufacture of capital goods. French exports will certainly be driven by President Joe Biden's stimulus plans in the US, and the [European stimulus plan](#) should at the same time boost public investment from the fourth quarter of 2021.

France path to economic recovery



On the back of the strengthening recovery, we now believe that the return to the pre-crisis level of activity should take place by the end of 2022, even if the evolution of the health situation remains the determining variable. The economic recovery in France should be one of the strongest in the eurozone.

We expect a 5.6% growth of the GDP in 2021 and 3% in 2022.

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