

## France: Business climate improved before the new lockdown

The business climate in France improved significantly ahead of the third lockdown, which could help to avoid a further decline in GDP in the first quarter



### Improvement in the business climate

Business sentiment in France improved significantly in March, ahead of the announcement of a third lockdown in the regions most affected by the coronavirus. The composite index stood at 97, up 7 points over a month, and reaching its highest level since the beginning of the health crisis. The rise was due to improved conditions in the services sector and in retail trade. In industry, after three months of improvement, the business climate was stable in March. This stabilisation is mainly due to the automotive industry where the business climate is clearly deteriorating, probably due to the difficulties encountered by the sector in the supply chain, while it is improving in the other segments. It should also be noted that the business climate remains very depressed in the aeronautics industry, stagnating at 79, well below the historical average of 100.

The evolution of the business climate can be linked to that of the March PMI indices in France. The composite PMI rose in March to 49.5, its highest level since December, thanks to a rise in the PMI in the services sector and in manufacturing.

## Good news for the outlook

This data is good news. It indicates that, prior to the implementation of additional restrictions including the closure of non-essential shops in several regions, the French economy was recovering, despite the health measures such as the 6pm curfew imposed since the beginning of the quarter. This could allow France to avoid another quarter of negative GDP growth in 1Q 2021, though it is still a close call. Compared to 4Q, when the economy contracted by 1.4% quarter-on-quarter due to the second lockdown in November, the situation does not seem to have deteriorated fundamentally in 1Q. Industry played an important role as an economic driver, thanks to strong global demand and the fact that the health measures mainly affect the service sector. But the service sector also seemed to recover, especially in the sub-sectors of information and communication, real estate and professional, scientific and technical activities.

Of course, the new restrictions announced on 18 March and implemented on 20 March will lead to a deterioration of the business climate in April. The new lockdown, for now, affects geographical areas representing more than 40% of French GDP, but it could be extended to other regions very soon. The new restrictions will also have an impact on the evolution of GDP in 2021. However, most of the impact will, in our opinion, be on the second quarter. The economic recovery is postponed by a few weeks and GDP in the second quarter will grow less than expected. We continue to anticipate a strong recovery in the economy from the third quarter of 2021. If the health restrictions can indeed start to be lifted in the second quarter due to the progress of the vaccination campaign, we expect GDP to grow by around 5% for the year, below the government's 6% target.

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