

## France: Business confidence deteriorates, double dip increasingly likely

Deteriorating business confidence and new restrictive measures are raising fears of a double dip recession in France



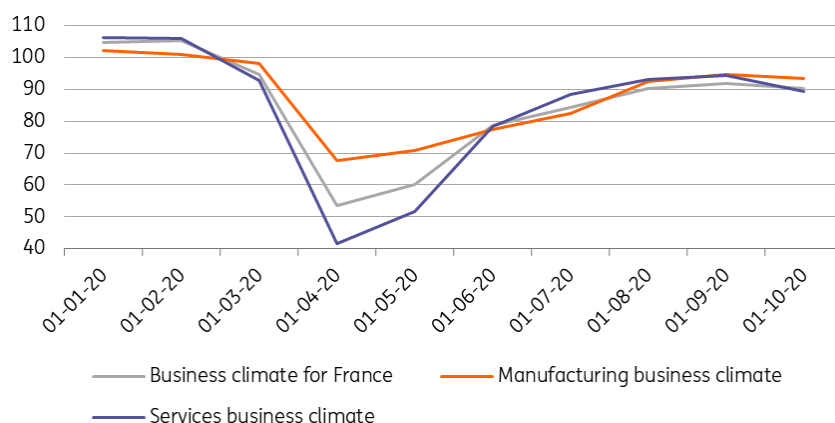
France's La Defense business district

### Deterioration in business confidence, especially in the services sector

In France, the business climate indicator of the statistical institute INSEE fell to 90 in October, after reaching 92 in September. The month of October thus marks the end of the indicator's rebound, which had begun since it had reached its low point of 53 in April during the lockdown. The PMI index of activity in France confirms this trend, falling once again to 47.3 in October, after 48.5 in September, its lowest level in five months.

The decline in the business climate can be observed in both industry and the service and retail sectors, but it is much more marked in the service sector, where the business climate indicator fell by more than five points in a single month. The PMI index for the service sector is even more deeply entrenched in contraction territory (46.5 after 47.5 in September), while that of the manufacturing sector is still above 50 (51 against 53.3 in September). There is therefore, as in the rest of Europe, a real disparity between the manufacturing and service sectors, the latter suffering more from the consequences of the pandemic. Finally, the employment climate indicator in France

is also deteriorating and has reached 89, three points less than its September level (92). Employment prospects remain well below their pre-crisis level (105).



Source: INSEE, ING Economic Research

## Risk of a double dip

The deterioration in the business climate and PMI indicators in France is mainly due to the very negative economic impact of the flaring up of the pandemic and the new restrictive measures taken gradually over the last few weeks to curb the spread of the coronavirus. It should be noted, however, that the indices do not take into account all these new restrictions because the surveys were spread over the first part of October (and up to the 19th and 22nd for the business climate and PMI, respectively).

In particular, the curfew introduced between 9pm and 6am in a large part of the country (covering 70% of the French population), has a strong impact on the service sector. In particular, due to the curfew, the restaurant and catering sectors, as well as the arts and entertainment sectors, are obliged to close at the time of day when they generate the largest share of their turnover. The complete closure of bars and sports halls in the same cities does not help either. We estimate that the current restrictions will have a direct impact on GDP growth in the fourth quarter in the range of -0.6 to -1%. Apart from the direct impact on supply, the restrictive measures will also have a negative impact on demand, with households and businesses being more cautious in their consumption and investment behaviour due to uncertainty about the future. As a result, the full impact of the current measures to combat the pandemic on quarterly economic growth could double to around -1% to -2%. Consequently, the probability of another quarter of negative growth in France is very high and the scenario of a W-shaped recovery becomes more likely.

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