

## France: Stable consumption before new restrictions

Household consumption of goods in France remained stable in February, despite the shift in the sales period. A deterioration is expected in March and April as restrictions are tightened. But we think the bulk of the recovery is expected to occur in the second half of 2021 and into 2022



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### Stable consumption of goods

In France, the volume of household consumption of goods remained stable in February compared to January.

The French bought more manufactured goods (+3.4% mom) but less energy (-3.1%) and food (-2.2%). The increase in spending on manufactured goods is partly due to the shift in the sales period (from 20 January to 2 March when they usually occur in January), which boosted spending

on clothing, textiles and household equipment. In February 2021, spending on goods is almost (-0.1%) of its pre-crisis level, i.e. the level prevailing in February 2020.

However, this data doesn't account for the consumption of services by households, which represents more or less half of the consumption basket. Consumption of services is still very much affected by restricted mobility measures and has probably changed very little since the second lockdown last November.

As a result, while consumption of goods has returned to their pre-crisis levels, total household consumption is still a long way off, probably between 5 and 8% below the end-2019 level.

## **A deterioration is to be expected, before a dynamic recovery**

By stabilising between January and February, the goods consumption data reinforces our forecast of stable economic activity in the first two months of 1Q21. However, goods consumption is expected to weaken in March as health restrictions have been gradually tightened.

After a series of targeted measures (weekend lockdowns in certain cities, closure of large shopping centres), a new lockdown was implemented on 20 March in a large part of France, which will weigh on the consumption of goods. As the measures also cover the month of April, consumption is expected to remain depressed in early Q2.

The deteriorating health situation and the gradual tightening of lockdown measures - President Macron is expected to announce further restrictions tonight - seriously delay economic recovery. We remain convinced that the potential for a dynamic recovery still exists, notably thanks to household consumption which should rebound quickly once the restrictions are lifted. Consumer confidence data, up three points in March, confirm this potential. Nevertheless, the recovery is postponed to much later in Q2 than previously hoped, given the current severity of the health situation.

*The bulk of the recovery is expected to occur in the second half of 2021 and into 2022. We expect growth of 5%*

As a result, the bulk of the recovery is expected to occur in the second half of 2021 and 2022. This implies that GDP growth will be less dynamic than expected in Q2 and that 2021 growth will probably be lower than previously expected. The government's target of 6% growth in 2021 seems increasingly unachievable, and we believe that growth of around 5% is more realistic.

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