

## France: The bitter taste of confidence

The latest consumer confidence and business climate data point to a strong recovery in 3Q 2021. But the rise of the Delta variant in new infections is raising concerns over a fourth wave in the autumn. The situation in the tourist region of Landes provides a warning for the rest of the country



### Recent confidence level bodes well for the recovery

In June, consumer confidence increased significantly. At 102, the indicator gained four points and rose above its long-term average (100) for the first time since the beginning of the health crisis. More consumers are optimistic about their future financial situation (+6 points), the highest level since June 2007. Many more consumers feel it is time to make major purchases (+10 points), suggesting a strong rebound in consumption in Q3 2021. Another interesting fact is that the proportion of consumers who think it is a good idea to save has fallen (-4 points), but remains well above its historical average. Regarding perceptions about the French economy, consumers' fears about unemployment fell sharply, to the lowest level since the beginning of the health crisis (-19 points). The proportion of consumers who consider that their standard of living will improve over the next 12 months rose sharply (+8 points), to the highest level since December 2017. Consumption will particularly benefit from the summer period and the start of sales on 30 June, especially as consumers have accumulated more than EUR 150 billion in extra savings during the crisis.

The last publication of the business climate index in June - at the highest level since mid-2007 at 113 - already suggested a good outlook, particularly in services. The lifting of the latest restrictive measures since the end of May is particularly favourable for retail trade, while industry remains stable after five months of continuous rise. This bodes well for the economic recovery, which is expected to gain momentum in 3Q 2021.

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*We continue to anticipate a strong recovery in the economy from 3Q 2021 and a GDP growth forecast of 5.6% for 2021.*

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## **But the Delta variant is raising concerns**

However, the progression of the Delta variant in France is beginning to raise concerns, even if the current low incidence rate confirms that restrictions will be eased further as of 1 July. The Delta variant currently represents about 20% of new infections. Less than a week ago, it accounted for between 9 and 10% of new positive cases in France, and the week before that, its share was limited to 2 to 4%. Another source of concern is that the number of first-dose injections is falling back worryingly, even though half of the French population should be vaccinated with at least one dose before too long. A fourth wave of the pandemic - albeit less deadly - cannot be ruled out in the autumn.

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*Tourism professionals fear a drop in bookings, although reservation books continue to fill up.*

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The situation in Landes, a tourist region in southwestern France, provides a warning for the rest of the country. The Delta variant now accounts for almost 75% of new infections. The new easing of restrictions, scheduled to take place throughout France on 1 July, could be postponed locally and a reinforcement of the screening operations has already been initiated.