

## French restrictions continue to curb household consumption

French household's consumption of goods fell sharply in January but has returned to their pre-crisis levels. Given that movement restrictions are likely to remain in place for the next few months, we expect household consumption to remain subdued but the big question is what will happen to all the accumulated savings



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### Drop in consumption of goods

French household consumption of goods fell by 4.6% in January 2021 in comparison to December 2020, but despite the fall, consumption of goods has returned to pre-pandemic levels. This decline was mainly due to the sharp fall in consumption of engineered goods (-12.9%) which benefited from a rise in December as Black Friday sales were postponed and the ending of the lockdown. Over the year, the consumption of engineered goods has fallen by 3%.

The change in household consumption in January was impacted by several things. Firstly, December was a month of pent-up demand after the lockdown and shop closures in November. This post-lockdown pent-up demand did not extend into January and from 2 January, the curfew was brought forward for part of France to 6 pm as opposed to 8 pm previously. On 16 January, the curfew was imposed for the entire country.

The statistical agency, INSEE estimates that the curfew at 6 pm led to a 6.5% decrease in consumer spending compared to the curfew at 8 pm. In addition, the postponed winter sales that started on 20 January were due to start in early January. They have also been extended to last until 2 March.

The effect of the sales will therefore be felt mainly in February this year.

## The situation is worse for total consumption

The fact that the consumption of goods in January was equivalent to pre-pandemic levels can be considered as good news by some - a sign that household consumption isn't too much affected by the restrictions, but that would be a mistake.

Indeed, the consumption of goods is only half of the total household consumption, the rest being services. Even if the figures are not yet available, we know that the consumption of services has been severely impacted by the restrictions. Curfews, the closure of cultural and sports venues, the closure of bars and restaurants and difficulties in travelling have had a very negative impact on the consumption of services and therefore on total household consumption.

In the fourth quarter, total consumption was 7% below its pre-crisis level and it is unlikely that there will be any progress in January.

## Uncertainty will continue to weigh on consumption

Overall, what continues to weigh on consumption is uncertainty.

The deteriorating health situation, new restrictions announced regularly and the slow pace of the vaccination campaign doesn't enable households to be optimistic, and therefore spend. In January and February, consumer confidence was stable, well below its long-term average and the December level. Households are really not thinking that this is the best time to make major purchases, but the proportion of them who feel it is a good time to save is historically high.

Caution is therefore definitely the reigning sentiment, for now, and it seems a while to come. The capacity to save in the future indicator is increasing and is at historically high levels.

We expect household consumption to remain negatively impacted in the coming months. Indeed, restrictions are intensifying, notably with the introduction of weekend lockdowns in some cities, and possibly in some regions next week. And the vaccination campaign does not allow us to hope for a relaxation of the constraints before the end of the second quarter.

## What will become of accumulated savings - the big challenge of the post-crisis period

The big question for the period after the constraints is to what extent households will boost their consumption using their savings accumulated since the beginning of the pandemic.

The central bank estimates that €130 billion of additional savings have been accumulated by 2020. If these savings were used, household consumption would rebound strongly and be a driving force behind the economic recovery expected for the rest of the year. But this would require a revival of household confidence at a time when the consequences of the

pandemic will start to be felt strongly in the labour market and in terms of bankruptcies.

We forecast a dynamic recovery in consumption in 2021, but weaker than the potential created by accumulated savings. The accumulated savings are likely to be mainly used in 2022.

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