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Update on business conditions at the end of May 2020

Based on our April Monthly Business Survey (MBS), we presented on 12 May an estimate of the loss of GDP during a typical week of the April lockdown. Our latest survey, conducted after the lockdown from 27 May to 4 June, and involving 8,500 businesses or establishments, has enabled us to update this snapshot and assess the extent of the recovery.

According to the business leaders surveyed, activity rebounded in May after the slumps of March and April., The industries most affected by the crisis recorded the strongest rises. The catch-up appears to be more rapid in the **manufacturing** and **construction** industries than in **services**, where certain segments, such as accommodation and food services, have not yet benefited from the end of the lockdown measures. Even though activity is rising, it remains below normal levels. Whereas a month ago we estimated the GDP loss for a typical lockdown week in April at 27% compared with pre-crisis levels, our new estimate for the loss in a typical week at end-May is around 17%; the outlook for the coming months has improved but remains uncertain. As a result, we estimate that GDP will contract by around 15% in the second quarter of 2020. This information is consistent with the starting point for our 2020-22 forecast, which was also published today.

1. After falling sharply in March and April, activity rebounded in May with the lifting of the lockdown, but remained well below normal levels

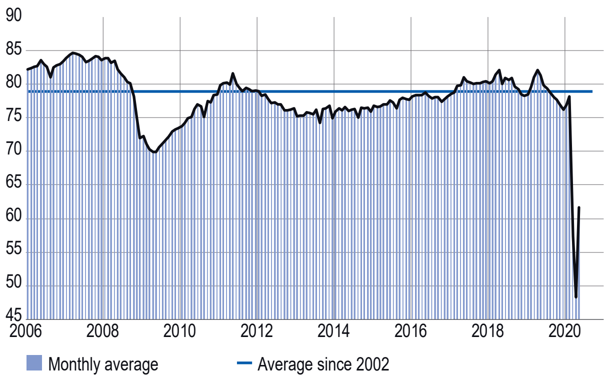
With the launch of the new phase on 11 May, economic activity started up again in the majority of industries.

In **manufacturing**, site closures became marginal and the number of days of exceptional closure dropped sharply, from an average of five in April to just one in May. Output rose significantly in May in nearly all industries. The biggest increases occurred in those industries most affected in March and April: automotive, rubber and plastic products, textiles and electrical equipment. However, the upturn only partially made up for the sharp drop in activity in the previous months.

The capacity utilisation rate began to rise again, adding 13 percentage points to reach an average of 61%, up from 48% in April (but compared to 78% before the crisis). The rise was particularly marked in the automotive industry, where the capacity utilisation rate went from 10% in April to 36% in May, in capital goods where it went from 44% to 63%, and in textiles and wearing apparel, where it went from 32% to 52%.

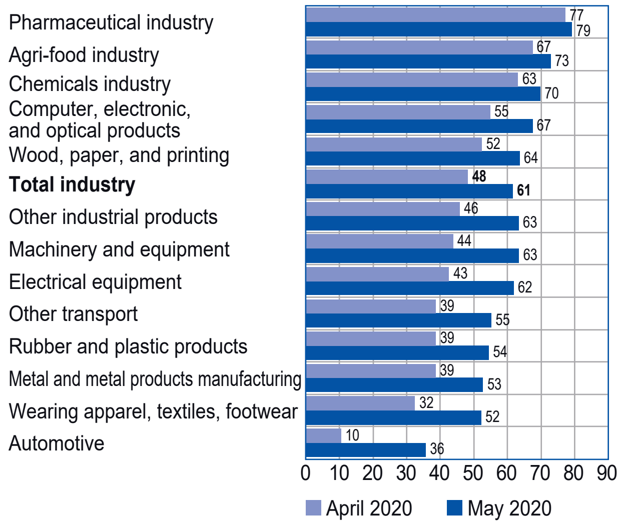
The capacity utilisation rate in the manufacturing industry

(%)



Capacity utilisation rate

(%)



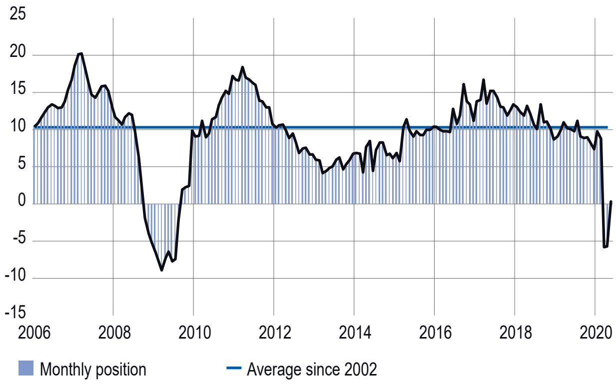
The activity in **services** industry also rebounded, although the upturn was smaller than manufacturing, and varied in size across the different segments. Those services unable to operate via teleworking in March and April and which were thus harder hit by the lockdown, recorded the strongest pace of recovery. The upturn was particularly marked in transportation, owing to the manufacturing recovery, in the temporary work sector which was driven notably by construction, and in automotive repair and “other service activities” which include personal services such as hairdressers. Accommodation and food services remained depressed, due to the time lag in the easing of the lockdown for these sectors.

The **construction** industry picked up again at a very strong pace, especially the finishing works segment, and thus made up for some of the activity lost in March-April.

Against this backdrop, which was also marked by the provision of support to businesses via state-guaranteed loans, **cash positions** improved in both manufacturing and services, and returned to levels deemed acceptable by business leaders, albeit below pre-crisis levels.

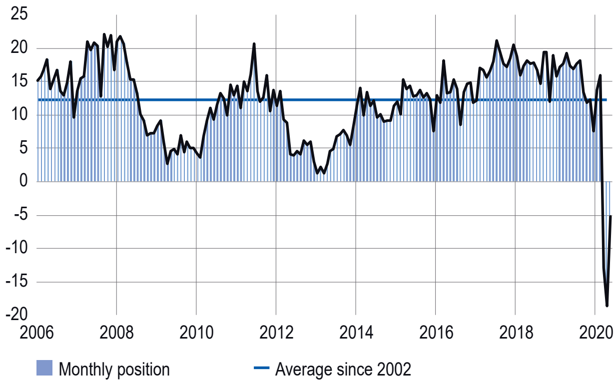
Cash position in manufacturing industry

(balance of opinion)



Cash position in market services

(balance of opinion)



2. In June, businesses expect activity to continue growing, but at a more moderate pace

In **manufacturing**, business leaders forecast a further increase in activity in June; all industries were expected to see a rise, especially the automotive industry, computer, electronic and optical products, and capital goods.

In **services**, activity should also continue to rise; food services were expected to see the largest increase, thanks to the further lifting of the lockdown measures as of 2 June. Activity in automotive repairs, transportation and temporary employment should remain dynamic.

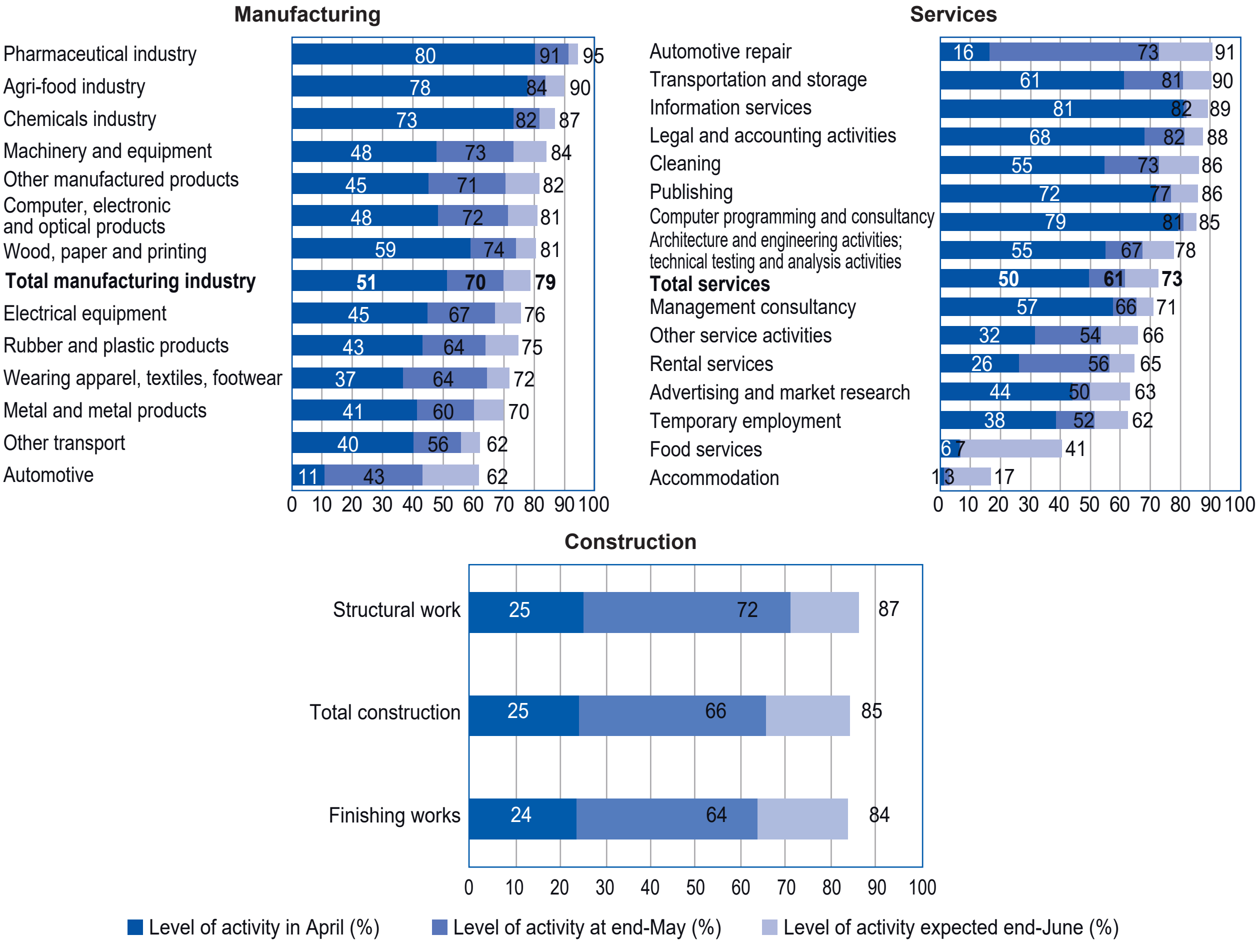
In the **construction** industry, activity should continue to recover but at a more moderate pace than in May.

Overall, the catch-up after the March-April falls should be more rapid in manufacturing and construction than in services.

Business leaders also voiced strong uncertainty over how demand will evolve in the coming months. In the **manufacturing** industry, order books appeared to be weak on the whole. Business **services** are highly dependent on the evolution of their clients’ activity levels in the manufacturing industry, and are particularly concerned that some might choose to postpone their investments. By comparison, order books in the **construction** industry appeared more favourable.

Opinion of business leaders regarding their level of activity in April and May - forecasts for June

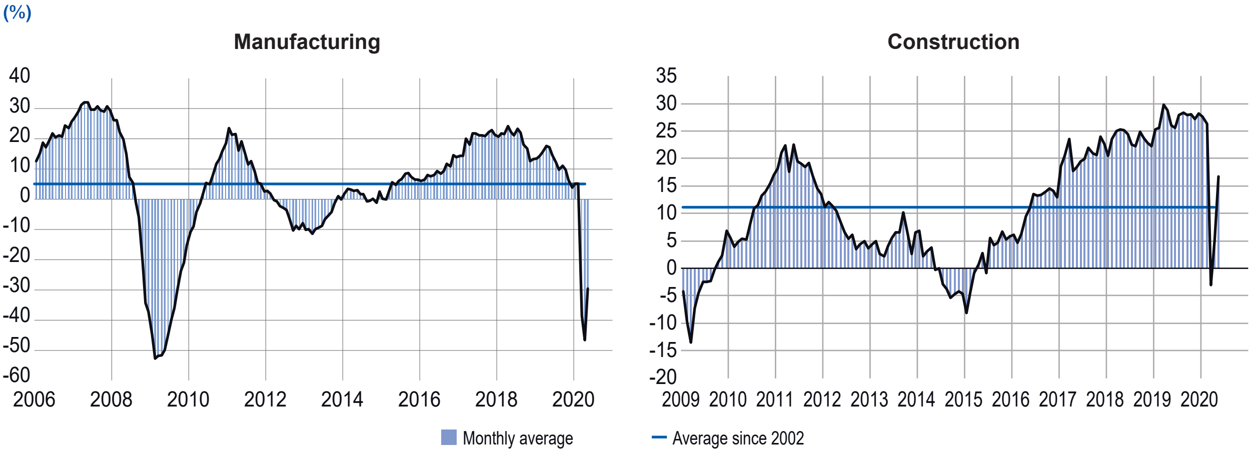
(as a% of the level deemed normal)



Interpretation: in the automotive industry, activity in April was deemed by business leaders to be just 11% of normal levels; with the easing of the lockdown, activity reached 43% of levels deemed normal at end-May; business leaders in the automotive industry expect activity to continue to improve in June, reaching 62% of normal levels.

Level of order books

(%)



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3. Based on the survey results by industry, the loss of activity is estimated at close to -17% for a typical week during the first phase of the lockdown exit in May

In our last publication on 12 May, we estimated the loss of activity to be 27% over a typical lockdown week in April (after 32% during the two weeks of lockdown in March).

As explained above, May's survey suggests the situation is gradually improving compared with the April lockdown, even though it is still far from being back to normal. The balance of opinion on the evolution of output in the manufacturing industry and activity in services show a clear improvement compared with April's figures. The capacity utilisation rate in manufacturing and opinions on activity levels in May indicate that activity recovered markedly over the month.

Based on this information, which is as granular as possible, we updated our estimate of the loss of activity over a typical week. The loss remains significant at around 17% at end-May.[1] The improvement in activity versus April is largest in the construction and manufacturing industries, but smaller in services. Activity remains significantly below normal in certain industries, such as accommodation and food services, and transport equipment (including the automotive and aeronautics industries).

The recovery in activity in May compared with April is also corroborated by other high-frequency data sources, such as temperature-adjusted electricity consumption, credit card payments and ATM withdrawals.

The outlook for activity in June suggests that the shock will continue to be absorbed gradually with the second phase of the lockdown exit strategy and further easing of the health restrictions. **Business expectations collected in our survey suggest that the average loss of activity relative to a normal level could be reduced to somewhat below 12% in June.**

Taking into account our estimates for the loss of activity in April, May and June, GDP is expected to contract by around -15% in the second quarter of 2020.

Impact of the Covid-19 crisis on activity by industry in May

(%)

Industry	VA share	Impact on activity in a typical lockdown week at end-May
Agriculture and manufacturing industry	**15**	**-15**
Agriculture and agri-food industry	4	-4
Energy, water, waste, coking and refining	3	-10
Manufacturing industry excl. food, coking and refining	9	-21
Construction	**6**	**-33**
Market services	**57**	**-19**
Wholesale and retail trade, transport, accommodation and food services	18	-31
Financial and real estate services	17	-5
Other market services	22	-20
Non-market services	**22**	**-9**
Total	**100**	**-17**

Note: The estimates presented in this table may differ from companies' opinion regarding their level of activity in the previous charts. In addition to differences in scope, the estimates in the table also use other information, such as the number of closure days, balances of production and activity changes and capacity utilisation rates.

1 *This new assessment of the loss of activity points to an improvement compared with the latest INSEE estimate (loss of 21% on 27 May). This can be explained by the fact that the survey on which our estimate is based was conducted in end-May/early June, and takes into account the continuing improvement over the last week of May. However, these differences should be interpreted with caution, given the unusually wide margins of uncertainty surrounding all these estimates, and the fact that activity remains significantly deteriorated compared to normal.*