

Update on business conditions in France at the start of December 2020

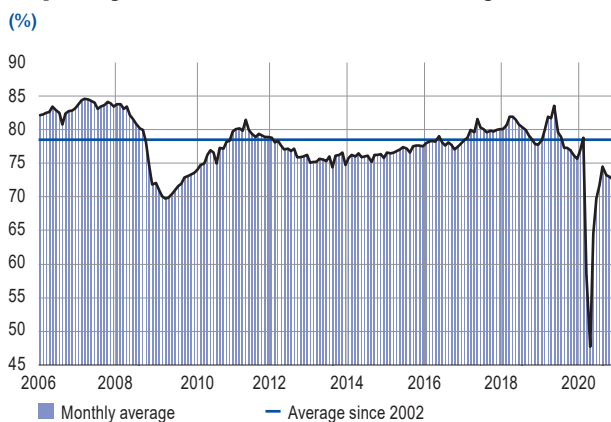
November was marked by the introduction of a lockdown across France on 30 October. Our Monthly Business Survey (MBS), conducted between 26 November and 3 December among 8,500 businesses or establishments (excluding shops), provides a snapshot of the impact of these measures on activity, both at the sectoral and aggregate level. As forecast last month, this impact is overall milder than that of the first lockdown, while differing across sectors. In November, activity was relatively unaffected in industry and construction, whereas it recorded a sharp decline in services, especially in accommodation, food and personal services. For December, with a gradual easing of health restrictions from 28 November, business leaders expect activity to remain stable in industry and construction and to improve somewhat in services. Overall, the loss of GDP is estimated at 11% in November and 8% in December. We estimate that GDP will drop by 4% in the fourth quarter of 2020 (relative to the previous quarter).

1. In November, activity was relatively stable in industry and construction, whereas it showed a marked decline in services

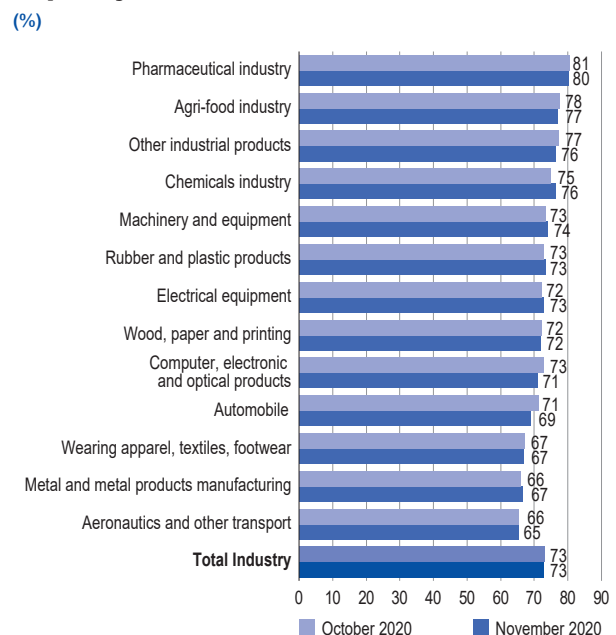
In November, while business leaders expected a slight decline in activity as a result of the lockdown, industrial activity was stable overall.

The capacity utilisation rate was unchanged at 73% on average in November (compared to 79% before the crisis). While a decrease was observed in the computer, electronic and optical products sector (from 73% to 71%) and in the automobile sector (from 71% to 69%), a slight increase was recorded in the chemicals sector (from 75% to 76%) and in the capital goods sector (from 73% to 74%).

Capacity utilisation rate in industry



Capacity utilisation rate



Activity was close to its pre-crisis level in the agri-food industry, other industrial products and pharmaceuticals. It remained subdued in the aeronautics and other transport sectors. Despite the lockdown measures, production proved resilient in the other sectors in November.

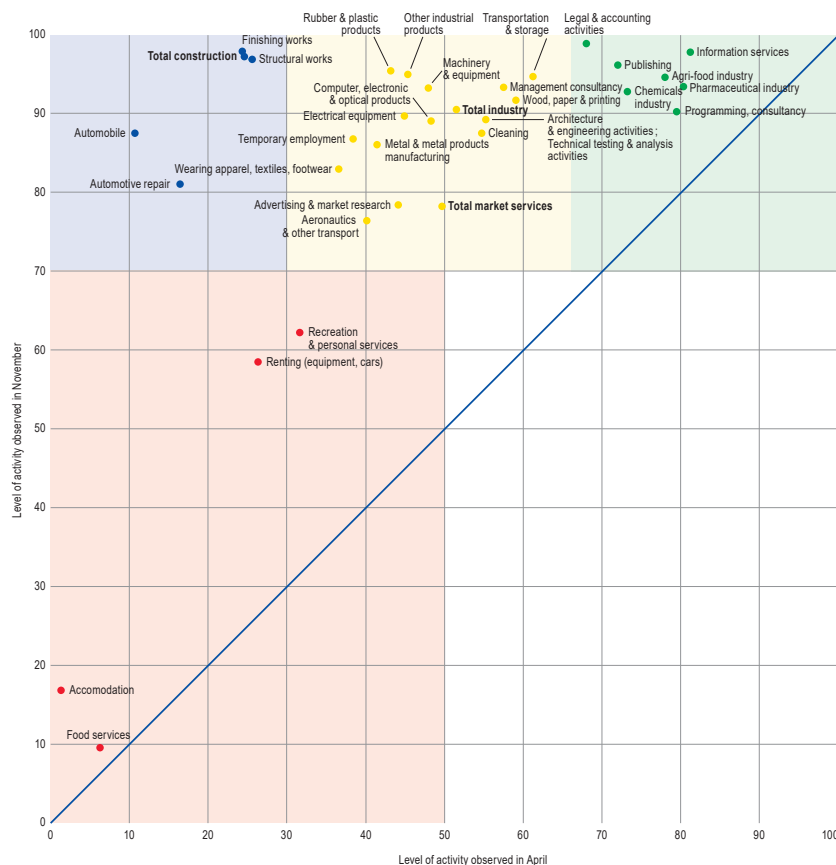
In the **services sector**, the fall in activity was much more marked and characterised by strong disparities across sectors. Household oriented services recorded a sharp decline in activity: logically, the catering and accommodation sectors were the most impacted by the lockdown, followed by recreation and personal services, car rental, and motor trade and repair, despite the reopening of businesses on 28 November. Business services held up better, in particular thanks to teleworking.

In **construction**, activity recorded in November was higher than what had been expected by business leaders last month and remained stable overall, with a slightly more favourable situation for finishing works. Business leaders consider that activity returned to almost normal levels in both finishing and structural works.

Thus, for all sectors, with the exception of accommodation and catering, the impact of the second lockdown was much weaker than that of the first lockdown. Companies benefited from the learning effect (in particular regarding teleworking), the implementation of health protection measures for several months now, and a different context with the opening of schools.

A smaller impact of the second lockdown

Level of activity observed in April and November by business leaders (as a % of the level deemed “normal”)

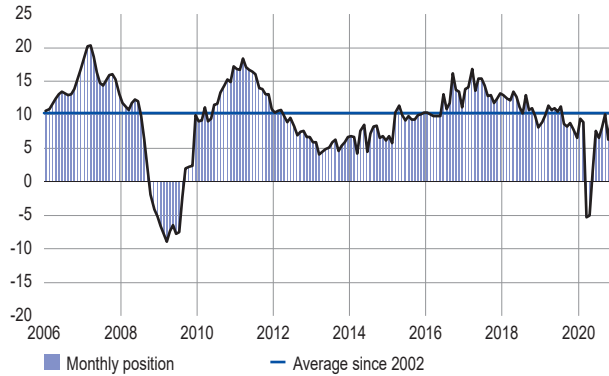


Interpretation: In the automotive industry, for example, activity was deemed by business leaders to be 11% of normal levels in April; it reached 88% of normal levels in November.

In November, the outlook for industry's **cash position** improved compared to the previous month and returned to its pre-crisis level. Conversely, in services, the cash position deteriorated further and remained below its pre-crisis average level.

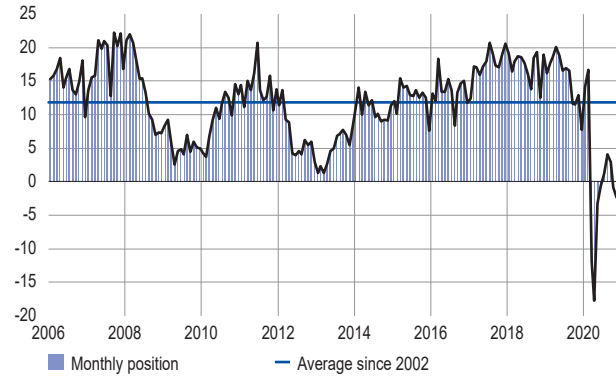
Cash position in industry

(balance of opinion)



Cash position in market services

(balance of opinion)

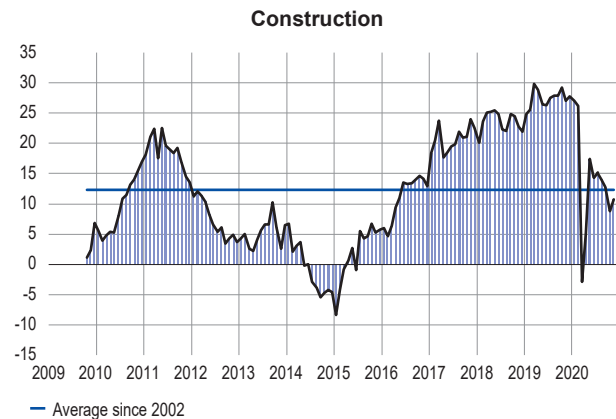
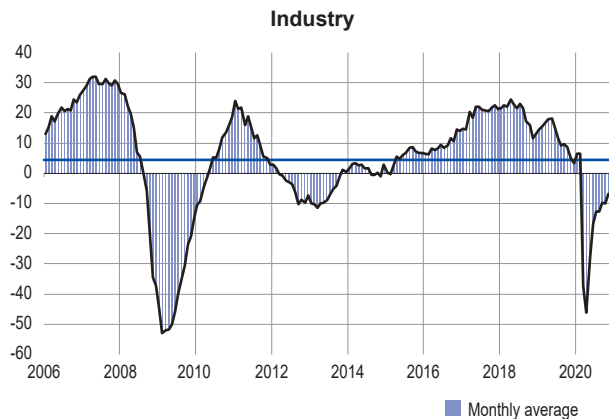


2. Business leaders expect activity in industry and construction to remain stable in December, while services are expected to record a slight increase, with significant disparities across sectors

Overall, activity is expected to remain almost stable in both **industry** and **construction** in December. These two sectors held up well in November, as they were less impacted by health restrictions, and this situation should continue in December. However, the balances of opinion on order books in industry and construction remained below their long-term averages.

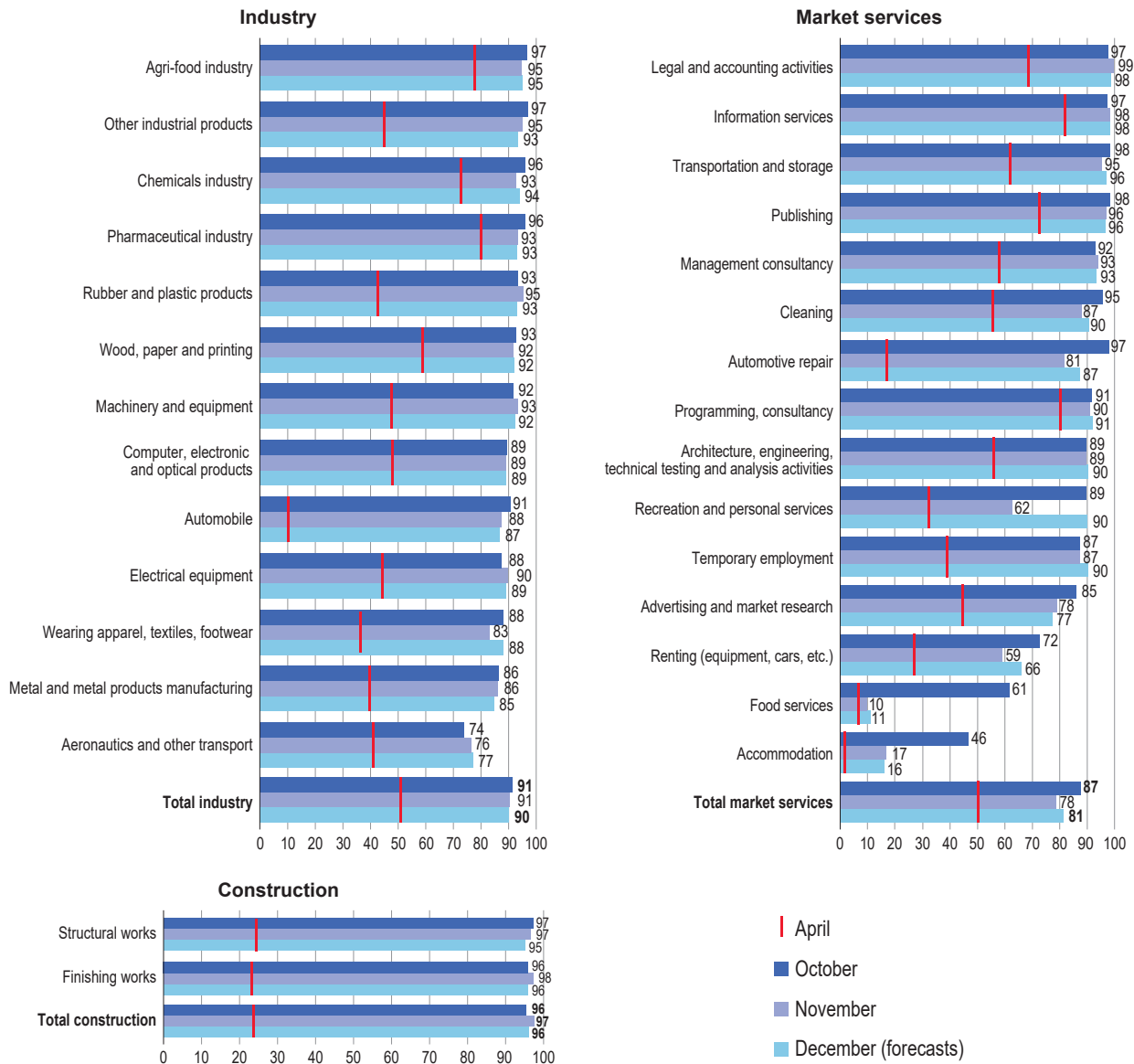
Level of order books

(balance of opinion)



In **services**, business leaders expect a slight increase in activity, with strong disparities between sectors. Some sectors, which have benefited from the lifting of restrictions at the end of November, are expecting a fairly marked recovery – this is the case for recreation and personal services, car rental and motor trade and repair – while for accommodation and catering the situation is not expected to change.

Business leaders' opinion regarding their level of activity and forecasts for December
(as a % of the level deemed "normal")



3. Based on the survey results by industry, we estimate the loss of GDP at around 11% in November. Survey responses also provide a basis for estimating the loss in December at around 8%, in a context of gradual easing of health restrictions

The survey results enable us to update our estimate of loss of GDP (compared to its normal pre-pandemic level) to 11% in November.

In our last update on business conditions published on 9 November, we estimated a loss of 12% of GDP for November, based on firms' expectations of their level of activity as well as assumptions regarding the sectors partially or not covered by the survey. At the end of November, firms' assessment of their level of activity for the month is broadly in line with these forecasts. In addition, our initial assumptions for the sectors not covered by the survey are confirmed, according to government information on health measures and other high-frequency data.

According to our estimates, November was marked by a significant drop in economic activity, resulting from the second wave of the epidemic and the introduction of a new lockdown on 30 October. Thus, the level of activity is estimated to have declined compared with October, recording a fall of 11% in November after -4% the previous month, but the loss is still much more limited than that observed in April during the first lockdown (-31%).

This second lockdown is characterised by the implementation of less stringent health restrictions compared to last spring. In particular, the government authorised the opening of wholesale trade, hotels, and accommodation, order deliveries, public transport and public front-office services, in addition to generalising teleworking wherever possible. Furthermore, firms have been adjusting to the health context since last spring by introducing appropriate measures.

The health measures are thus expected to lead to a loss of activity with significant disparities across sectors, depending on the applied restrictions. Some service activities are directly affected by the lockdown, such as the non-food retail sector, food services and recreational activities. These sectors display losses fairly similar to the previous lockdown except where businesses adapt, for example through take-away sales and click-and-collect purchases. Conversely, activity in the transport sector is expected to improve significantly compared to April thanks to freight and public passenger transport.

In industry and construction, business leaders report a resilience of activity, and only a very moderate decline compared to April. The new exemptions, the fact that businesses are adapting their working environment to health constraints and that nurseries and schools have remained open, should limit the loss for these sectors.

This assessment is also corroborated by the high-frequency data that we monitor for additional information, such as credit card transactions, temperature-adjusted electricity consumption, the daily ambient noise indicator and Google mobility data.

Based on the survey results, we are able to estimate the loss of activity associated with the gradual easing of health restrictions at around 8% in December.

The forecast of activity for the end of the year remains very uncertain: it depends on the health situation in December, which will condition the lifting of restrictions. A gradual easing of lockdown began on 28 November, with the reopening of so-called “non-essential” shops and supermarket sections, as well as fewer mobility restrictions. From 15 December, additional measures will be applied. Specifically, a strict curfew (from 8 pm to 6 am) should replace the lockdown, introducing some flexibility for the Christmas holidays.

Our forecast for December mainly takes into account the information provided by the survey through changes in firms’ expectations about their level of activity for the following month and the reopening of shops, a sector not covered by the survey for which we assume that the loss would return to its October level (a loss of 5%, after -22% in November). The scenario for December also takes into account the government’s announcements on 10 December, assuming that it is implemented as planned. We estimate the loss of GDP for December at 8%. This estimate suggests that activity will partially recover compared to November without, however, climbing back to the level observed in October.

The forecast shows significant disparities across sectors. The opening of “non-essential” shops at the end of November is expected to boost retail trade, with demand most likely picking up in the context of the festive season. With the second stage of the release from lockdown starting in mid-December, the shock on the transport sector should be slightly reabsorbed thanks to the fewer mobility restrictions. Conversely, the loss in accommodation and food services is expected to remain unchanged overall compared to its November level, as bars and restaurants will remain closed (they are expected to reopen in January 2021, depending on the evolution of the epidemic). The situation should also remain unchanged in the arts, entertainment and recreational sectors (such as theatres, cinemas and sports halls), which will remain closed at least until the beginning of January.

Impact of the Covid-19 crisis on value added by sector

(%)

Activity sector	VA share	Loss of activity in April	Loss of activity in October	Loss of activity in November	Loss of activity in December
Agriculture and industry	15	-31	-4	-5	-5
Agriculture and agri-food industry	4	-9	-2	-3	-3
Energy, water, waste, coking and refining	3	-20	-4	-5	-5
Manufacturing industry excluding food, coking and refining	9	-44	-6	-6	-7
Construction	6	-65	-7	-9	-11
Market services	57	-28	-5	-15	-9
Wholesale and retail trade, transport, accommodation and food services	18	-45	-9	-32	-19
Financial and real estate services	17	-5	0	-3	0
Other market services	22	-31	-4	-12	-9
Non-market services	22	-30	1	-5	-3
Total	100	-31	-4	-11	-8

Taking into account our estimates of loss of activity for October and November and our expectation of a gradual recovery in December, we estimate that GDP should fall by around 4% in the fourth quarter of 2020 (after rising by 18.7% in the third quarter according to the quarterly national accounts published by INSEE) and by 9% on annual average for 2020 (for further information, see the medium-term macroeconomic projections for December 2020 on the website <https://www.banque-france.fr/en/economics/macro-economic-projections-france>).