Croissance France T3 2020 – Commentaires et analyse d'Euler Hermes

In Q3 2020, French GDP bounced back strongly by 18.2% quarter-on-quarter (well above the consensus at 15.4%), following an historical contraction of -13.7% in Q1. This robust rebound of growth is partly driven by significant base effects, but also by stronger than expected recovery of domestic demand. The gradual easing of the sanitary measures boosted services activity during the summer holiday season. Consequently, in the third quarter of the year, overall activity stood only -4.3% below the pre-Covid level, with services activity catching up slower than the industrial sector.

In Q3, the rebound in household consumption expenditure (17.3%) was greater than our expectations while the resumption of investment occurred at a vigorous pace (23.3%) as expected due to sizeable base effects. Overall, final domestic demand excluding inventories recovered remarkably to contribute by 18.9pp to the expansion of GDP. Foreign trade contributed positively to GDP growth (–1.2pp), as exports (23.2%) rebounded stronger than imports (16%). However, in Q3 the year on year decline was stronger in exports (-15.2) compared to imports (-9.9%). Yet, the collapse of the aerospace and tourism exports will remain the main driver of the overall negative contribution of net trade to growth in 2020. As expected, companies decreased their inventories (-1.9pp) amid recovering domestic and external demand while government spending edged up 17.3% q/q in Q3 with the re-opening of public offices and resumption of construction activity.

The strong economic recovery in Q3 (+18.2% q/q) is prone to be short-lived and the French economy will be sliding into a strong double dip recession in Q4 (from -6% to -10% q/q). The French government has announced a return to a lighter version of the national lockdown implemented in March (at least for four weeks), as partial containment measures failed to curb the explosive spread of the Covid-19 virus. The second wave of the pandemic will take its toll on the economy, causing significant output losses in already weakened sectors such as tourism, hospitability, recreation, transport and retail trade. These sectors account for around 40% of GDP. During the national lockdown, we expect around -18% loss of activity compared to pre-crisis levels (versus -30% in April). We project the GDP to drop between -6% and -10% q/q in Q4, depending on the severity of the sanitary situation and the evolution of the containment measures in place. On an annual basis, we expect GDP to contract by -10.5% in 2020 (from -9.9% previously). A possible prolongation of national lockdown in December could severely harm economic activity during the end year holidays and bring the annual growth forecast down to -11%

We see increasing downside risks to the strength of the economic rebound in Q1 2021. We expect the GDP to grow +3% q/q in the first quarter of 2021, as sanitary measures are likely to remain strict before being relaxed more significantly as of March. We expect a rather volatile economic performance in the first half of the year with stop-and-go strategies, until a global Covid-19 vaccination campaign kicks off during the summer. Our 2021 forecast of +6.9% is highly at risk of being revised on the downside and is very dependent on future policy measures. We expect at least 2% of GDP (EUR40bn) additional fiscal relief measures to be announced by the French government in 2021 while the execution risks of the EUR100bn of fiscal stimulus have increased. The ECB will continue to support the liquidity through its QE program which we expect to be increased by EUR500bn at the December meeting and be accompanied by a new round of TLTRO.

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Contact médias :

Maxime Demory
Euler Hermes France
Responsable RP & Social Media
+33 (0)1 84 11 35 43 / maxime.demory@eulerhermes.com