

Update on business conditions in France at the end of October 2020

October was marked by the introduction of a curfew on 17 October in the Île-de-France region and in eight metropolitan areas, extended on 24 October to 54 departments, then by the introduction of a nationwide lockdown on 30 October. Our Monthly Business Survey (MBS), conducted between 28 October and 4 November among 8,500 businesses or establishments (with 90% of the responses from business leaders obtained after the start of lockdown) provides a first snapshot of the impact of these measures on activity, both at the sectoral and aggregate level.

This impact differs between sectors. In October, activity was hardly affected in most sectors, with the notable exception of catering and, to a lesser extent, accommodation. The outlook for economic activity for November is tilted to the downside, mainly in market services, with the exception of some business services. Overall, on the basis of the business leaders' responses, the loss of activity in November is expected to vary more greatly across sectors and be more limited than during the first lockdown. We thus estimate that the loss of GDP for a typical week of activity (compared to the normal level before the pandemic) will be 12% in November, against 4% in October and 31% in April.

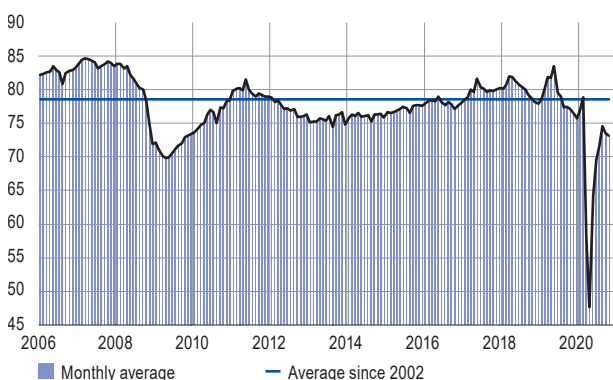
1. In October, activity remained more or less stable compared to September in industry, construction and services, with the exception of an already significant downturn for the catering and accommodation sectors

In **October**, activity was stable overall in **industry**.

The capacity utilisation rate was stable at 73% on average in October, compared to 79% before the crisis. This stability was observed almost across the board. A slight improvement was seen in the automobile industry (from 71 to 73%) while a decrease was observed in the chemicals (from 77 to 75%), metals (from 67 to 66%) and wearing apparel sectors (from 69 to 68%).

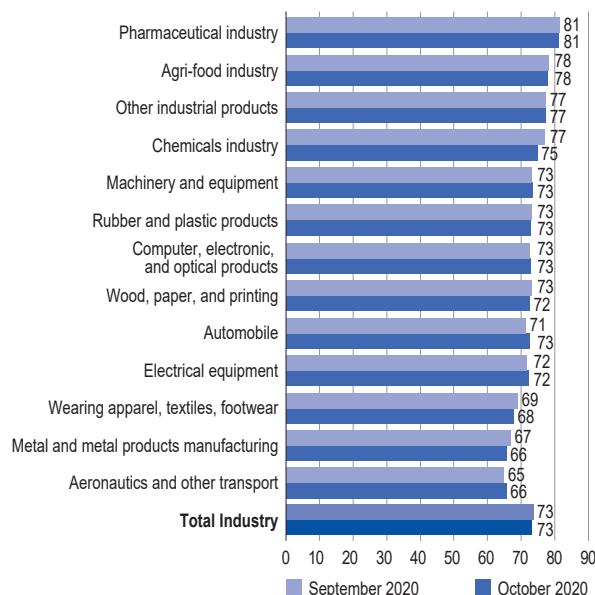
Capacity utilisation rate in industry

(%)



Capacity utilisation rate

(%)



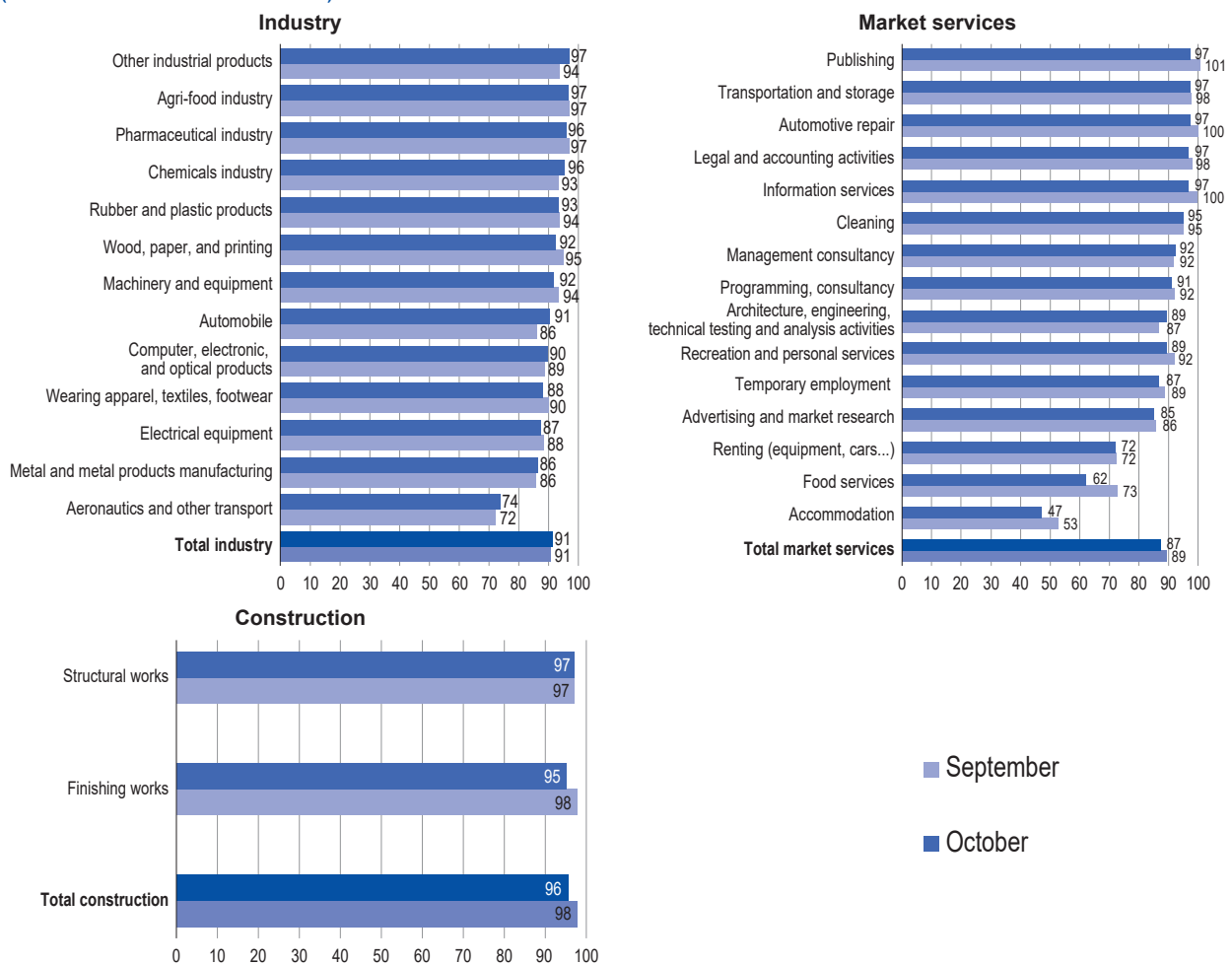
Activity was close to its pre-crisis level in the agri-food industry, other industrial goods and pharmaceuticals. It improved in October in the automobile sector but remained subdued in the aeronautics and other transport sectors.

There was little change in activity in the **services sector** in October. Catering and accommodation nevertheless showed a decline, due to the curfew implemented on 17 October. Activity levels continue to vary greatly from sector to sector: they remained well below the pre-crisis level in accommodation and catering, but close to this level in sectors such as publishing, IT services or legal and accounting activities.

In **construction**, activity was stable in October. Business leaders consider that activity returned to almost normal levels in both structural and finishing works.

Opinion of business leaders regarding their level of activity in September and October

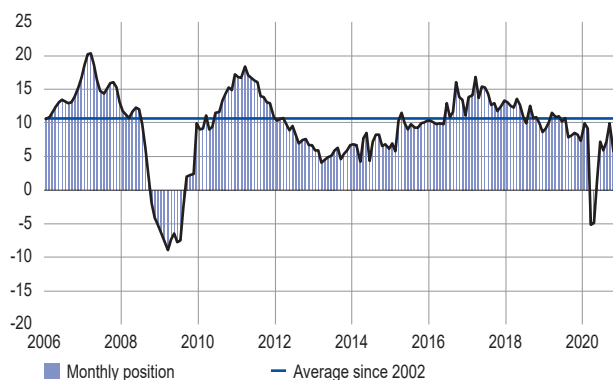
(as a % of the level deemed "normal")



In a context marked by a lack of visibility and concerns over activity in the coming months, the outlook for industry's cash position deteriorated slightly in October and returned to a level below its pre-crisis average. In services, after three months of slight improvement, the cash position worsened and remains below its pre-crisis average level.

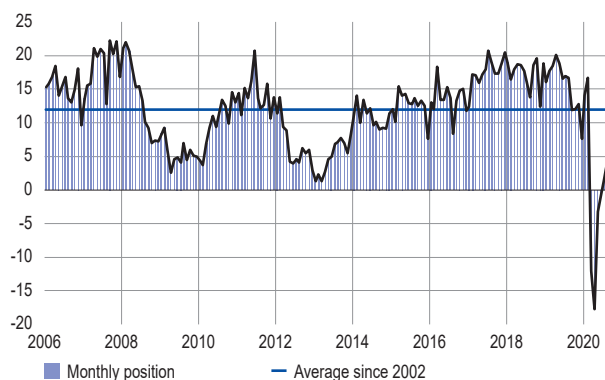
Cash position in industry

(balance of opinion)



Cash position in market services

(balance of opinion)



2. The outlook for November is overall tilted strongly to the downside, but with greater differences across sectors and in a more limited way than in the first lockdown

Business leaders expect a sharp drop in activity in November, due to lockdown. While this decline is expected to be moderate in industry and construction, it looks to be much more pronounced in services, with the exception of some business services.

Overall, activity is expected to fall in both **industry** and **construction** in November. However, this decrease is expected to be much less significant than during the first lockdown: in construction, building sites have continued and, in general, businesses are benefiting from hindsight (regarding teleworking in particular), the implementation of health protection measures for several months now, as well as the fact that schools remain open.

According to the business leaders surveyed, activity is expected to post a moderate decline in all industrial sectors, with the exception of aeronautics and other transport, which, nevertheless, continued to register levels of activity in October that were significantly below those of other industrial sectors. In particular, the decline is likely to be slightly more pronounced in the wearing apparel and other industrial goods sector.

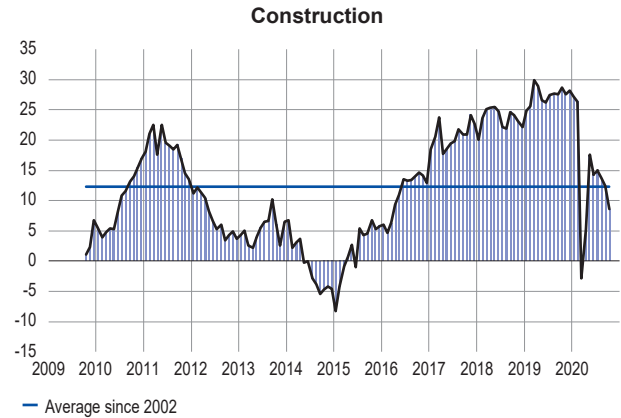
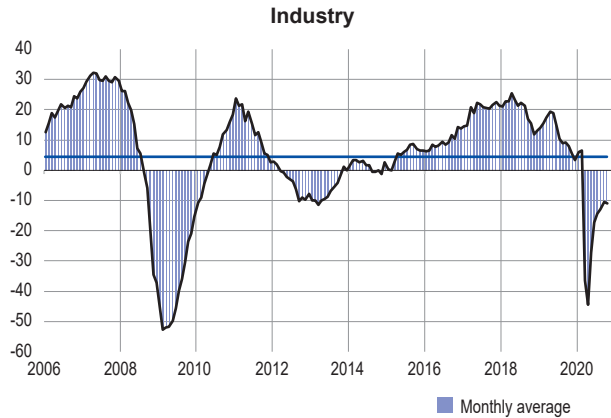
Construction sector activity is expected to slow a little, in both structural and finishing works.

Moreover, the balances of opinion on order books in industry and construction are starting to recede again.

In **services**, the decline in activity is expected to be much more pronounced overall, with strong disparities between sectors. On the one hand, the catering and accommodation sectors are likely to be the most affected by the lockdown measures, as well as, to a lesser extent, the recreation and personal services sectors, and the automobile rental and sales and repair sectors. On the other hand, most business services should be less affected, in particular thanks to the use of teleworking.

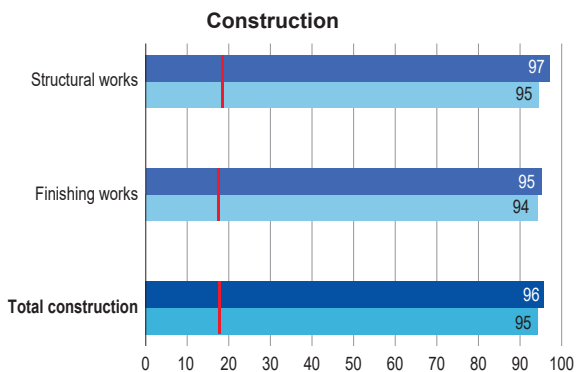
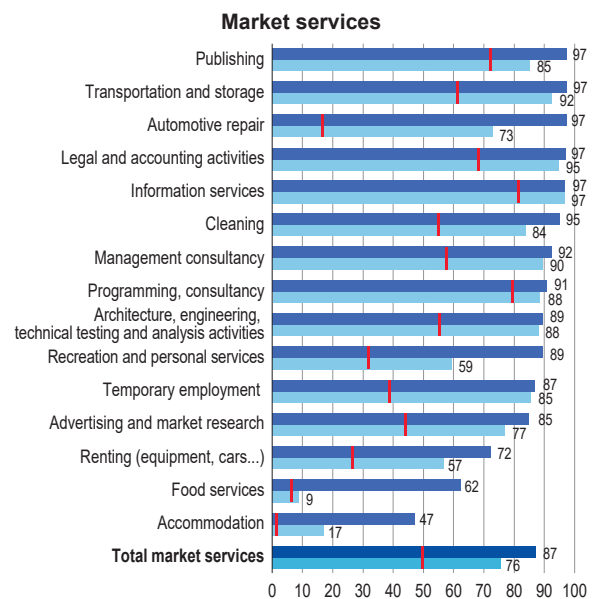
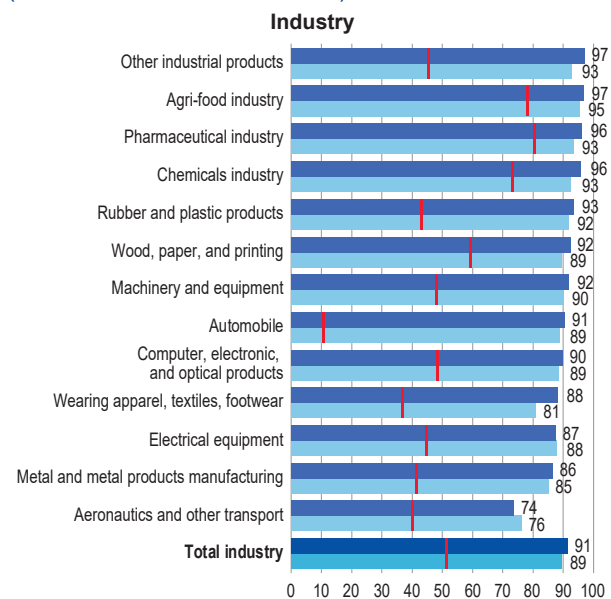
Level of order books

(balance of opinion)



Business leaders' expectations regarding their level of activity in October and forecasts for November

(as a % of the level deemed "normal")

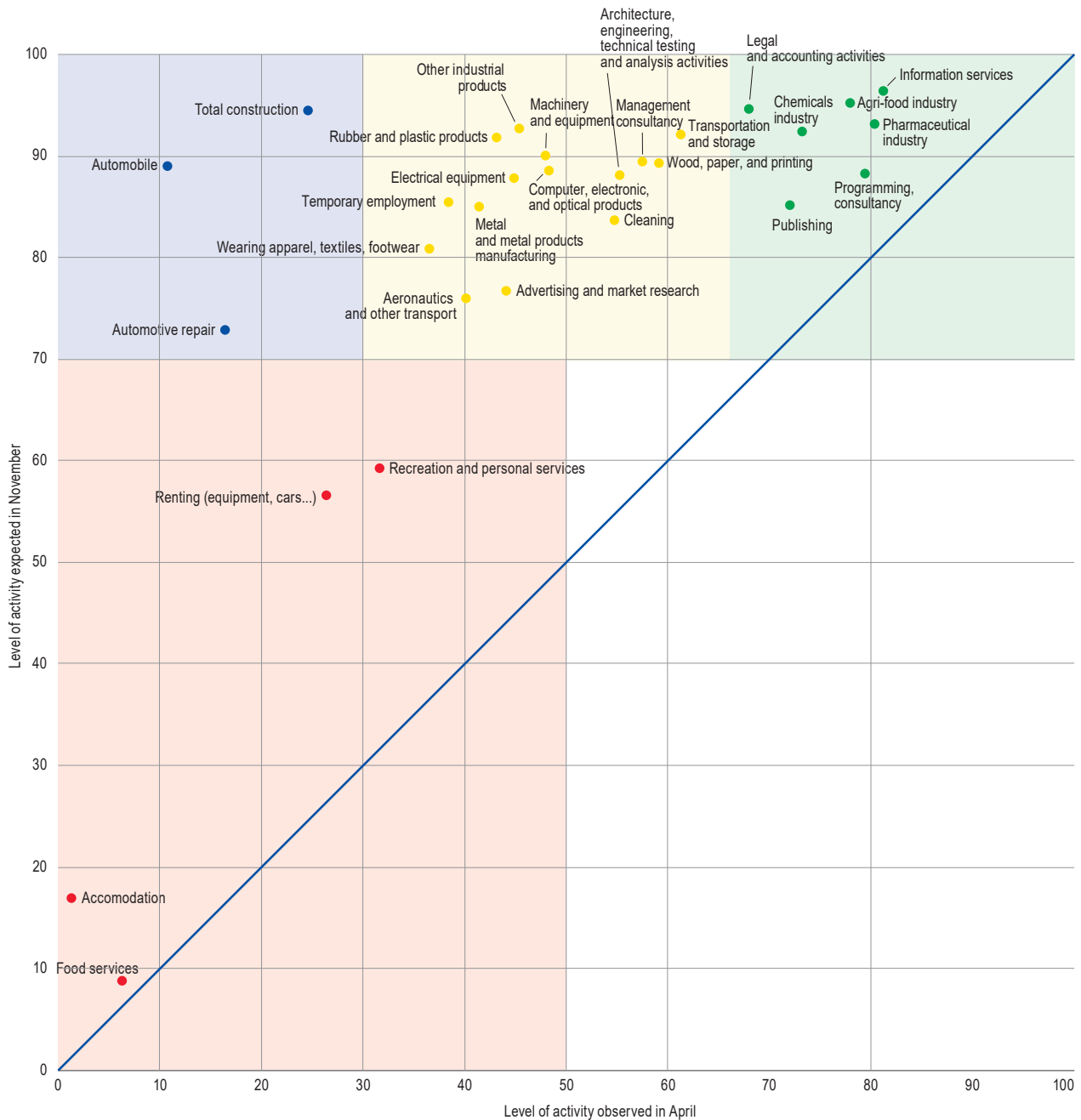


| April
■ October
■ November (forecasts)

The comparison of the activity levels expected for November with those observed in April suggests that in most sectors - albeit unevenly - the impact of the second lockdown is likely to be much less pronounced than that of the first. According to our survey, only the accommodation and especially catering sectors should see falls in November to stand at activity levels close to those of April.

Level of activity observed in April and expected in 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, while they expect activity in November to stand at 89% of normal levels.

In the chart above, we compare the impact of the two lockdowns by contrasting the activity in November as forecast today by the business leaders with that of April (as a percentage of the level considered “normal”). This enables us to identify four groups of sectors:

- 1) The first group (bottom left of the chart ●) brings together the sectors that had been very strongly affected in April and which also anticipate a strong fall in their activity in November. It mainly consists of household oriented services, such as catering and accommodation, and - to a lesser extent - recreation and personal services activities and car rental.
- 2) In the opposite corner (top right of the graph ●), we find the sectors which had been the least impacted in April and which should again be relatively little impacted in November: these are notably the agri-food industry, pharmaceuticals, chemicals and certain business services (where teleworking is often widely used).
- 3) The third group (top left ●) is made up of the sectors which had been strongly affected in April but which expect to be relatively little affected this time: this is the case of construction and the automobile industry, for example.
- 4) Lastly, in the last group (centre-top ●), we find sectors which had been greatly impacted by the first lockdown and which are likely either to be impacted again but to a much lesser extent (this is the case of the wearing apparel sector, or advertising services for example), or whose level of activity is likely to remain well below normal even if it does not plummet again (aeronautics).

3. Based on the survey results by industry, we estimate the loss of GDP at around 4% in October, and the survey results also provide a basis for estimating the loss in November at around 12%, in the context of a new lockdown

The loss of GDP in October (compared with its normal pre-pandemic level) is estimated at around 4%, a very slight deterioration compared with that in September, which was revised to 3.5% following the publication of the quarterly accounts.

In our previous update on business conditions published on 8 October, we had estimated a loss of around 5% of GDP in September, implying GDP growth of around 16% in the third quarter. The publication of the accounts for Q3 2020 came as a positive surprise with an initial estimate of GDP growth of 18.2%, pointing to an even more robust recovery during the summer than initially estimated. This has led us to reduce our loss estimate for September to around 3.5%.

In October, the recovery was somewhat bridled by tighter health measures, resulting in a curfew in some geographical areas as of 17 October, followed by a return to national lockdown on 30 October. These measures result in an increase in disparities in activity levels between sectors: health restrictions and closures directly affect certain market services mainly to households, while industry, construction and most business services are less directly affected by these measures. These developments are reflected in the survey indicators we use to estimate activity losses in our sectoral dashboard: business leaders’ assessment of their level of activity and their capacity utilisation rate remained more or less stable in industry and construction, while some market services showed a drop in activity in October.

Using this information at the most granular level possible, we have updated our estimate of the GDP loss in October to 4%, which is slightly worse than the loss estimated for September. This worsening is mainly due to accommodation and food services, household services and, to a much lesser extent, some business services.

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

(%)

Activity sector	VA share	Loss of activity in April	Loss of activity in September	Loss of activity in October	Loss of activity in November
Agriculture and industry	15	-31	-4	-4	-5
Agriculture and agri-food industry	4	-10	0	1	0
Energy, water, waste, coking and refining	3	-21	-4	-4	-5
Manufacturing industry excluding food, coking and refining	9	-44	-6	-5	-7
Construction	6	-65	-7	-6	-8
Market services	57	-27	-4	-5	-17
Wholesale and retail trade, transport, accommodation and food services	18	-46	-8	-9	-40
Financial and real estate services	17	-5	0	0	-1
Other market services	22	-30	-5	-6	-12
Non-market services	22	-30	0	0	-5
Total GDP	100	-31	-3,5	-4	-12

The survey also allows us to estimate the loss of activity associated with the second lockdown, which is expected to be around 12% in November

On October 28, a second lockdown was announced, whose rules were adapted from the previous one in order to mitigate its impact on activity. Indeed, the government made provisions for a number of sectors to continue to operate: wholesale trade, hotels and accommodation, deliveries of orders, public transport, and public service counters. It also requested that businesses use teleworking wherever possible.

Based on the information provided by the survey through changes in businesses' expectations of their level of activity, combined with assumptions for sectors not covered by the survey, we estimate that GDP should fall by 12% in November. The loss stemming from one month's lockdown should therefore be much more limited than the 31% loss recorded in April at the time of the first lockdown (see chart below). This estimate of a smaller impact of the second lockdown is also corroborated by the high-frequency data that we also take into account in our calculations. For example, since the introduction of lockdown, daily indicators of ambient noise in Ile-de-France stand at around a third of the level observed after the introduction of lockdown last March, an order of magnitude also confirmed by Google mobility data.

Some service activities are directly affected by lockdown, such as the non-food retail sector, restaurants or recreational activities. The outlook deteriorates sharply in these sectors, which are therefore expected to display losses comparable to the previous lockdown except where businesses adapt, for example through take-away sales.

However, in industry and construction, business leaders expect a very moderate decline in activity. The new exemptions, together with the fact that businesses are adapting their working environment to health constraints, should limit the loss for these sectors compared to those observed in April. The same applies to a significant proportion of the business services sector, where the business outlook is only slightly weaker, thanks in particular to the use of teleworking.

For the sectors that are partially or not covered by the survey, assumptions were made case by case according to the nature of the restrictions in force. For instance, the non-food retail sector, which is exposed to closure measures, is expected to show broadly similar losses to those of April. Conversely, activity in the transport sector is expected to be significantly higher than in April, as freight and public transport are continuing to operate.

There is considerable uncertainty about the level of activity in non-market services, which account for 22% of total value added: while public counters and the bulk of schools remain open, as should be the case for many maintenance services and certain services for the public, and teleworking is extended to other sectors, it is possible that some staff will once again find themselves in a situation where they cannot work either on site or remotely. Based on conventional estimates, we expect that this could lead to a loss of around 5% in the non-market sector, in deterioration compared to the return to normal achieved in the third quarter, although much more limited than in April when the first lockdown took place (-30%).

Overall, as shown in the chart below, around three-quarters of the 20 percentage points difference between the GDP loss in April (31%) and the estimated loss for November (12%) can be attributed to the sectors that were little affected by the November lockdown (industry, including agri-food and energy, construction, financial services, business services, which are included in “other market services”), and one-quarter to a lesser impact on non-market services.

Sector contributions to the difference in GDP loss between April and our estimate for November

(percentage points)

