

Update on business conditions in France at end-August 2020

In the second quarter of 2020, GDP fell by 13.8%. In July, GDP for a typical week was 7% lower compared with pre-crisis levels. Based on the expectations expressed in our latest monthly business survey (MBS), conducted between 27 August and 3 September among 8,500 businesses or establishments, we estimate a loss of GDP in a typical week in August of 5%. We expect this level to stabilise in September, and we thus estimate that GDP could rebound in the third quarter of 2020 by around 16% compared with the previous quarter.

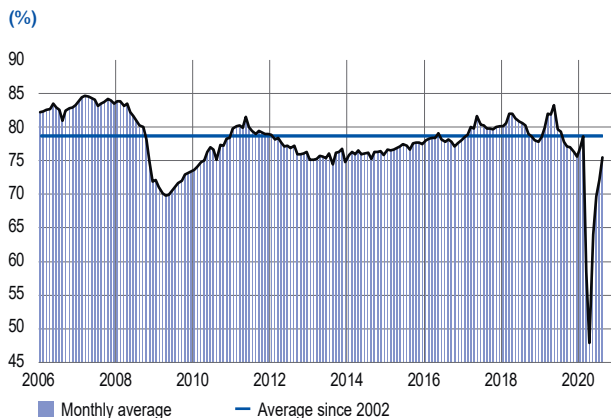
According to the business leaders surveyed, activity in **August** in **industry, services** and **construction** continued to recover at a moderate pace, but at a slightly more sustained rate than forecasted in the previous month. Overall, activity remained significantly below its pre-crisis level, but with considerable differences across sectors. The outlook for **September** suggests that activity will be relatively stable. The “bird’s wing” recovery scenario therefore appears to be borne out, with an initial phase of a sharp rebound in activity due to the end of lockdown, followed by a second slower recovery phase.

1. Activity continued to recover in August, with slightly higher levels than business leaders had anticipated in July, and confirms a “bird’s wing” recovery scenario

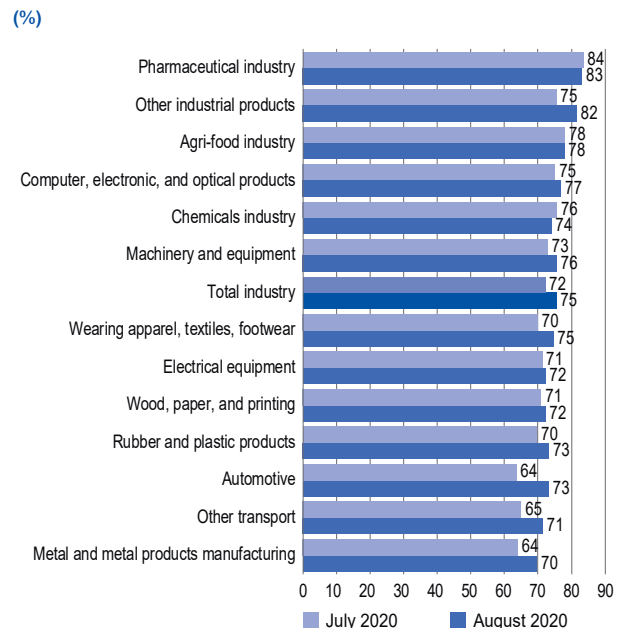
In **August**, there was a slight improvement in economic activity in industry as well as in services and in construction. Improvements across all three sectors exceeded business leaders’ expectations expressed in July.

In **industry**, the capacity utilisation rate improved by 3 percentage points, to 75% on average in August after 72% in July (and 79% before the crisis). The recovery was particularly robust in the automotive industry (from 64% in July to 73% in August) and in the other industrial products sector (from 75% to 82%).

Capacity utilisation rate in industry



Capacity utilisation rate



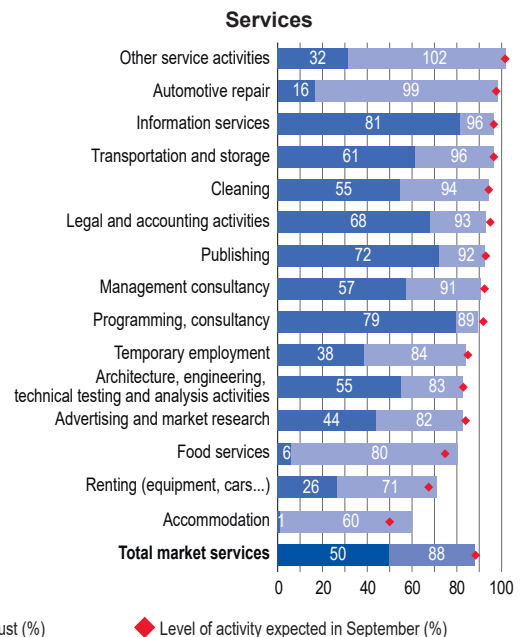
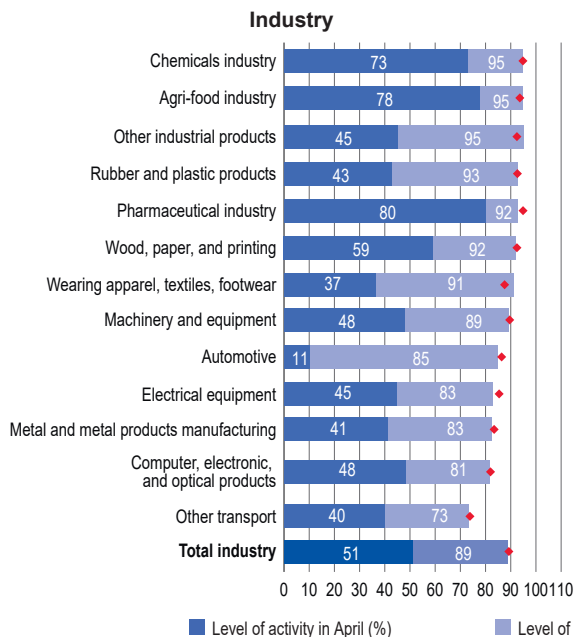
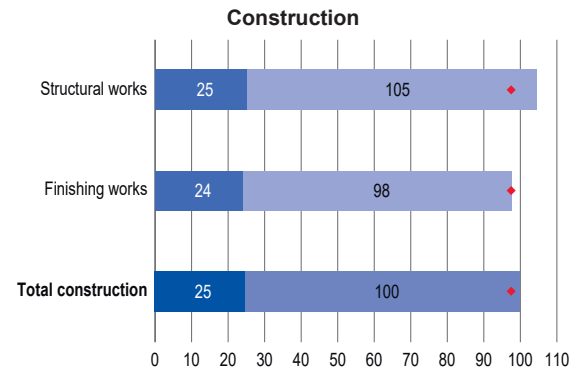
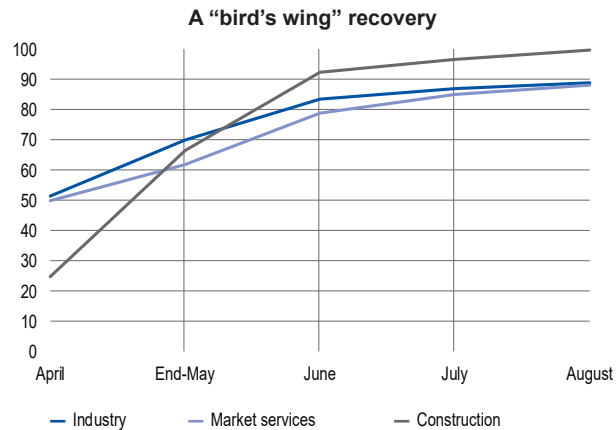
Activity was close to pre-crisis levels in sectors such as agri-food and chemicals. However, it remained subdued in other sectors such as computer, electronic and optical products and transport (excluding the automotive sector, which recorded a sharp upturn after several months of particularly depressed activity).

In **services**, the recovery continued at an uneven pace. The pick-up in activity in the accommodation sector, and to a lesser extent in food services, was significant and more robust than anticipated (even though its level remains well below normal). There was also a sharp increase in temporary employment, in line with expanding automotive activity and a construction sector that held up well during the month. The rental (equipment, cars), advertising and market research sectors reported particularly low levels of activity. Conversely, activity was close to pre-crisis levels in sectors such as other service activities (notably including personal services), automotive repair and transportation and storage.

In **construction**, activity continued to improve, as the sector has to make up for the time lost due to the closure of construction sites during the lockdown period. Business leaders consider that activity returned to normal levels during August.

Opinion of business leaders regarding their level of activity and forecasts for September

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

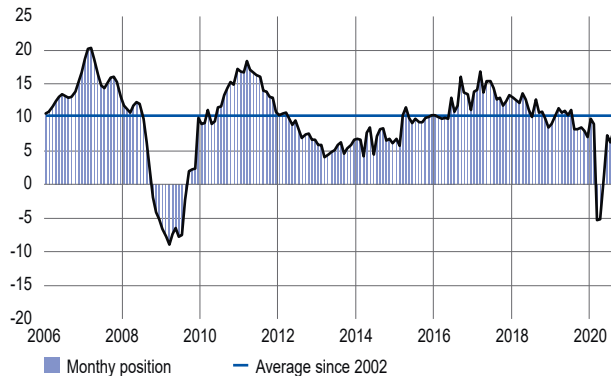


Interpretation: In the automotive industry, business leaders deemed activity in April to be at 11% of "normal" levels; in August, activity in this sector reached 85% of normal levels; business leaders in the automotive sector expect activity in September to reach 88% of normal levels.

Against this backdrop, which is also marked by the provision of support to businesses via state-guaranteed loans (SGLs), **cash positions** remained relatively unchanged in industry in August and thus stayed close to their pre-crisis levels. In services, the cash position continued to recover but still remained below its pre-crisis level.

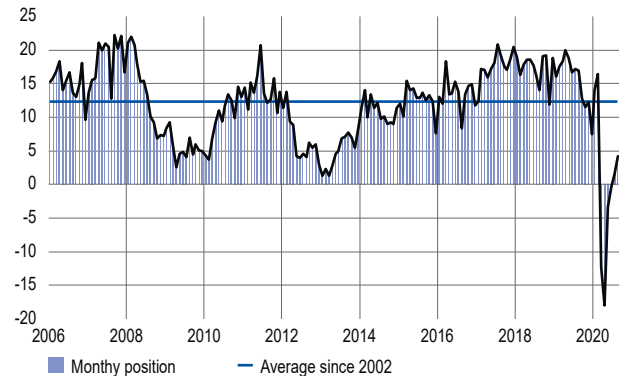
Cash position in industry

(balance of opinion)



Cash position in market services

(balance of opinion)



In September, businesses expect activity to stabilise in industry, expand slightly in services and contract in construction

In **industry**, activity is expected to be relatively stable in most sectors. It should fall in wearing apparel, textiles and footwear, after August proved to be particularly dynamic and more positive than expected. However, there should be an improvement in other sectors, particularly in electrical equipment.

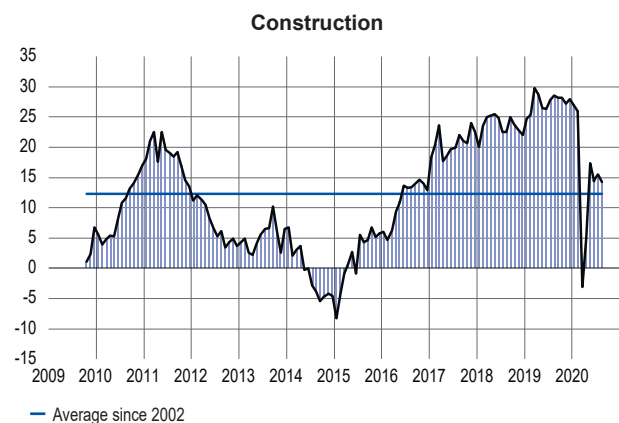
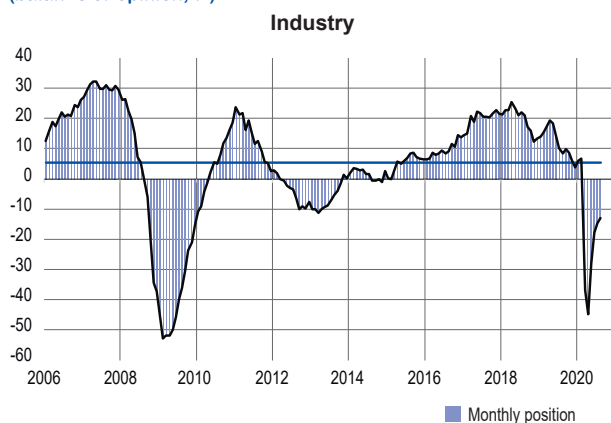
In **services**, a very modest improvement is expected. Activity in the accommodation and food services sectors should decline, but once again, this trend is a response to the sharp and better-than-expected increases reported in the previous month. Activity is forecasted to improve in some sectors, notably legal and accounting activities and programming and consultancy.

In **construction**, activity should return to its July level after a particularly dynamic August. It should thus remain close to its pre-crisis level.

Business leaders continued to voice uncertainty over the speed of the recovery in the coming months. In **industry**, order books remain stable and at a weak level. Order books in construction thinned very slightly and are at their long-term average level.

Level of order books

(balance of opinion, %)



2. Based on the survey's sector-level data, we estimate a loss of around 5% of GDP in August

In our previous update on business conditions published on 10 August, we estimated a loss of around 7% of GDP in July, which represented a slight improvement compared with June.

August's survey confirms an improvement in activity, even though the level still remains well below normal. The balance of opinion on output continues to be well oriented and the capacity utilisation rate is improving even though it remains below its pre-lockdown level.

Based on this information, at the most granular level possible, we have updated our estimate of the loss of GDP in August to 5%. Services and the manufacturing industry – in particular other manufacturing industries, business services and services to households – have made a notable contribution to this improvement in activity compared with July. Some sectors, such as retail and real-estate services, have recovered to virtually normal levels, while others, such as capital goods and transport equipment manufacturing or transport services, remain deeply affected.

The recovery in activity in August compared with the end of July is also corroborated by other high-frequency data sources, such as temperature-adjusted electricity consumption and credit card transactions.

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

(%)

Activity sector	VA share	Impact on value added in August
Agriculture and industry	15	-8
Agriculture and agri-food industry	4	-3
Energy, water, waste, coking and refining	3	-6
Manufacturing industry excl. food, coking and refining	9	-10
Construction	6	-7
Market services	57	-4
Wholesale and retail trade, transport, accommodation and food services	18	-4
Financial and real-estate services	17	-3
Other market services	22	-6
Non-market services	22	-6
Total GDP	100	-5

Note: The estimates presented in this table may differ from the business opinions on their level of activity in 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 output and activity changes and capacity utilisation rates.

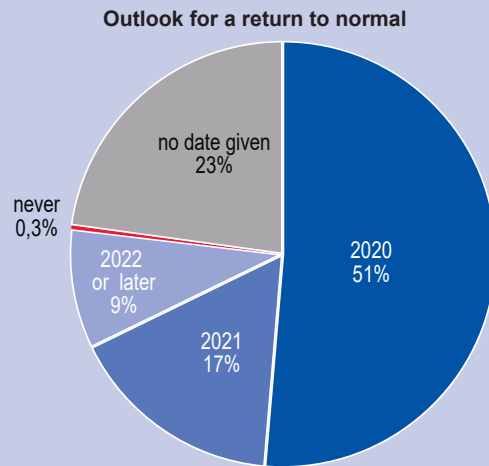
The outlook for September suggests that activity should stabilise.

Taking into account our estimates for the loss of activity in July and August and our forecast for stabilisation in September, we expect GDP to rebound by around 16% in the third quarter of 2020 (after a contraction of 13.8% in the second quarter according to INSEE quarterly national accounts).

Box

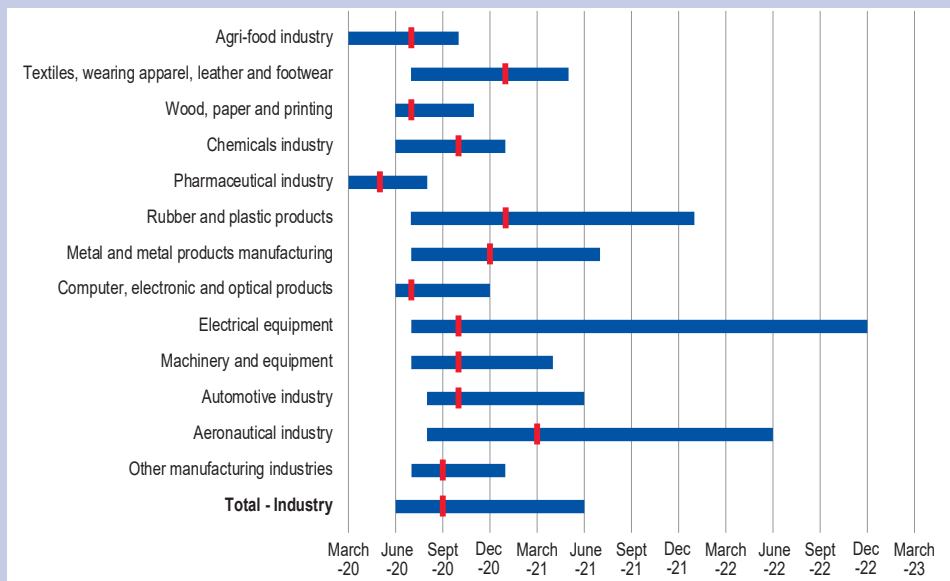
Outlook for a return to normal

For the first time, this month we asked businesses about their outlook for a return to normal (activity returning on a lasting basis to a level higher than or equal to the pre-crisis level), without this necessarily meaning that the impact of the crisis has been completely absorbed. At the end of August 2020, a third of the businesses surveyed stated that they had already returned to a normal level of activity. At the end of 2020, more than half are expected to be in this situation. During 2021, 17% of businesses should return to their pre-crisis activity level and a further 9% should do so in 2022 or later. Very few businesses expect never to return to their pre-crisis activity level. Nevertheless, business leaders' expectations are surrounded by great uncertainty: almost 23% of the business leaders surveyed preferred not to give a date for a return to normal (22% in industry, 30% in services and 12% in construction).



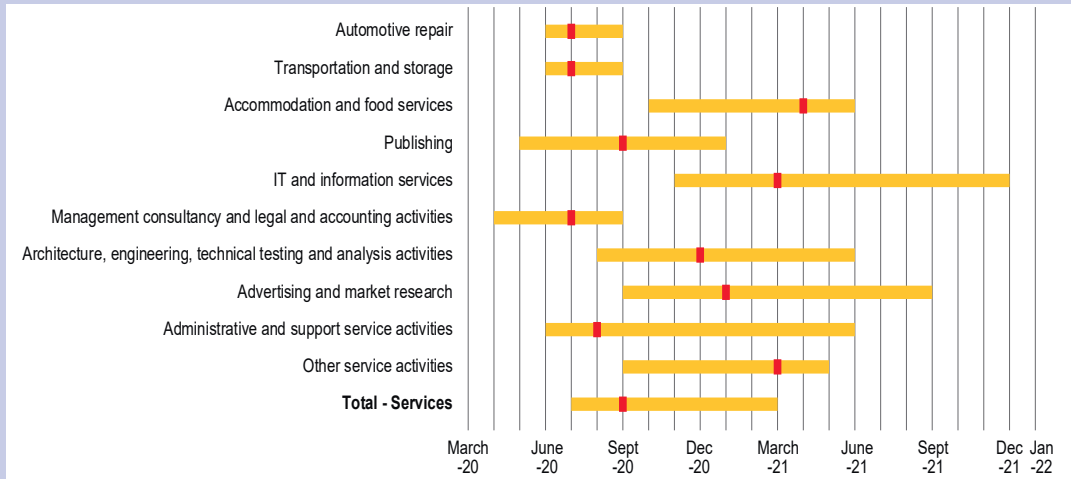
Among the businesses that gave a date for a return to normal, the outlook varies between sectors, and even within sectors. In construction, most businesses expect to return to normal in 2020, with 75% of those that gave a date believing they will return to normal before November 2020. Conversely, the accommodation and food services sector is expected to take longer to return to a normal level of activity: a quarter of businesses that indicated a date feel that they will not be back to a normal level before June 2021. The electrical equipment and aeronautical sectors are the most pessimistic.

Outlook for a return to normal – Industry
(businesses that gave a date for a return to normal)

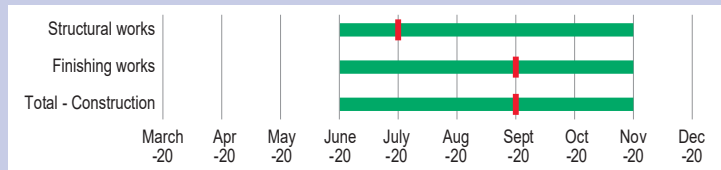


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Outlook for a return to normal – Services
(businesses that gave a date for a return to normal)



Outlook for a return to normal – Construction
(businesses that gave a date for a return to normal)



Methodological note: The charts indicate how long businesses are expected to take to return to their normal level of activity.

- The left extremity of each rectangle indicates the date at which 25% of businesses believe that they will have returned to their normal level of activity.

In aeronautics, this corresponds to August 2020.

- The vertical line within each rectangle indicates the date at which 50% of businesses believe that they will have returned to their normal level of activity.

- The extremity of each rectangle indicates the date at which 75% of businesses believe that they will have returned to their normal level of activity.

Only businesses that gave a date for a return to normal are taken into account here.