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FRENCH ECONOMY: BIGGEST DROP SINCE 1945, WORSE TO COME

Berenberg Macro Flash

French real GDP shrank by 5.8% qoq in Q1 as harsh measures to contain the Covid-19 pandemic crippled activity from the second half of March. It is the worst performance on record (since 1949) – worse than that in Q2 1968 (-5.3%) – and dwarfs the worst quarter during the financial crisis (Q1 2009: -1.6% qoq) (see Chart 1). The collapse erases more than 4 years of growth (see Chart 2). The resilience of 2018/19 when the French economy withstood the trade tension-driven downturn better than many other countries is a matter of the past. The pandemic and the lockdowns make the current recession very different from previous downturns.

GDP by expenditure: Household consumption dropped by 6.1% qoq (goods down by 7.3% and services down by 5.2%), investment collapsed by 11.8% (among businesses by 11.4% and among households by 13.6%) and government expenditure fell by 2.4%, with final domestic demand shaving off 6.6ppt from GDP growth (see Chart 3). Exports and imports plunged (6.5% and 5.9%, respectively), with net trade cutting 0.2ppt from growth. Inventories built up, offsetting the drag from domestic and foreign demand only a little (+0.9ppt). These are INSEE first estimates and are, this time in particular, exposed to a big margin of error, with revisions very likely.

Among those hit the earliest and worst: France was among the earliest hit countries by the Covid-19 pandemic in the Western world, and remains one of the worst hit in terms of the total number of cases and deaths and relative to the population. The French government imposed lockdown measures more numerous and stringent than in most other countries according to a policy response tracker by Oxford University. More stringent government measures should better contain the Covid-19 pandemic, but they also hit economic activity harder. Besides the harsher lockdown, a bigger services sector and a smaller fiscal response will contribute to France weathering the Covid-19 pandemic worse than Germany.

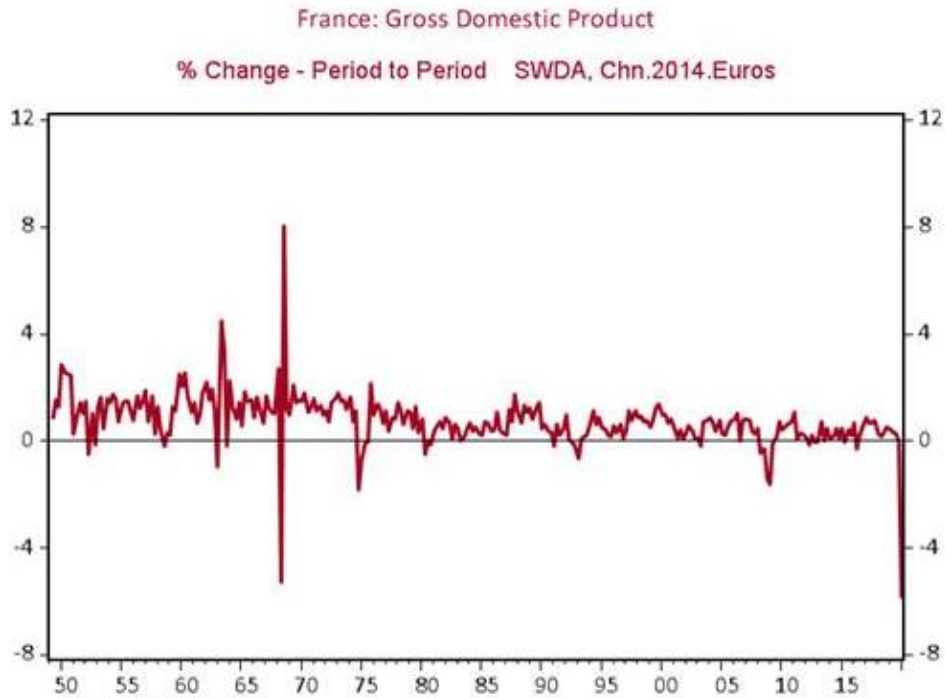
Chance for slow upturn from May onwards: Only April will show a full-month impact of harsh lockdowns. With luck, April will be the worst month. Some of France's European peers including Germany have started to ease their lockdown restrictions. France plans to reopen shops on 11 May. We expect a modest snap-back in economic activity as soon as some lockdown measures are lifted. Still, the Q1 decline in real GDP is probably only a fraction of the Q2 drop. French real GDP could drop by more than 10% qoq in Q2.

Lingering risk bigger than elsewhere: The intensity of Covid-19 testing in France is significantly below that of Italy, Spain and Germany. Consequently, France may be less in control than neighbouring countries and more exposed to the risk of a costly second wave of infections when it eases restrictions.



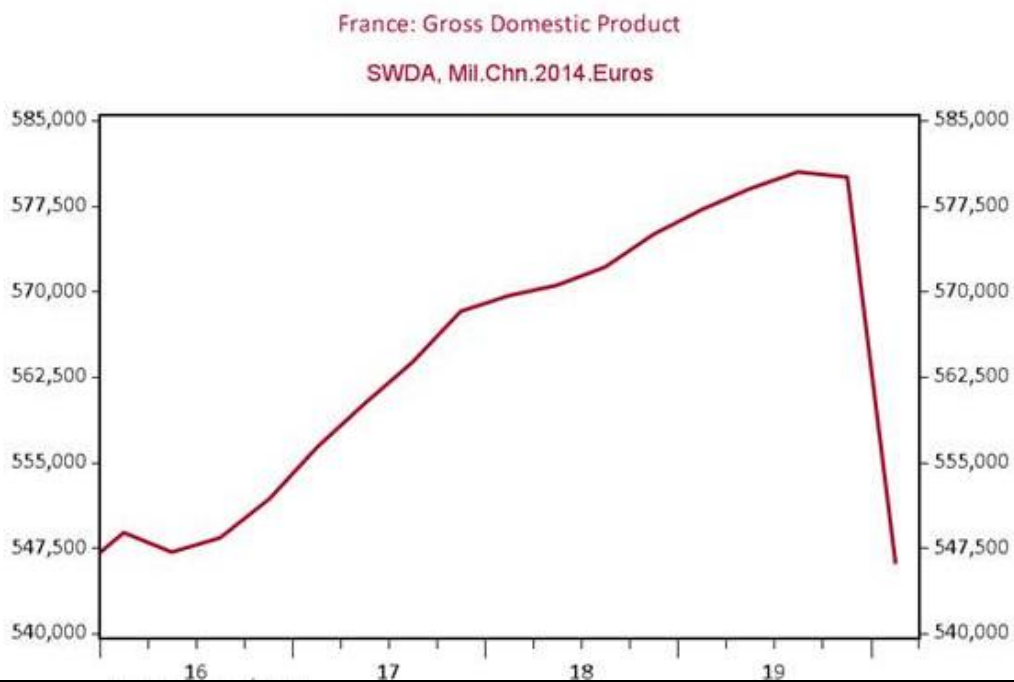
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Chart 1: Real GDP growth (qoq, in %)



Source: INSEE/Haver

Chart 2: Real GDP (levels)

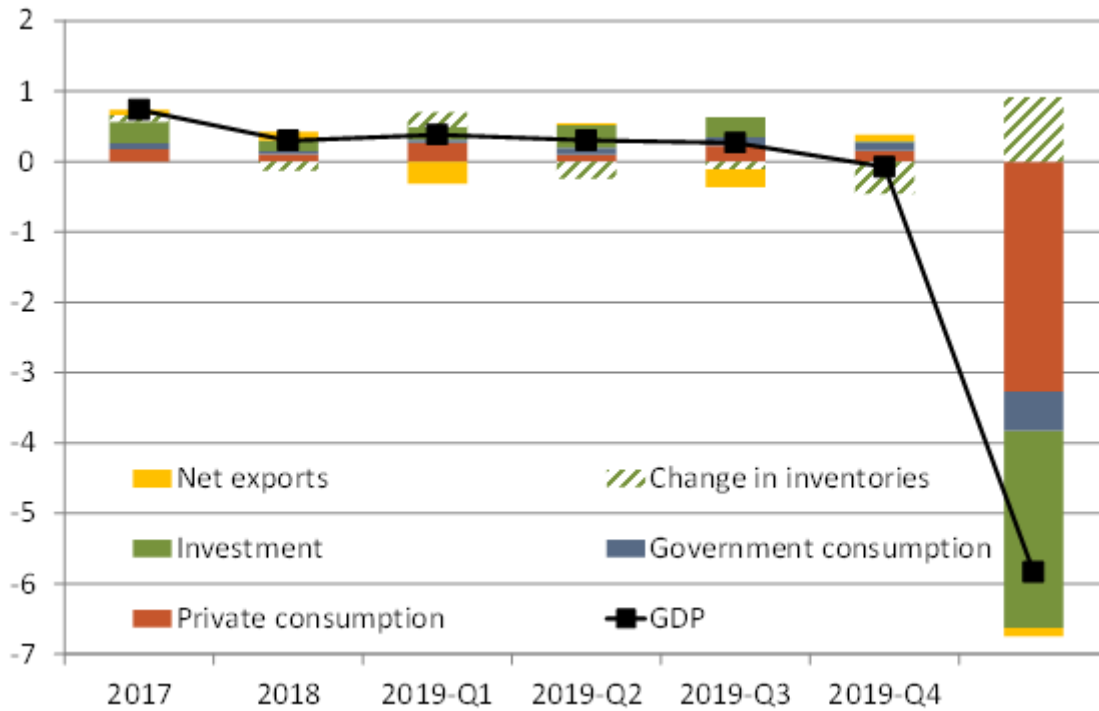


Source: INSEE/Haver



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Chart 3: French GDP growth and its contributions by expenditures



Qoq GDP growth in %, contributions in %-points. Source: INSEE, Berenberg

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