BANQUE DE FRANCE
EUROSYSTÈME

# Update on business conditions at the end of June 2020

Based on our May Monthly Business Survey (MBS), on 9 June we estimated the GDP loss during a typical week at the end of May as lockdown measures were being lifted. We have used the findings from our latest survey, which was conducted from June 26th to July 3rd and involved 8,500 businesses or establishments, to update this picture and assess the pace of the recovery.

According to the business leaders surveyed, economic activity grew further in June after rebounding strongly in May. With the easing of lockdown measures, activity continues to pick up in **manufacturing**, **services** and **construction**, although levels remain extremely subdued in accommodation and food services. Across the economy as a whole, activity is still below pre-crisis levels, but the recovery is moving ahead more quickly than expected last month by the businesses surveyed. Accordingly, whereas we estimated the loss of GDP in a typical week at end-May at 17% compared with pre-crisis levels, we are estimating the loss for a typical week in June at around 9%. As a result, we forecast that GDP will contract by around 14% in the second quarter of 2020 compared with the previous quarter.

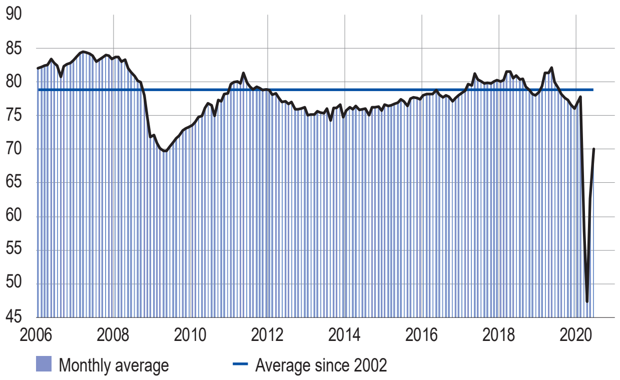
## 1. After rebounding in May following the lifting of lockdown measures, activity continued to bounce back in June, picking up faster than expected

The recovery reported by business leaders in June exceeded the upturn that they were expecting a month earlier, not only in manufacturing, but also in services and construction.

In all **manufacturing** sub-sectors, production rose in June by more than expected by business leaders in the previous month. There was a pronounced increase in the automotive segment and more generally in transport, other manufactured products, and machinery and equipment, which were especially hard hit in March and April. However, this growth made up only partially for the decline in activity recorded in previous months.

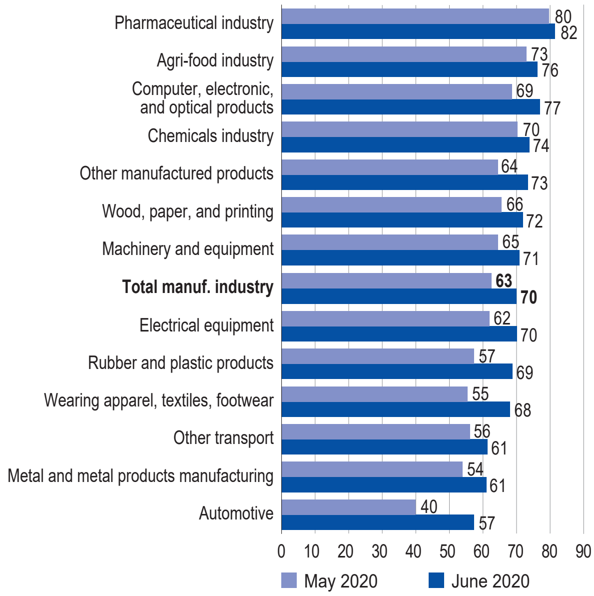
**Capacity utilisation rate, manufacturing industry**

(%)




**Capacity utilisation rate**

(%)



The capacity utilisation rate rose by 7 points to an average of 70%, up from 63% in May and 78% before the crisis. The rise was particularly marked in the automotive industry, whose capacity utilisation rate went from 40% in May to 57% in June, in textiles and wearing apparel, where the rate went from 55% to 68%, and in rubber and plastic products, where it climbed from 57% to 69%.

Activity expanded slightly faster in **services** than in manufacturing overall, but the increase masked a wide range of performances. Some sectors, such as automotive repair and IT services, were reverting to virtually normal levels, while accommodation and food services remained well below the norm despite strong growth over the month.

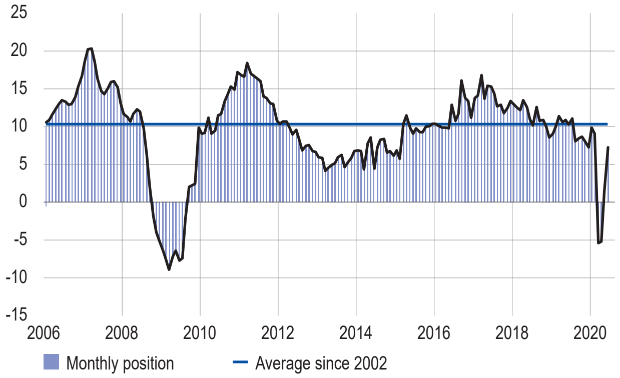
In connection with the gradual upturn in manufacturing and construction, the transport and temporary work sectors enjoyed favourable growth.

There was an even more pronounced recovery in **construction**, where activity was getting close to normal levels. However, forecasts were muted and order books thinned.

Against this backdrop, which was also marked by the provision of support to businesses via the state-guaranteed loan (PGE) scheme, **cash positions** continued to improve in manufacturing and are nearing pre-crisis levels. In services, although the balance of opinion among business leaders was not negative, cash positions were still well below pre-crisis levels.

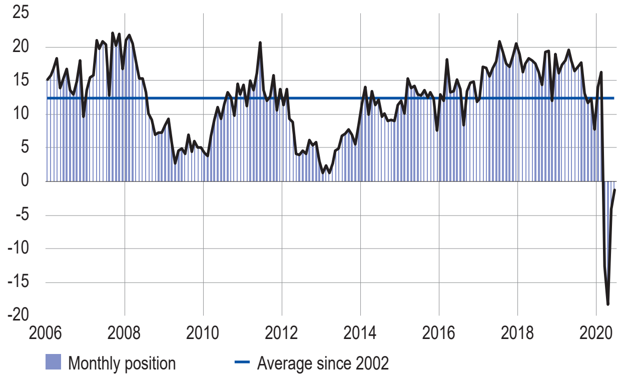
**Cash position in manufacturing industry**

(balance of opinion)




**Cash position in market services**

(balance of opinion)




**Businesses expect activity to continue firming in July**

In **manufacturing**, business leaders forecast a small increase in activity overall, with slightly more pronounced growth in metal and metal products manufacturing and in capital goods.

In **services**, food services and accommodation should see the strongest expansions, albeit from the lowest levels in June; the cleaning sector was also expected to see good growth.

In **construction**, activity should continue to recover but at a more moderate pace than in June.

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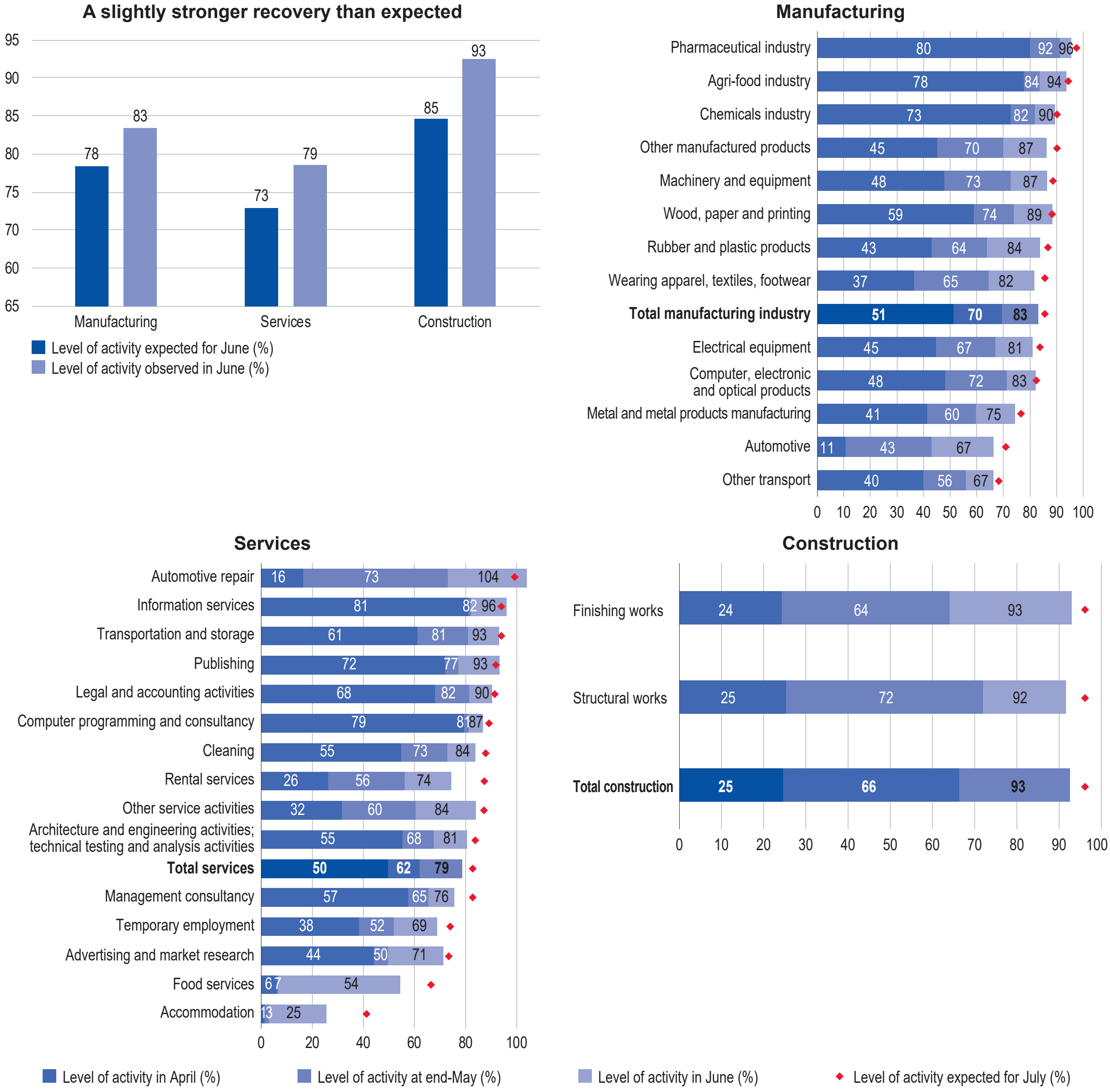
## Opinion of business leaders regarding their level of activity in April, May and June – forecasts for July

(as a % of the level deemed normal)

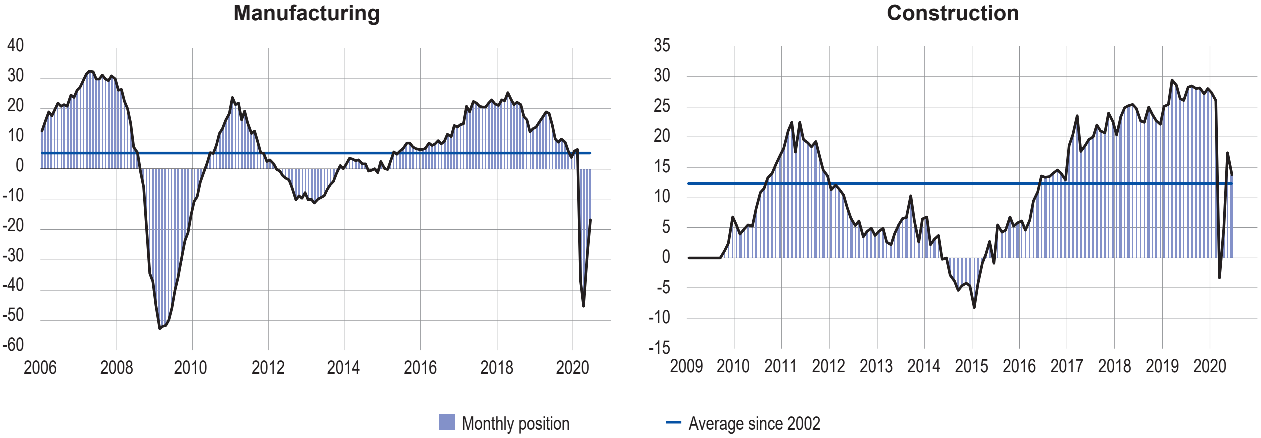



Interpretation: in the automotive industry, activity in April was deemed by business leaders to be just 11% of normal levels; with the easing of the lockdown, activity reached 43% of levels deemed normal at end-May, rising to 67% in June; business leaders in the automotive industry expected activity to continue to improve in July, reaching 71% of normal levels.

Business leaders voiced uncertainty over the speed of the recovery in the coming months. In **manufacturing**, order books were filling up slightly but remained weak. **Construction** order books thinned but were still at acceptable levels.

### Level of order books

(%)




## 2. Based on the survey results by industry, we estimate the loss of GDP at approximately 9% in June

In our last publication on June 9th, we estimated the loss of GDP during the first phase of the lockdown exit in late May to be close to 17% (after 27% over a typical lockdown week in April).

June's survey suggests the situation has improved markedly compared with the start of the lockdown exit, although activity is still well off its normal level. The capacity utilisation rate in manufacturing and business leaders' opinions of activity levels point to a sharp recovery in June. Likewise, the balances of opinion on output in manufacturing and activity in services both remain extremely positive.

**Using this information at the most granular level possible, we have updated our estimate of the GDP loss in June to 9%.** This is significantly less than the 12% loss expected last month. Construction and services are acting as the main drivers of the recovery. In services, trade, accommodation, food services, and business services are all contributing strongly to this recovery. However, some sectors remain well below normal activity levels, such as transport equipment (including the automotive and aeronautics industries), transport services, accommodation, and food services.

The recovery in activity in June compared with end-May is corroborated by other high-frequency data sources, such as temperature-adjusted electricity consumption, credit card payments and ATM withdrawals.

**Taking into account our estimates for the loss of activity in April, May, and June, we expect GDP to contract by around 14% in the second quarter of 2020, i.e. slightly less than the 15% contraction that we forecast last month.**

### Impact of the Covid-19 crisis on value added by industry in June

(%)

| Industry | VA share | Impact on activity in June |
|---|---|---|
| **Agriculture and manufacturing industry** | **15** | **-9** |
| Agriculture and agri-food industry | 4 | -2 |
| Energy, water, waste, coking and refining | 3 | -7 |
| Manufacturing industry excl. food, coking and refining | 9 | -13 |
| **Construction** | **6** | **-10** |
| **Market services** | **57** | **-10** |
| Wholesale and retail trade, transport, accommodation and food services | 18 | -15 |
| Financial and real estate services | 17 | -3 |
| Other market services | 22 | -11 |
| **Non-market services** | **22** | **-5** |
| **Total GDP** | **100** | **-9** |

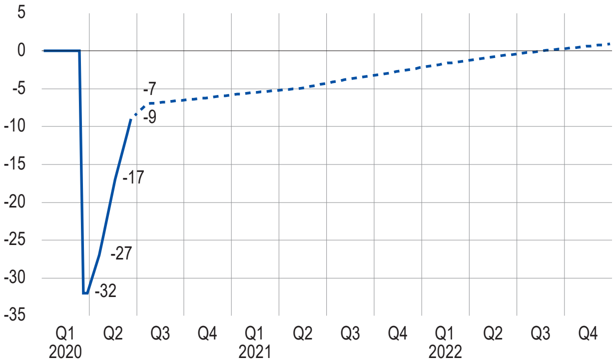
Note: The estimates presented in this table may differ from firms' opinions regarding their level of activity provided in the previous charts. In addition to differences in scope, the estimates in the table also use other information, such as the number of closure days, balances of opinion on production and activity, and capacity utilisation rates.

The outlook for July suggests that activity levels will continue to normalise, but at a slower pace, with much of the rebound having already taken place after lockdown measures were eased in May and June. The business forecasts collected in our survey indicate that the average loss of activity relative to normal could be reduced to around 7% in July. Based on carryover at end-July, i.e. fixing activity in August and September at the expected level for July, we estimate that GDP could rebound by around 14% in the third quarter.

The levels of activity in June and July would hence be higher than those expected in the June 2020 macroeconomic projections that we published on June 9th. This provides additional support to our estimate of the contraction of GDP in 2020 (–10%) reported in our macroeconomic projections, which is less than assumed in the French draft supplementary budget act (–11%) as well as than reported by the IMF (–12.5%). If the level of activity expected for July turned out to hold over the next months, and provided the epidemic remains under control, our forecast for 2020 could be revised upward in our next report scheduled for release in September. In any case, we expect the recovery to follow a "bird's wing" pattern (see chart below), as the sharp initial rebound is now expected to gradually flatten out.

### GDP loss in France

(% gap relative to the final quarter of 2019)




Source: the solid line plots the GDP losses estimated over-time and reported in the updates of business conditions through to end-June; the dashed line shows the GDP loss for July estimated in this update, extended through the end of 2022 using the June 2020 macroeconomic projections published on June 9th.