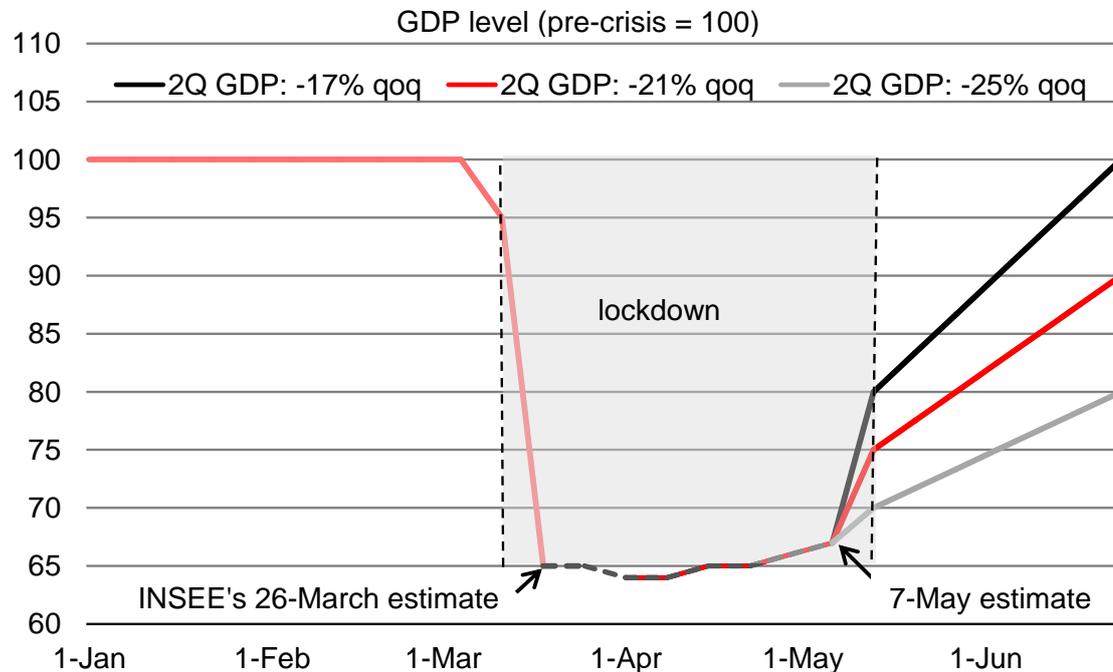


France: it will be difficult to avoid a 20-25% GDP contraction in 2Q20



Source: INSEE, UniCredit Research

- Since the state of emergency was announced in mid-March, INSEE, the French national statistical agency, has regularly published bi-monthly updates of the impact of the COVID-19 outbreak on French economic activity. These updates are particularly valuable as they track overall GDP virtually in real time. Each update covers the two weeks up to publication date; the first update was published on 26 March, the latest on 7 May. The methodology developed by INSEE is based on different high-frequency data (i.e. payment statistics, road traffic data, electricity data) than the usual ones (i.e. survey based), whose collection has been significantly disrupted by containment measures.
- Our *Chart of the Week* shows the evolution of French GDP in 1H20. It reflects the 1Q GDP report (-5.8% qoq, the largest contraction since the start of the series in 1949) as well as INSEE's bi-monthly updates. In its first update at the end of March, INSEE reported that the lockdown had cut economic activity by a third, compared to a normal level (which in the chart we set equal to 100). In the 7 May update, economic activity was still reported around 33% lower than normal before France began gradually lifting containment measures on Monday this week.
- In order to illustrate the implications of such a deep trough in activity for the GDP performance in 2Q20, we consider three scenarios for the recovery path in economic activity as the lockdown is gradually lifted. The first scenario (the black line) is very optimistic as it assumes that economic activity swiftly returns to normal levels at the end of June. The probability of this happening is very low but, even in this scenario, GDP would still contract by about 17% qoq in 2Q20. The second scenario (the red line) envisages a recovery to 90% of normal economic activity at the end of June and is consistent with a GDP contraction of slightly more than 20% qoq. In the third scenario (the grey line), activity recovers more slowly, reaching 80% of a normal level, consistent with a quarterly GDP contraction of about 25%.
- All in all, our chart shows that the economic downturn will intensify significantly in the second quarter, with GDP likely to contract by 20-25% qoq. This is broadly in line with our current forecast, but indicates that consensus is still far too optimistic.

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