NEW ZEALAND
FOREIGN AFFAIRS & TRADE
Manatū Aorere

France: Trade and Economic Update

Market Report

25 September 2020

Prepared by the New Zealand Embassy in Paris

Summary

France is on track to be one of the worst hit economies by the COVID-19 pandemic, with GDP forecasted to contract by 11% this year. The Government's response in the form of over €460 billion (or 20% of GDP) in emergency economic measures has helped cushion this blow for the time being, but the pinch is likely to be felt in the coming months. A €100 billion stimulus package focusing on welfare, business support and green transition has recently been unveiled to further lift the economy from the doldrums.

From a trade perspective, the French Government is looking to respond to the COVID pandemic by addressing the issue of supply chain resilience. Some €800 million in Government money is being earmarked to incentivise companies to relocate production to France.

The COVID pandemic notwithstanding, New Zealand exports to France have registered an almost 15% increase in the year to July 2020. This is primarily driven by a surge of respiratory equipment, which could soon displace meat as New Zealand's number one export to France. Food and beverage exporters have also done well over the first half of the year. By contrast, French imports are down by almost 24% to NZ$465.5 million.

Report

With GDP officially forecast to contract by 11% this year, France is on track to be one of the economies worst-hit by the COVID-19 pandemic. The French economy shrunk by 13.8% in the June 2020 quarter (quarter on previous quarter), its largest decline on record. This was the third consecutive quarterly decline, following a fall of 5.9% in the March 2020 quarter and a smaller 0.2% contraction in the December 2019 quarter.

The large declines in activity through the first half of 2020 reflect the impact of Covid-19 and confinement in France, which started in mid-March and began to be relaxed from 11 May. With activity gradually returning since then, a rebound in GDP is expected in the September quarter. However, a return to 2019 levels of GDP is not expected until 2022.

Driving the latest quarter's decline, investment fell 17.8%, household consumption fell 11.5%, and exports fell 25.0%, larger than the drop in imports of 16.4%. By industry, the largest decline was recorded in construction reflecting the impact of confinement restrictions, with a 20.3% fall in the June quarter following a 12.5% decline in the March quarter.

Some €600 billion in Government money to lift the French economy.

The Government has tabled a package of emergency economic support measures totalling over €460 billion (roughly 20% of GDP). This includes a €300 billion business finance guarantee scheme, a wage subsidy scheme, and various other fiscal measures to support businesses. Specific measures have been adopted for the most vulnerable industries, including tourism, aviation and the automobile industry.

This has helped shield the private sector and households from the immediate impact of the pandemic, but the consequences are expected to become more visible in the coming months. Jobless claims increased by 23.2% over the June quarter, and the Government has repeatedly warned of an impending social crisis.

The Government's response is being complemented by a €100 billion stimulus package. This will be allocated to welfare measures (€36 billion), business support (€34 billion) and green transition (€30 billion).

Supply chain resilience at the heart of France's trade policy response to the pandemic

The issue of supply chain resilience was identified very early on by President Macron as part of France's COVID-19 response. The pandemic unveiled an apparent over-reliance on China and India for PPE and active ingredients in pharmaceutical drugs. The Government responded by prioritising support for the health sector and pharmaceutical production, with €200 million earmarked to re-shore pharmaceutical production. Support was also provided to support the local face mask industry. Beyond the healthcare sector, the French stimulus package features an additional €600 million to incentivise companies to relocate production in France.

Bilateral trade with France – opportunities arising from the COVID pandemic

The COVID pandemic notwithstanding, New Zealand goods exports to France are up by 14.6% to NZ$239.6 million in the January to July 2020 period compared to the same period in 2019. This is primarily driven by a surge of COVID-related respiratory equipment. Representing NZ$74 million worth of exports (+63.7%), medical appliances are NZ$1 million shy of displacing meat products as NZ's number one goods export to France. Going forward, increased French funding for the healthcare sector could be beneficial to other relevant New Zealand companies.

Despite a greater focus on locally-sourced food products and the social distancing-induced challenges faced by the hospitality sector, New Zealand food and beverage exports have held their ground well. Meat exports have increased by 8% in value and wine exports have increased by 15%. Kiwifruit, apples and Manuka honey have also registered strong performances, with sales driven by a greater focus on the health impact of food products triggered by the crisis.

By contrast, New Zealand imports of French goods in the year to July 2020 are markedly down (-23.8% to NZ$465.5 million), with vehicles, aircrafts and pharmaceutical all experiencing significant drops. Machinery, vehicles and perfumes make up New Zealand's top three imports from France.

French investment represents another significant aspect of the bilateral trade relationship, with roughly one hundred French companies having a commercial presence in New Zealand. Approximately half of this is in the goods sector, notably wine, and the other half divided between the hotel sector and other services.

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