NEW ZEALAND
FOREIGN AFFAIRS & TRADE
Manatū Aorere

France: Trade and Economic Update

Market Report

26 February 2021

Prepared by the New Zealand Embassy in France.

Summary

- France’s economy registered its worst annual post-war contraction in 2020, with GDP dropping by 8.3%. A strong but partial rebound of 6% is forecasted in 2021, but this will largely depend on the evolution of the epidemiological situation. Unemployment is stable, for now, compared to its pre-crisis level.
- The French State has absorbed the brunt of the pandemic’s economic impact and continues to ramp up its support measures as COVID-19 lingers on. Further fiscal support is to come with half of France's €100 billion recovery package to be disbursed by the end of 2021.
- New Zealand goods exports to France grew by 27% year-on-year in 2020, led by a surge of breathing equipment and stable sales of New Zealand meat, despite the French hospitality sector's closure. While French exports were more hard-hit by the pandemic, Brexit is not expected to have a significant impact on the French economy.

Report

- The French economy registered its largest recession since at least World War II in 2020, with GDP falling by 8.3%. Although France registered a worse figure than the eurozone average of -6.8%, there were still some silver linings, as France’s GDP beat mid-year predictions of a double-digit contraction (and the experience of Spain at -11.0% and Italy at -8.9%). The French economy also proved more resilient over the second lockdown (29 October - 15 December), shrinking by a modest 1.4% in Q4. The upside surprise to GDP in Q4 cautiously suggests the economy may be more resilient in the event of ongoing or further restrictions. While activity may rebound, it will likely take some time for a full recovery to pre-pandemic levels.
- A 6% rebound in GDP is expected this year, according to official estimates, but this will again be largely dictated by the epidemiological situation. France’s stop-and-go response to the pandemic translated in big quarter-on-quarter GDP swings in 2020, both downside (-5.9 and -13.7% in Q1 and Q2 respectively), and upside (+18.5% in Q3). The latter suggests a strong rebound potential for the French economy, if and when the page can indeed be turned on the COVID-19 pandemic, including a successful vaccination rollout by summer.

Public deficit remains high to shield businesses and households.

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With more support measures coming

- As the pandemic continues, the Government is maintaining and even ramping up its main economic support measures. Solidarity Fund payments - initially limited to independent businesses owners and small companies and capped at €1,500 per month - have been gradually increased, meaning some companies can now benefit from up to €200,000 per month in specific cases. These payments will remain in place at least until June. Full wage support is also ongoing for employees of businesses forced to close due to the Government's pandemic response.
- After an initial tranche of €10 billion in 2020, 40% of France's €100 billion recovery package will be disbursed this year. This will include the first half of a €20 billion cut in corporate tax, and a range of measures to accelerate the transition to a low carbon economy, such as fiscal incentives to increase the uptake of clean transportation and to support energy efficient building renovations, as well as investment in green hydrogen technology.

A likely limited Brexit impact

- Although trade statistics have yet to be published, post-Brexit trade issues have received little media attention thus far, likely suggesting a more limited trade impact on this side of the Channel than may have been initially feared. The UK is France's 6th largest export market, with €27 billion worth of French goods sold to the UK in 2020. In December, Minister Le Maire estimated that Brexit would shave 0.1 percentage points off France's 2021 GDP.

French exports hard hit by the pandemic…

- France's international goods trade deficit worsened in 2020 to €65.2 billion (an increase of 12.6% from 2019), edging closer to its 2010 trough of €75 billion. Key French exporting industries have been particularly hard hit by the pandemic (aeronautical down 45% in 2020 year-on-year, cars down 19%), resulting in French goods exports decreasing more significantly (-15.9%) than imports (-13%). Although the French agrifood sector was relatively spared from the worst impacts of the pandemic, imports of food products are further closing the gap on French exports, with France's agrifood trade balance remaining barely positive in 2020 (€1.4 billion, down 22% from last year).

…and New Zealand's two-way trade deficit with France halved

- These trends are reflected in our bilateral goods trade, with New Zealand's deficit with France having almost halved in 2020 to NZD449 million (-44.6% on 2019). This was driven by a 22.9% drop in imports from France to NZD896 million, with French aircraft (-66%) and vehicle (-19%) sales amongst the hardest hit, and a 26.9% surge of New Zealand exports to NZD447.6 million, led by breathing equipment (+123% to NZD170 million). Ventilator machinery exports now outsell New Zealand meat exports to France by a ratio of 1.6:1 ratio. Historically, New Zealand's largest goods export to France, meat exports were relatively steady in 2020 (up 3.6% to NZD111 million) despite the French hospitality sector having been shut down for roughly half of the past year, and the 6pm national curfew further restricting take-away options.

External links

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