GERMANY
2021-2022 SCENARIO

GROWTH HINGES ON CONTAINING THE RISKS TO HEALTH AND EXPANSIONARY FISCAL POLICY

22 December 2020

Philippe Vilas-Boas

WORKING EVERY DAY IN YOUR INTEREST AND FOR SOCIETY

GROUP ECONOMIC RESEARCH

CONTENTS

OVERVIEW

GROWTH HINGES ON CONTAINING THE RISKS TO HEALTH AND EXPANSIONARY FISCAL POLICY

The German economy expanded 8.5% quarter-on-quarter in Q3. Combined with strong demand for industrial goods the rebound suggested that economic activity should normalise in the fourth quarter. But the virus spread and cases rose again in October. Berlin imposed a “soft lockdown” in November followed by a hard lockdown in December derailing this outlook for a return to pre-pandemic levels. Inevitably, we have adjusted our forecasts downwards as a result. We now expect Europe’s largest economy to contract 1.4% qoq in the fourth quarter as non-essential businesses close, demand dries up and spending slows with people forced to stay home. With companies’ margins squeezed by the slowdown, investment will also be dragged down. Net exports – revised downwards – are expected to make a small but positive contribution to growth in Q4 mainly on demand from China. All told, we expect the impact of the pandemic shock to cut 5.7% from German economic output in 2020. Our growth forecast for next year is predicated on a very gradual easing of restrictions by Spring as the country attempts to halt the virus in its tracks without paralysing the economy. As fiscal policy continues to prop up the economy, we see a stronger recovery in the second half bringing annual growth to positive 2.5% in 2021. Looking further to 2022 and the completion of the mass vaccination program, the pace of growth should pick up to 3.4%.

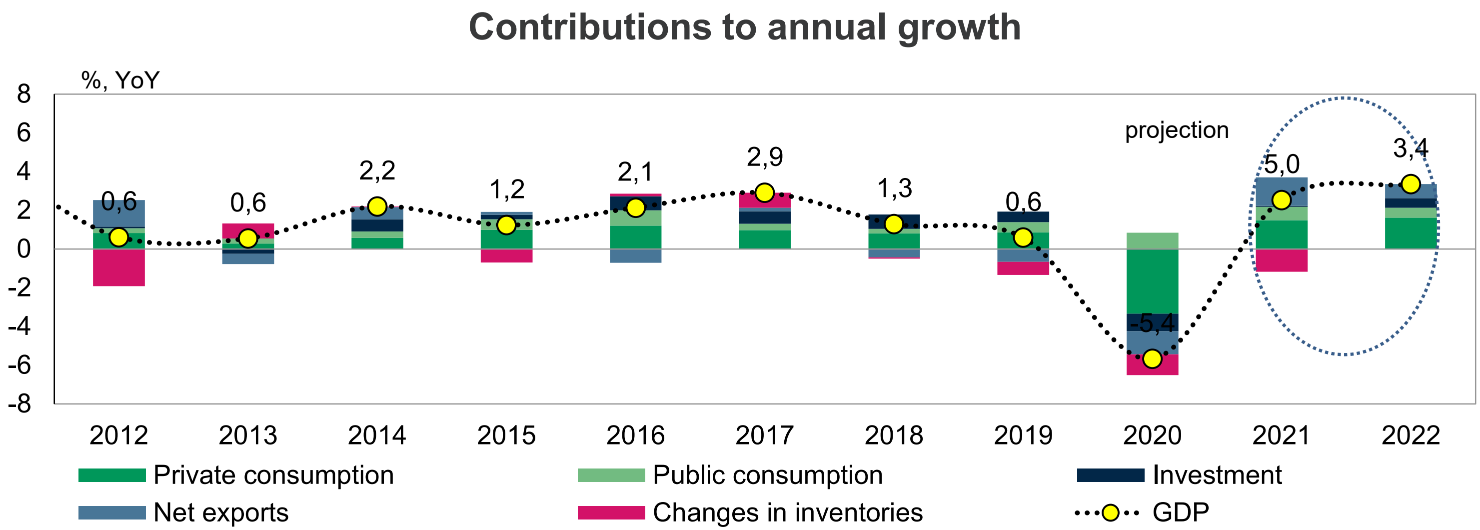
Households are spending less in the pandemic. A decline of 2.3% is forecast in Q4, followed by a modest 1.1% uptick in the first quarter of 2021 as businesses gradually reopen. The *Kurzarbeit* furlough scheme, which has been extended into next year, will help to maintain minimum disposable income. As the economy kicks back into gear, the number on short-time working will reduce (there were 2 million workers on shorter hours in November). However, industrial lay-offs are on the cards for 2021, which points to a labour market surplus. Jobless numbers have risen by almost 600,000 with many still on furlough. While a very expansionary fiscal policy will continue to support business and workers to cushion the economic shock of the crisis, but they will not go on forever. Unemployment risk will mount as aid is withdrawn, especially at the start of 2022. Expansionary fiscal spending on this scale is on track to create a deficit of €180 billion (6.9% of GDP) in 2021, narrowing to 2.3% in 2022. Our estimates put German public debt at close to 72% of GDP over our forecast horizon.

With businesses closed and people’s movements restricted, tighter margins will spell a 1.4% drop in investment in Q4 before rising again in Q1 as lockdown measures are eased. We think investment in the construction industry will also be knocked back and don’t expect it to recover until the second half of 2021. It will take until 2022 for total investment to catch up as needs that had been postponed come back on stream.

Strong demand from the Middle Kingdom – thus far spared a second wave of coronavirus – has largely fuelled net exports. But the recovery in exports to the euro zone is once again stalled by a resurgent virus. Although trade with the United States and the United Kingdom, two of the worst-hit countries, is well below pre-pandemic levels, early vaccine approvals in these countries should see a rapid return to trade growth as the virus is brought under control faster.

OVERVIEW

GROWTH HINGES ON CONTAINING THE RISKS TO HEALTH AND EXPANSIONARY FISCAL POLICY



	Yearly average (YoY, %)				Quaterly growth (QoQ, %)											
Germany	2019	2020	2021	2022	2020				2021				2022			
					Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
GDP	**0,6**	**-5,7**	**2,5**	**3,4**	**-1,9**	**-9,8**	**8,5**	**-1,4**	**0,8**	**0,8**	**0,9**	**0,9**	**0,8**	**0,8**	**0,8**	**0,8**
private consumption	1,6	-6,1	2,7	3,0	-2,3	-11,1	10,8	-2,3	1,1	0,9	0,8	0,8	0,7	0,7	0,7	0,7
investment	2,6	-4,3	0,3	2,4	-0,4	-6,6	3,6	-1,4	0,3	0,5	0,9	0,9	0,5	0,5	0,5	0,5
change in inventories *	-0,7	-1,1	-1,2	0,0	0,1	0,2	-2,4	-0,1	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
net exports *	-0,7	-1,2	1,5	0,7	-0,8	-3,0	4,1	0,1	0,1	0,1	0,2	0,2	0,2	0,2	0,2	0,2
unemployment rate	3,1	4,2	4,5	4,7	3,6	4,2	4,5	4,4	4,4	4,5	4,5	4,6	4,6	4,6	4,7	4,7
Inflation	1,4	0,5	1,4	1,3	1,6	0,7	-0,2	-0,1	0,8	1,1	1,9	1,9	1,3	1,3	1,3	1,3
Government net lending	1,5	-6,3	-6,9	-2,3												

** Contributions to GDP growth*

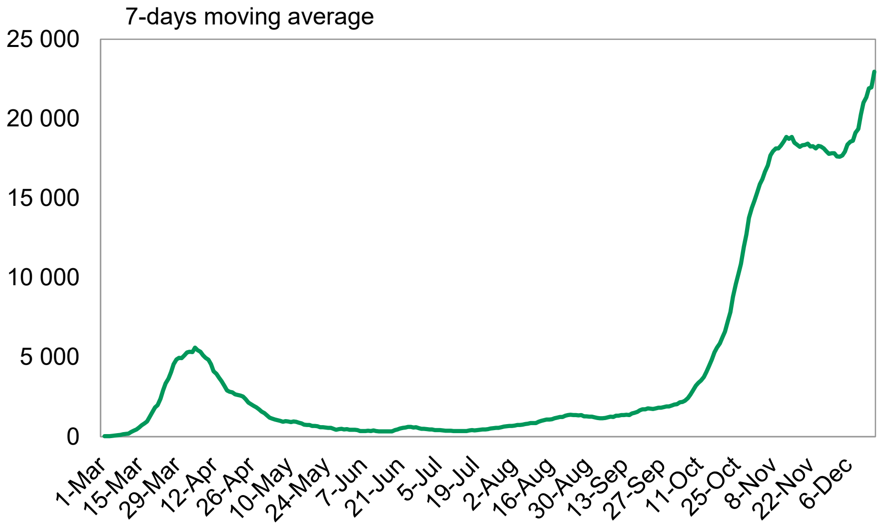
Sources: Crédit Agricole SA / ECO, prévisions

CONTENTS

RECENT ECONOMIC TRENDS

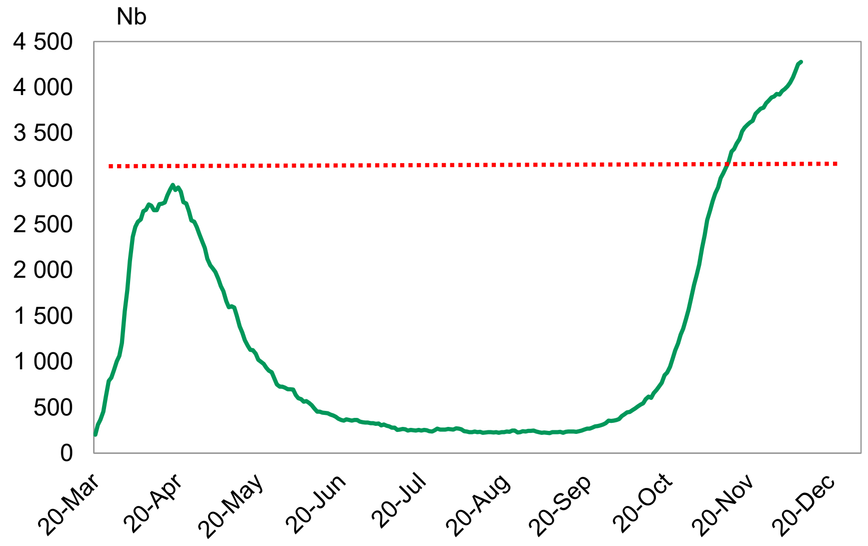
PANDEMIC CONTINUES UNABATED

Change in the number of Covid-19 cases



Sources: DIVI, RKI, Crédit Agricole SA / ECO

Covid-19 cases reported in intensive care



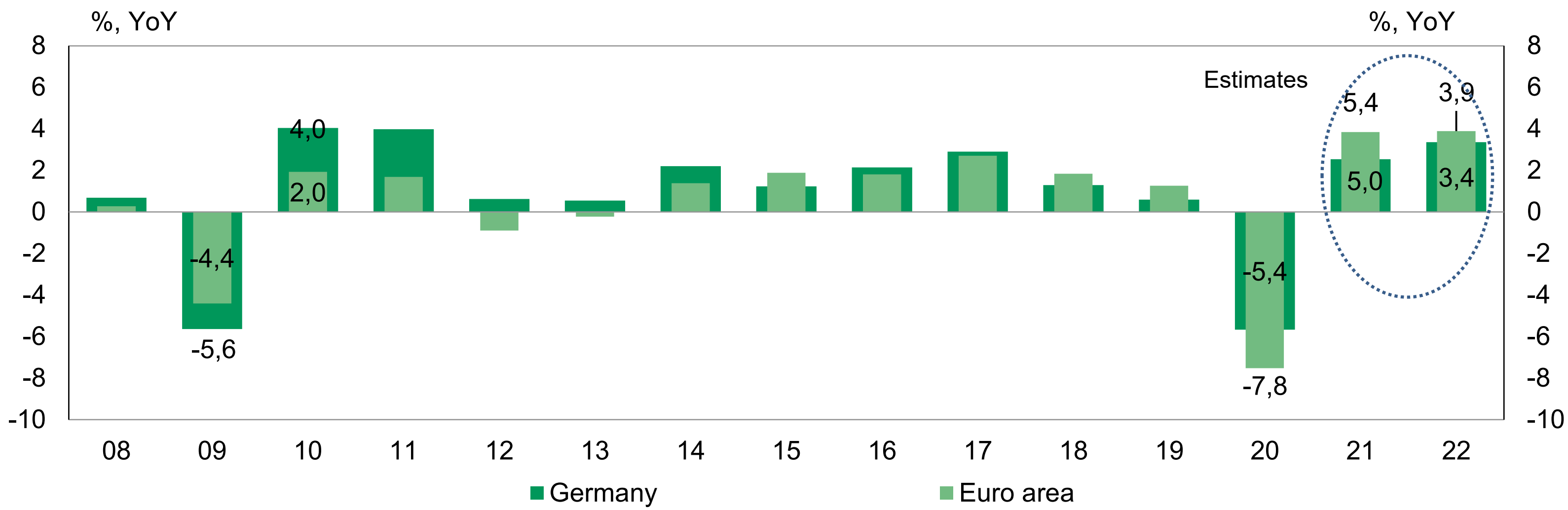
Sources: DIVI, RKI, Crédit Agricole SA / ECO

New daily cases exceeded 23,000 at 16 December, from a peak of 5,300 per day during the first wave. 4,200 patients with Covid-19 were in intensive care, 19% of the total in ICU. More than 22,000 out of 29,000 beds are occupied, an occupancy rate of 77%. The 7-day rolling incidence has risen to 180, way past 50 cases, the point at which the situation is considered to be under control. Battling to control a surge in infections in October, the German federal government first imposed what was dubbed a "soft lockdown", closing bars, restaurants, recreation, cultural, tourist and sports facilities but allowing businesses to remain open under tough new rules. But spiralling fatalities from the illness forced Ms Merkel to go further and announce a hard lockdown from 15 December to 10 January. "Non-essential" businesses are shuttered, schools are switched to remote learning and social gatherings severely restricted. The rules will be relaxed between 24 and 26 December. Our growth forecast factors in these developments and an easing of restrictions starting in Q1 2021 when businesses should reopen but with strict controls in place and social distancing required until summer at least.

RECENT ECONOMIC TRENDS

GROWTH STILL AT THE MERCY OF COVID-19 IN 2021

A recovery caught up by the epidemic

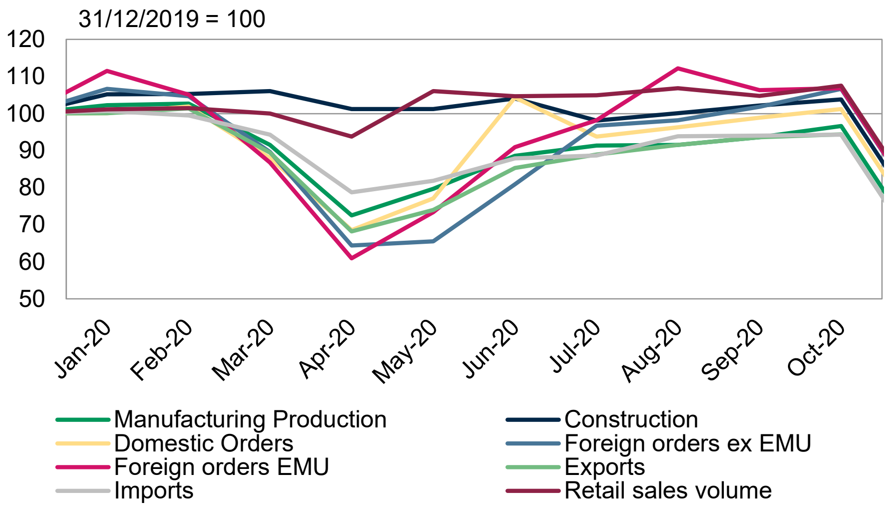


When the government moved to reopen most businesses and industrial output resumed, growth bounced back as higher consumer spending and investment helped the recovery. The early signs of a return to normal seemed promising – until the virus returned in force in September and intensified in the winter months to snuff out hopes of a smooth recovery. The hard pandemic reality in Europe has forced most countries to reimpose restrictions under often lighter or less restrictive lockdowns designed to blunt the impact on growth and employment. Governments are taking a pragmatic approach balancing decisions about maintaining social distancing and curbs on movement with the need to protect livelihoods. The price is temporarily sacrificing some service businesses, which must remain shuttered. Services will continue to receive support from a raft of necessary aid measures and concern for fiscal balance is relegated to the background for now. We could see rising insolvencies and unemployment towards the end of 2021 when these supports are phased out. We therefore expect euro zone growth to decline 7.5% in 2020 before rebounding 3.8% in 2021 and strengthening further in 2022. The contraction in the German economy should be a less severe 5.7% this year, as lighter restrictions and resilient global industrial demand softens the blow from the pandemic. But the rebound will also be a weaker 2.5%, dampened by a full lockdown early in the year and continued social distancing measures. Germany should complete its mass vaccination program in December 2021 heralding an end to restrictions on peoples' movements and a return to pre-coronavirus levels in 2022.

RECENT ECONOMIC TRENDS

ROBUST RECOVERY IN THE EARLY PART OF THE QUARTER

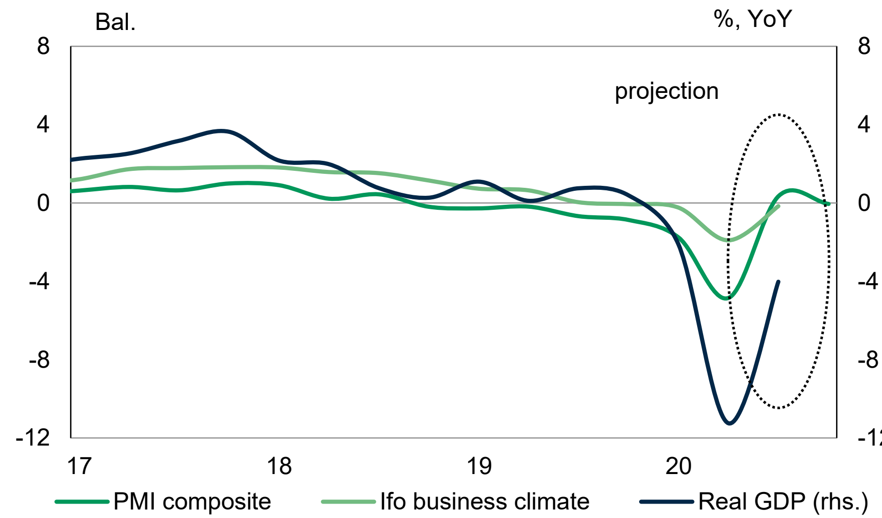
Trends of the main signals



Sources: FSO, DB, Crédit Agricole SA / ECO

Hard economic data continued to recover in the early part of Q4 across most sectors. Retail sales are 7.5% above their pre-pandemic levels. Industrial output is only 3.4% below where it was when coronavirus hit, marking a very significant recovery from the slump of 28% in April. Both domestic and international orders are also back to pre-crisis levels. Only international trade is lower, having lost 5% compared to December 2019. Construction has also swung back and is up 3.8% vs. December 2019.

Business surveys and real growth



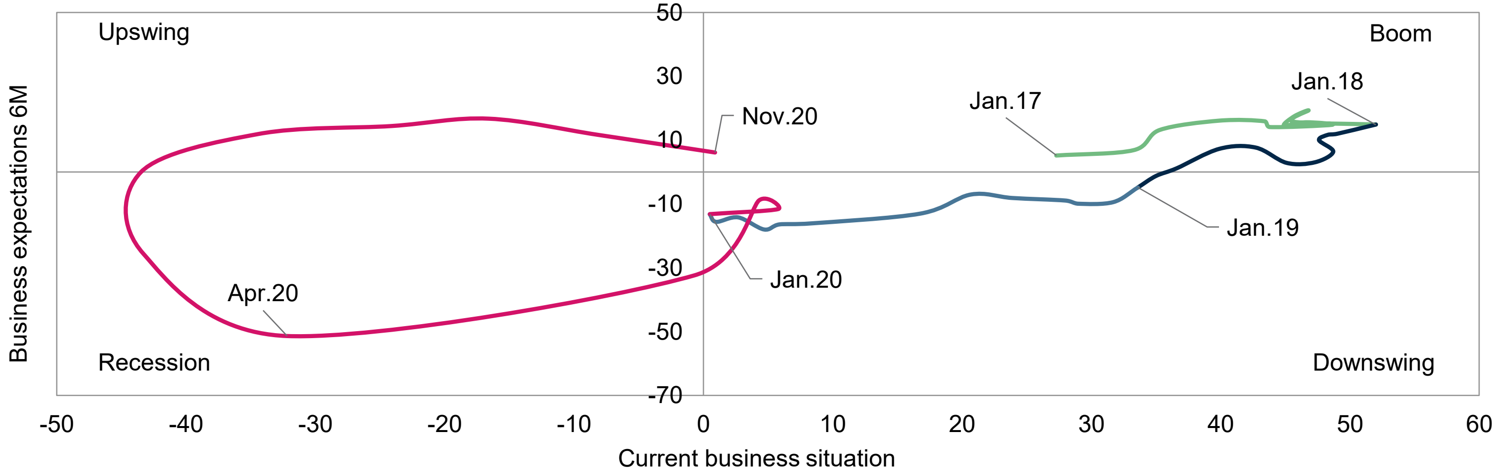
Sources: IFO, Crédit Agricole SA / ECO

Survey data confirm the recovery in October and November but also indicate a slowdown in December. The PMI composite (purchasing managers index) remained in expansionary territory throughout the fourth quarter lifted by strength in manufacturing which offset service sector weakness. However the IFO index was less optimistic about the six-month forecast. Based on the survey data, the harsher lockdown in December will weigh on Q4 and offset the rebound in October and November.

RECENT ECONOMIC TRENDS

CORONAVIRUS PRECIPITATES CONTRACTION IN Q4

Trend in the industrial cycle (*IFO index*)



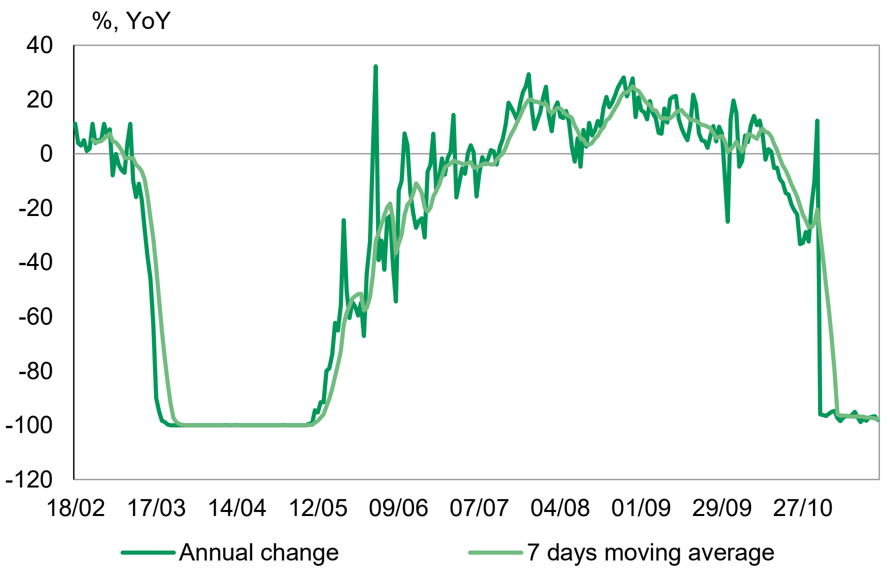
Sources: IFO, Crédit Agricole SA / ECO

The IFO business climate index improved markedly in Q3 on the easing of restrictions during the summer, before falling back in November when some curbs were reimposed. The six-month forecast shows a slowdown in November compared to October. Looked at by sector, the wholesale and retail segments declined. Industry and construction also fell, but to a lesser extent. The index for services dropped sharply as the sector struggled with forced closures and social distancing measures to halt the march of the pandemic. And the government's decision to impose a stricter lockdown and close all non-essential businesses from 15 December to 10 January will have an even greater impact than the previous "soft lockdown". We expect growth to contract 1.4% in the fourth quarter as consumer spending slows to a trickle. Restrictions should be eased gradually in January, lifting growth by a modest 0.8% in Q1 2021.

RECENT ECONOMIC TRENDS

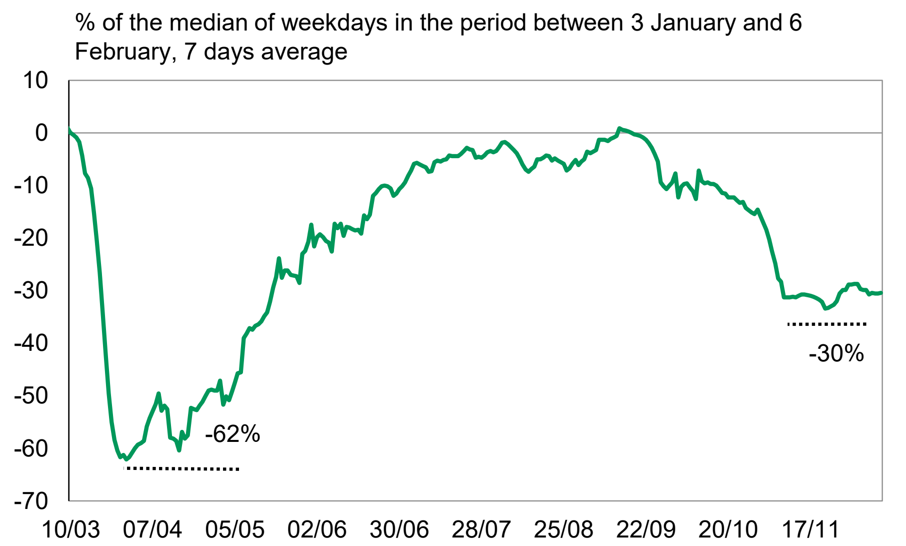
HIGH-FREQUENCY INDICATORS (CONSUMPTION)

Number of dinners in restaurants



Sources: Opentable, Crédit Agricole SA / ECO

Number of customers in retail stores



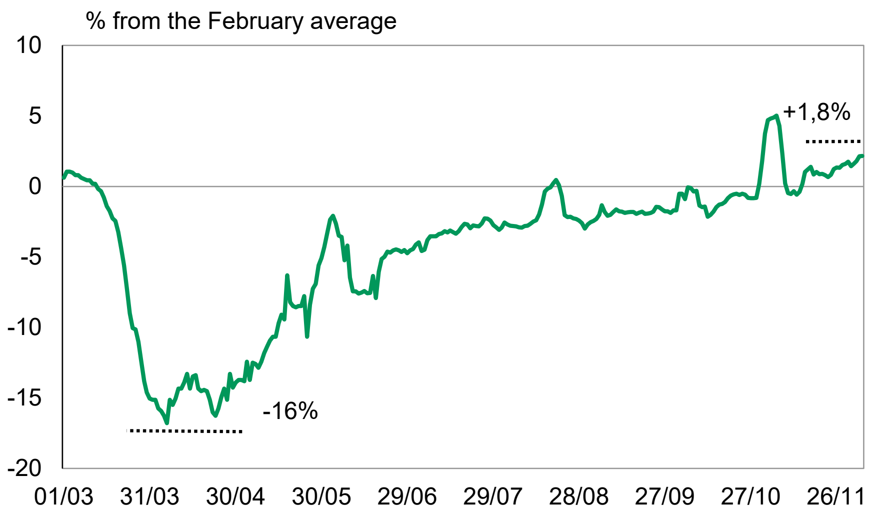
Sources: Google mobility report, Crédit Agricole SA / ECO

Pent-up demand when shops reopened in May lifted consumer spending in Q3 by 10.8% over the quarter from a slump of 11% in Q2. But bars, restaurants and leisure facilities were closed in early November in a bid to stem the rising Covid-19 tide, dealing a heavy bow to consumer spending in Q4. The escalation to a hard lockdown in mid-December, shuttering everything except shops selling food and medical essentials, is set to intensify the recessionary effect of consumption on growth in the fourth quarter. Retail sales data underline the drop in footfall from mid October, down 30% on pre-pandemic traffic, half the precipitous 60% collapse recorded during the first wave.

RECENT ECONOMIC TRENDS

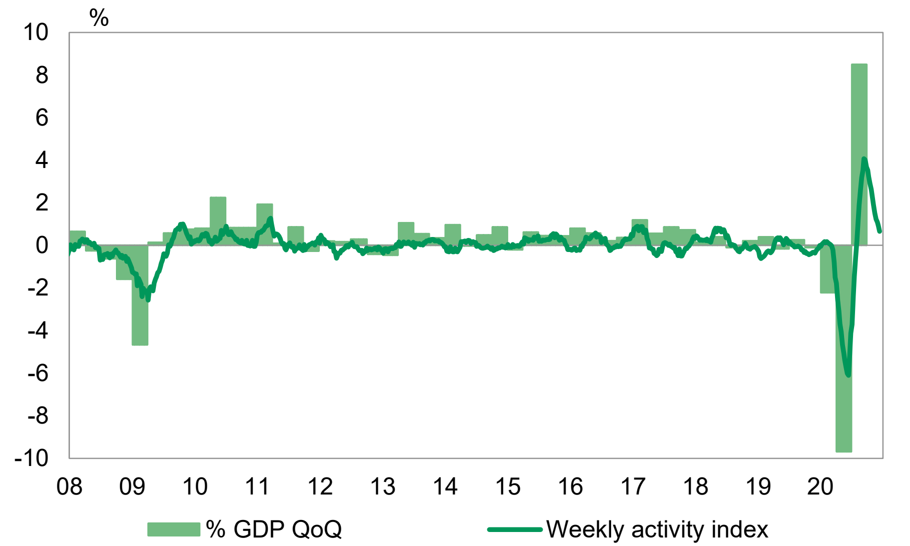
HIGH-FREQUENCY INDICATORS (TRAVEL AND ACTIVITY)

Truck traffic trend since February 2020



Sources: Destatis, Crédit Agricole SA / ECO

Weekly activity index and GDP growth



Sources: Apple mobility, Crédit Agricole SA / ECO

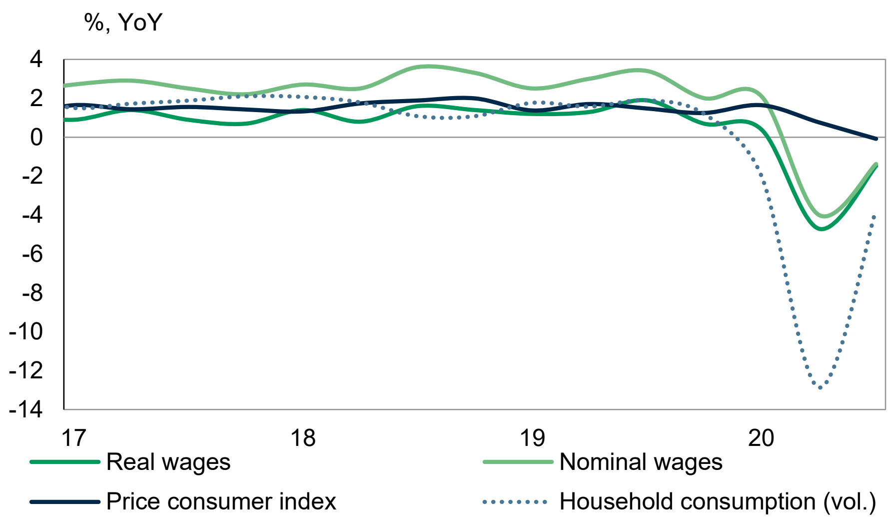
The Truck Toll Mileage Index is a good indicator of where industrial output and trade are headed in the country. Starting a vigorous climb, the Index was rose 1.8% above its pre-pandemic level in early December from the depths of a 17% slide in April. Output from the German industrial powerhouse rose in October and November, which is largely reflected in the rising index. But we see a likely downside risk to output from stricter containment measures at the end of the year. Based on a number of different indicators, the Bundesbank's weekly activity index (WAI) is designed to measure economic activity in real time. For the week of 7 to 13 December, the index showed a 0.7% increase in activity over the previous 13 weeks (after 0.9% the week before indicating another dip). The WAI-implied GDP growth rate was 1.5% throughout the fourth quarter; however it doesn't factor in the hard lockdown imposed on 15 December.

CONTENTS

BASIS OF OUR SCENARIO

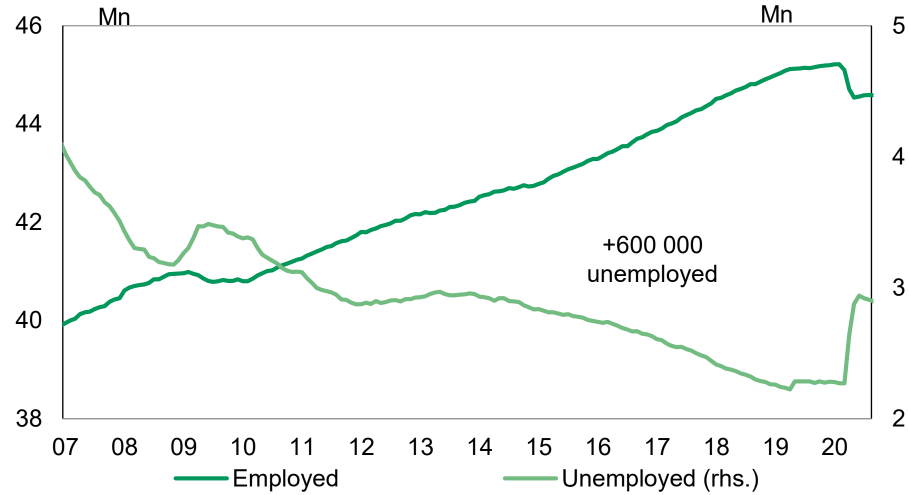
JOBS, WAGES AND CONSUMPTION

Wages, inflation and consumption



Sources: FSO, Crédit Agricole SA / ECO

Number of employed and unemployed



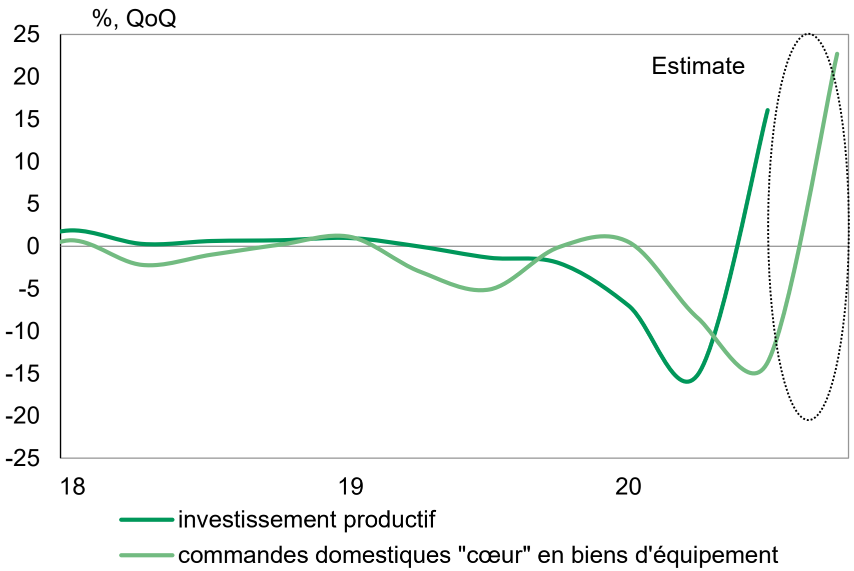
Sources: Agentur für Arbeit, Crédit Agricole SA / ECO

Real wages could hold up better in Q3 (-1.5% year-on-year) compared with Q2 (-4.7%) as furlough schemes help to prop up activity. Short-time working is gradually being phased out, but continues to impact on wages. With the latest curbs on movement and shuttering of businesses at the year-end, consumer spending is heading down again by 2.3% qoq, despite the boost to private-sector consumption from holiday spending. The outlook for the labour market is not very optimistic in a recessionary environment that will weigh on collective bargaining, real wages and consumption. For now, furlough and short-term working schemes have kept unemployment in check (+1.1% this year) but many more jobs could be at risk when furlough supports are withdrawn sending up unemployment rates from December 2021 and into 2022. After doubling between Q1 (12%) and Q2 (21%), the savings rate is falling slowly (16% in Q3) and is on track to decline faster in the second half when virus fears abate. Our scenario shows lockdown consumption rebounding 2.7% in 2021 (recovering from -6.1% in 2020) and accelerating to 3% in 2022 when the need for social distancing disappears.

BASIS OF OUR SCENARIO

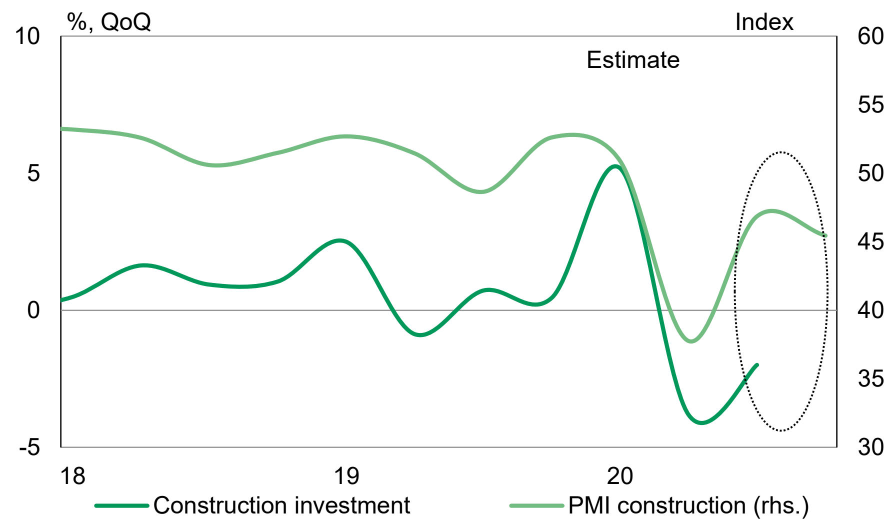
INVESTMENT: SHORT-TERM OUTLOOK

Productive investment



Sources: FSO, Crédit Agricole SA / ECO

Construction



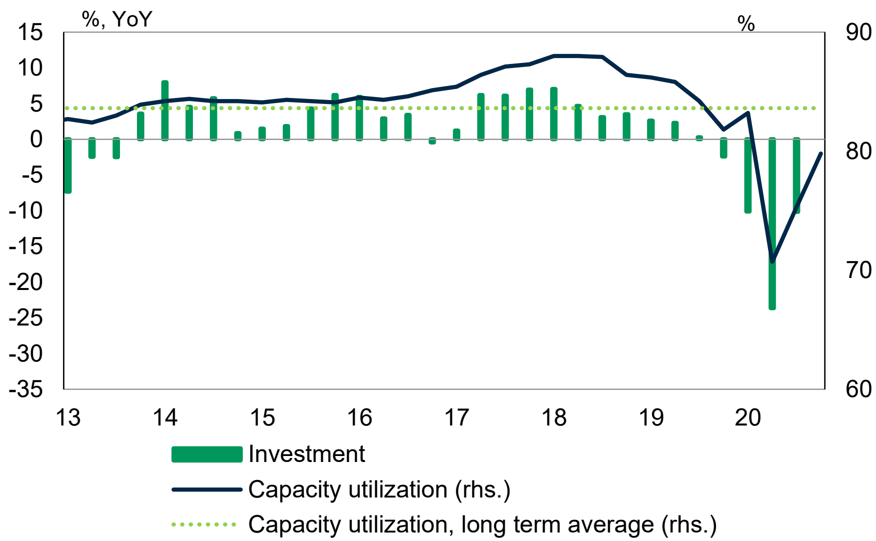
Sources: FSO, Markit, Crédit Agricole SA / ECO

Productive investment made a strong 16% recovery in Q3 compared with a 15% decline in the previous quarter. This is mainly down to the improvement in value added across most sectors of the economy, except construction. Although industrial output – which dominates trends in productive investment – is catching up, it is still down 4.2% on an annual basis in October. The growth overhang carried into Q4 is positive but smaller than output growth in Q3. Investment in construction is lower, in line with the ninth consecutive month of decline in November, according to the construction PMI. Total investment is set to fall 1.4% in the fourth quarter, pushed down by the knock-on effect of the December lockdown on company margins. Yet nearly 103,000 companies have drawn down state-guaranteed loans to the tune of €58 billion in total. This is far below loan amounts in France, but liquidity comparisons between the two countries are difficult, as self-financing is traditionally higher in Germany. Corporate debt as a percentage of value added increased by only 7 points in Q2 compared to Q4 2019, and remains a low 109.3%. The very gradual easing of restrictions from Q1 2021 should see margins recover and investment rise in the second half of the year.

BASIS OF OUR SCENARIO

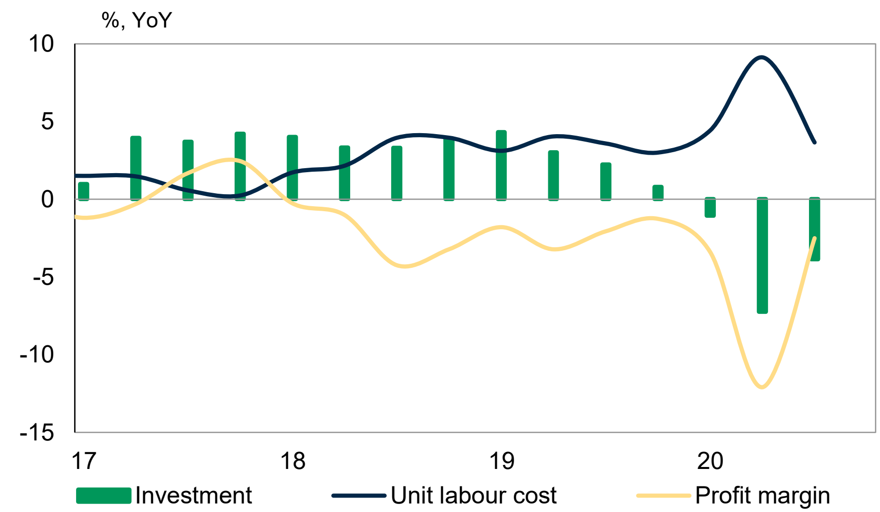
INVESTMENT: UNDERLYING TRENDS

Productive capacity utilisation rate



Sources: Destatis, Crédit Agricole SA / ECO

Margin ratios, unit wage costs and investment



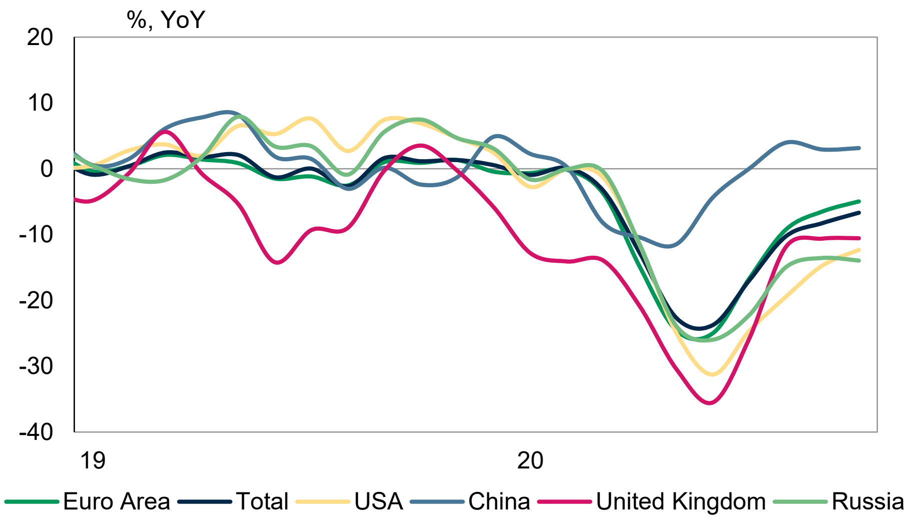
Sources: Destatis, Crédit Agricole SA / ECO

Even if the production capacity usage rate is still five points below its long-term average, it rose a robust 10 points in the third quarter. However, we think the latest restrictions to control the spread of the virus will temper this recent surge in industrial orders, while service activities will take time to recover from these many setbacks. This means that corporate margins are struggling to recover more than in the previous quarter. As demand for exports remains shaky, the virus' trajectory between now and Spring 2021 will see previously planned investments placed on hold or pared back. We expect investments to slide 4.3% overall this year before edging back 0.3% in 2021 as the world remains under some degree of lockdown in response to successive waves of coronavirus. More sustained growth in investment is not expected until 2022 as all sectors of the economy get back to normal.

BASIS OF OUR SCENARIO

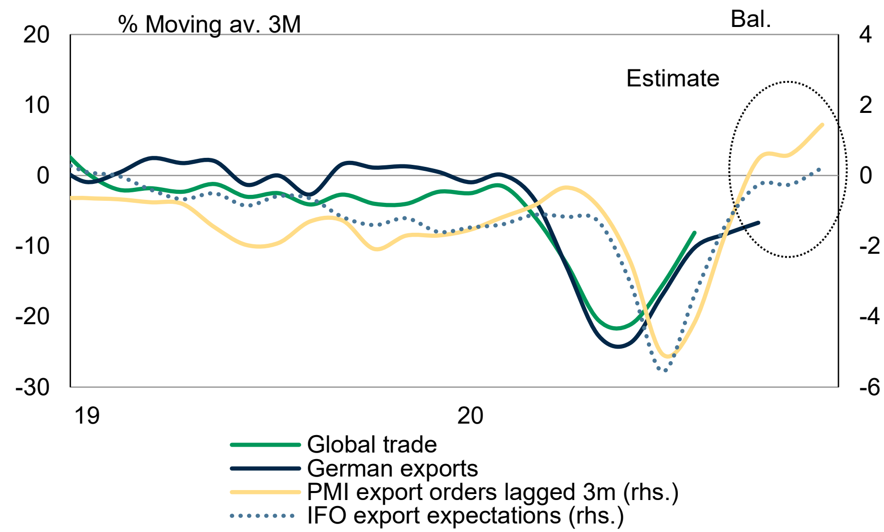
FOREIGN TRADE

Exports by main trading partners



Sources: Bundesbank, Crédit Agricole SA / ECO

Export outlook



Sources: Destatis, Crédit Agricole SA / ECO

Exports surged ahead from the June trough, but are still 6% below where they were in 2019. Exports to China have gained 3% compared to pre-pandemic numbers driving up exports as a whole. Exports to euro zone countries still lag the previous year by 5%, while those to the United States and the United Kingdom, the countries worst affected by Covid-19, fell 14% and 10%, respectively. However, the PMI indicator for export orders and the Ifo Institute's export expectations point to sustained growth in foreign trade in the coming quarter, albeit at a more moderate pace than in Q3. We expect net exports to contribute positive 0.1 points of GDP a in the fourth quarter, reflecting the underlying slowdown in activity. We expect net exports to make a negative contribution to growth of 3.4 points of GDP in full-year 2020. Lighter lockdown measures should boost trade towards the middle of next year with a net positive contribution of 2.2 points in 2021.

BASIS OF OUR SCENARIO

SUPPORTING FISCAL POLICY

2020

Expenditure to support the economy	Bns €	% of GDP
Economic Stabilisation Fund (self-employed)	75	2,2
Social benefits and family allowances	55	1,6
Temporary reduction of VAT from 19 to 16% and 7 to 5%.	20	0,6
Subsidies on the electricity tax	11	0,3
Unemployment benefits.	8	0,2
Offsetting the decline in municipal revenues	6	0,2
Provisions for increase in public guarantees	6	0,2
Social security contributions capped at 40%.	5	0,2
Aid for families (300€ per child)	4	0,1
Purchase of protective equipment.	4	0,1
Expenditure to support other countries	3	0,1
Other measures	6	0,2
Total support expenditure	**202**	**5,9**

Investment expenditure	Bns €	% of GDP
Promoting technology and climate change	50	1,5
Total Investment expenditure	**50**	**1,5**

2009

Expenditure to support the economy	Bns €	% of GDP
Tax exemptions for SMEs	8	0,3
Lowering the marginal tax rate from 15% to 14%.	8	0,3
Increase in short-time working benefit	8	0,3
Reduced health insurance premium	9	0,4
Increase in family allowances	6	0,2
One-off allowance of EUR 100 per child	2	0,1
Household assistance: "cash for clunkers".	5	0,2
Direct capital injections to the financial sector	33	1,3
Total support expenditure	**80**	**3,1**

Investment expenditure	Bns €	% of GDP
Public investment in infrastructure and education	15	0,6
Total Investment expenditure	**15**	**0,6**

2021

Expenditure to support the economy	Bns €	% of GDP
Economic Stabilization Fund (self-employed)	25	0,7
Compensation at 75% of the lost turnover for companies forced to close	35	1,0
Equity for the Deutsche Bahn	6	0,2
Future fund to support the automotive sector	1	0,0
Employment support, hartz IV labour market	1	0,0
Extension of compensation payments under the Hospital Funding Act	2	0,1
Discount distribution of FFP2 masks	3	0,1
Vaccine procurement	3	0,1
Other Expenses	9	0,3
Total support expenditure	**84**	**2,4**

	Bns €	% of GDP
Estimated cost of crisis-related expenditure (2020–2021)	**336**	**9,8**
Estimated cost of crisis-related expenditure (2009)	**95**	**3,7**

Federal guarantees provided (2020)	Bns €	% of GDP
Existing guarantees on KFW loans	465	13,5
Decided increase in guarantees at KFW	357	10,4
Total available federal guarantees	**822**	**23,9**

Federal guarantees provided (2009)	Bns €	% of GDP
Creation of a business support fund	100	3,9
Creation of a guarantee fund for banks	480	18,7
Total available federal guarantees	**580**	**22,6**

Sources: Ministère des Finances, Crédit Agricole SA / ECO

In general, the resources used to counteract the harmful effects of this health crisis on the German economy are far greater in volume compared to the 2009 crisis. In both cases, the aid measures combined tax relief for households and businesses, higher short-time work benefits, help for families, public investments and federal loan guarantees for troubled businesses via the public investment bank KFW. The stimulus plans include a multi-year investment plan, intended to prepare the German economy for the future, rather than to make up for delayed activity. They include promoting hydrogen technologies, 5G infrastructure, the development of artificial intelligence, building energy renovations, a railway plan, electrifying the public vehicle fleet, and digitising public services.

BASIS OF OUR SCENARIO

RISKS TO OUR SCENARIO

Matrix of risks associated with our scenario

		Probability	Impact
↓	Third epidemic wave in Europe	High	High
↓	Weak global growth	High	High
↓	Deterioration in employment	High	High
↑	Decrease in the savings rate supporting consumption	Medium	Low

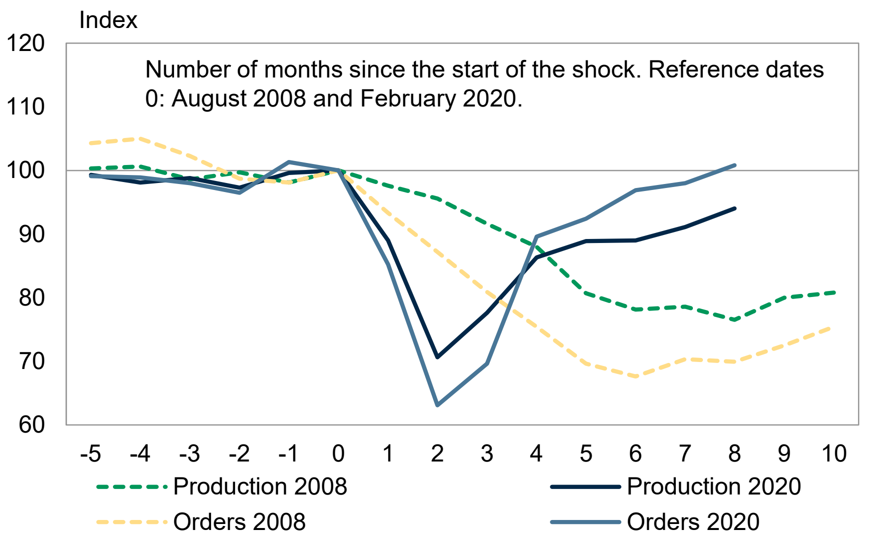
Source : Crédit Agricole SA / ECO

CONTENTS

FOCUS 1: HOW RESILIENT IS INDUSTRY?

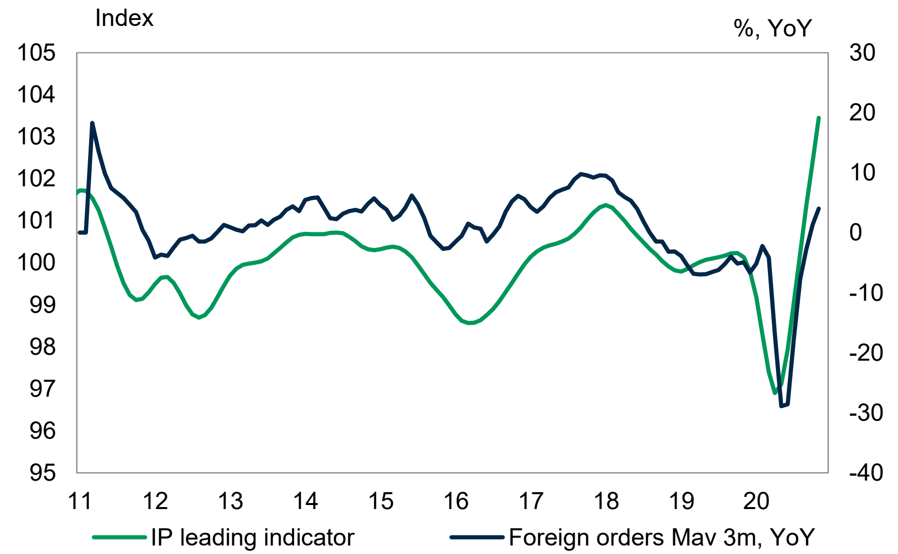
A CRISIS LIKE NO OTHER

Evolution of industrial production



Sources: Destatis, Crédit Agricole SA / ECO

Leading Industry Indicator and Foreign Orders



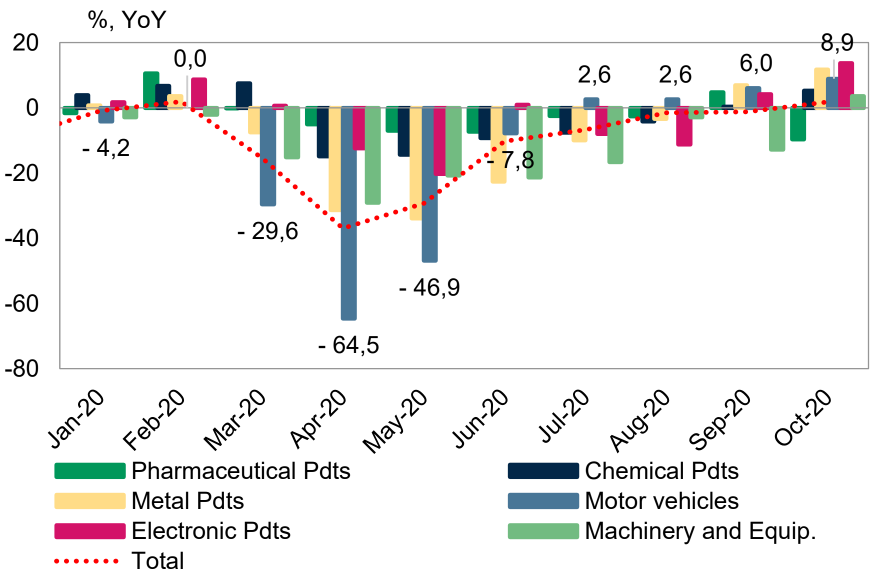
Sources: Bundesbank, Crédit Agricole SA / ECO

The pandemic-induced contraction in industrial output was faster and steeper than during the financial crisis of 2009 as global supply chains and demand collapsed simultaneously. The circumstances are unique and hardly reproducible in the future: the pandemic seems to be under control in Asia and in several other countries around the world, which reduces the risk of disruption to supply chains. Demand for industrial goods seems to be firmer as orders flow back and return to pre-crisis levels in just 8 months. The vigorous industrial sector rebound is driven by export orders, especially from outside Europe. The Bundesbank's leading indicator suggests that industrial activity continued to strengthen in November and could even top the peak recorded in 2018. Industrial orders for the export market, which rose in October, also point to sustained robust output in the near term.

FOCUS 1: HOW RESILIENT IS INDUSTRY?

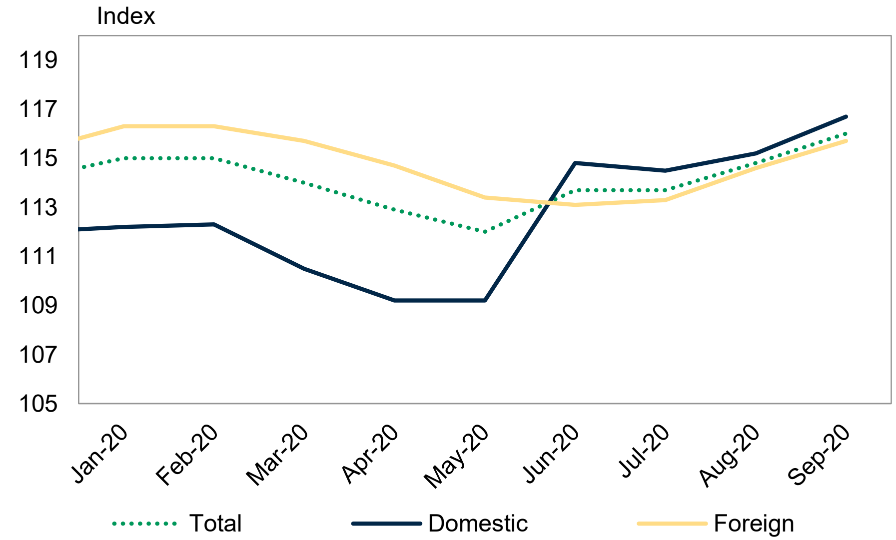
INDUSTRY MOMENTUM REGAINS THE UPPER HAND

Industrial orders



Sources: FSO, Crédit Agricole SA / ECO

Unfilled orders

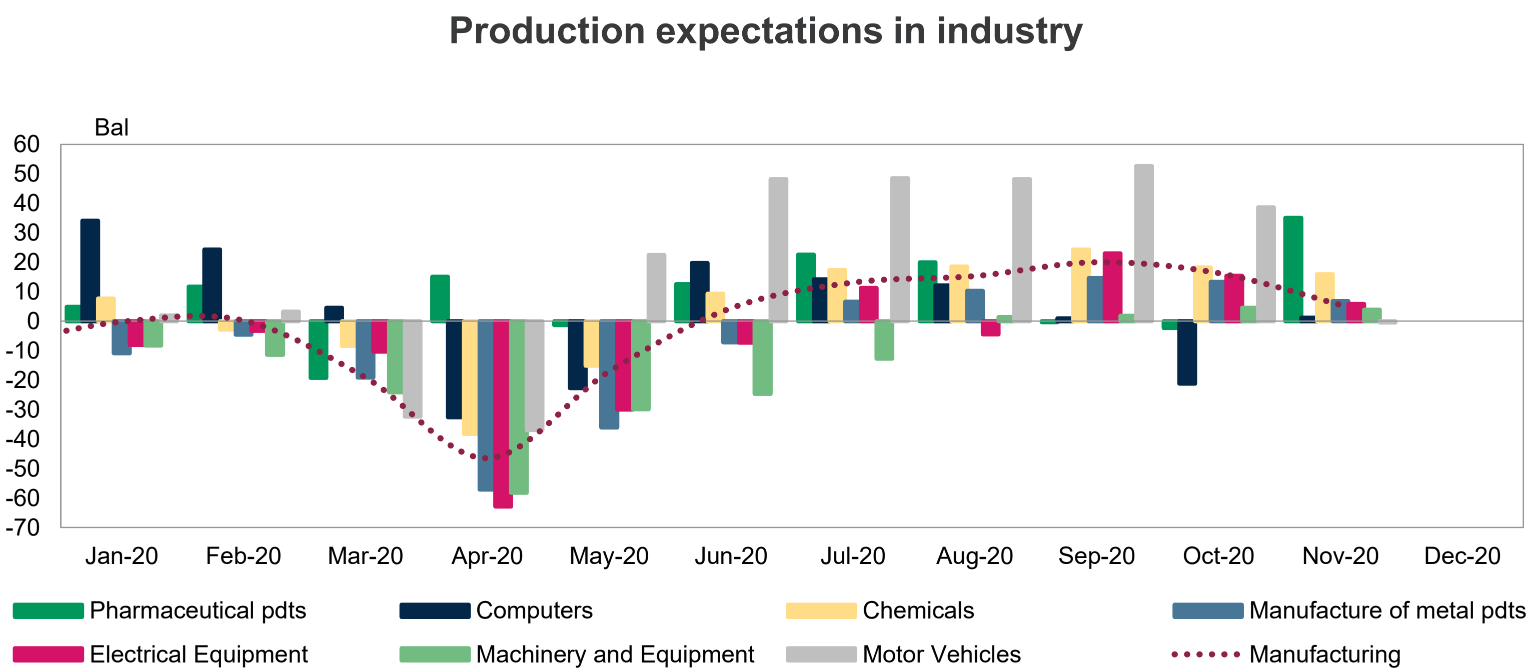


Sources: FSO, Crédit Agricole SA / ECO

Industrial orders plunged during the first wave of coronavirus, down 36% on an annual basis in April. Orders rebounded in the space of a few months and regained positive ground year-on-year in October (+1.9%). When orders are broken down by product, the data shows the most severe contraction in Germany's core specialities, namely automotive, machines and equipment and metallurgy. Orders for all key sectors recovered during the summer. Pharmaceuticals was the only industry where orders remained negative year-on-year in October. This swift turnaround is down to pent-up demand accumulated during lockdown when the complete shutdown of a large number of plants shut for supply reasons postponed demand. The powerful recovery in demand during the summer months led to an increase in orders left unfilled due to a lack of material and/or human resources.

FOCUS 1: HOW RESILIENT IS INDUSTRY?

OPTIMISTIC EXPECTATIONS DAMPENED BY NEW RESTRICTIONS



Sources: Ifo, Crédit Agricole SA / ECO

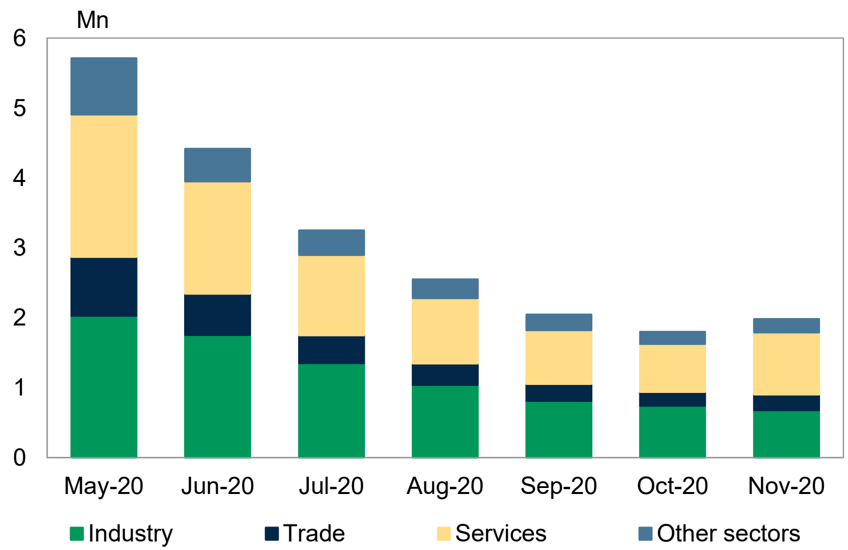
Business survey data provide more accurate information on how resilient German industry has been since the economy opened up again. 3-month output forecasts ticked up in the majority of Germany's key industrial sectors as of June, pointing to growing optimism until November. Then the virus surged again, prompting Ms Merkel's government to act and introduce restrictions that snuffed out the green shoots of a recovery. Lighter lockdown measures introduced in November (closing bars, restaurants, tourism, cultural and sporting facilities) primarily affected services. In a manufacturing-oriented economy like Germany, they were less of a threat to the economic recovery since services contribute less to national value added. Then came December and a blanket lockdown of all non-essential businesses mid-month. This new clampdown will probably have a greater impact on industrial output in December and January.

CONTENTS

FOCUS 2: EMPLOYMENT SPARED FOR NOW?

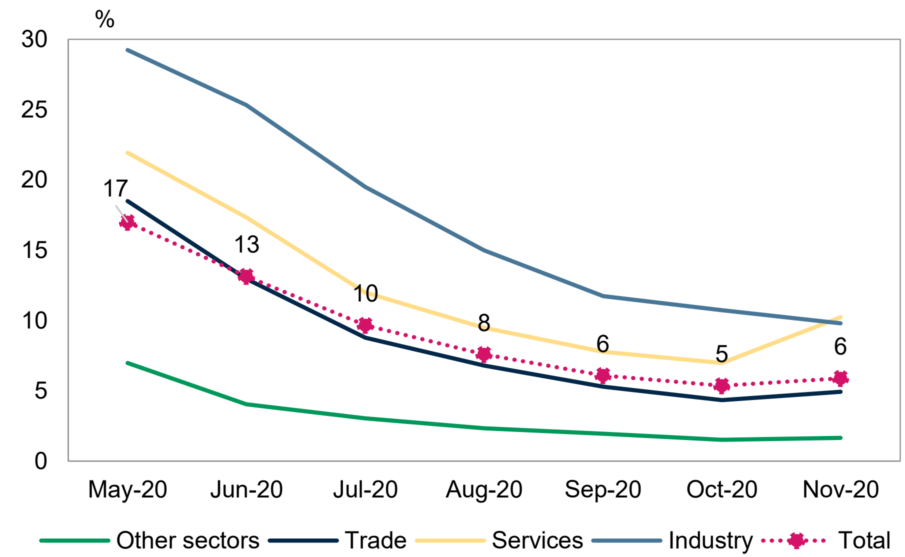
LARGE NUMBERS STILL ON FURLOUGH OR SHORTER HOURS

Changes in short-time work



Sources: BA, Ifo, Crédit Agricole SA / ECO

Short-time work as % of employment in the sector



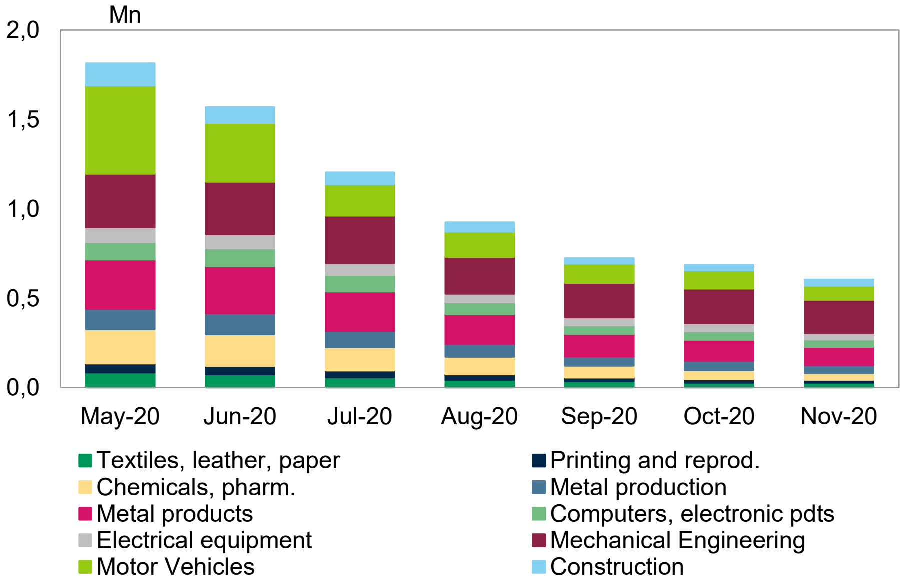
Sources: BA, Ifo, Crédit Agricole SA / ECO

Massive take-up of furlough schemes cushioned the blow dealt to jobs by the pandemic. Almost 5.8 million people drew on the schemes in the thick of the crisis last May. Around 2 million and a more-or-less equivalent number registered for the program in industry and services, and around 800,000 in trade. When the economy started to revive over the summer, furloughed employees reduced and were down to 2.5 million in August. IFO's forecasts show this downward trend continuing until October in line with the growth spurt in Q3. But take-up of furlough schemes in service industries climbed again in November in response to the partial lockdown ordered in the early part of the month, subsequently tightened and extended until 10 January. In industry, the numbers of furlough dropped by a third in May. In services, they went up in November to roughly 10% of the workforce, compared with 22% last May.

FOCUS 2: EMPLOYMENT SPARED FOR NOW?

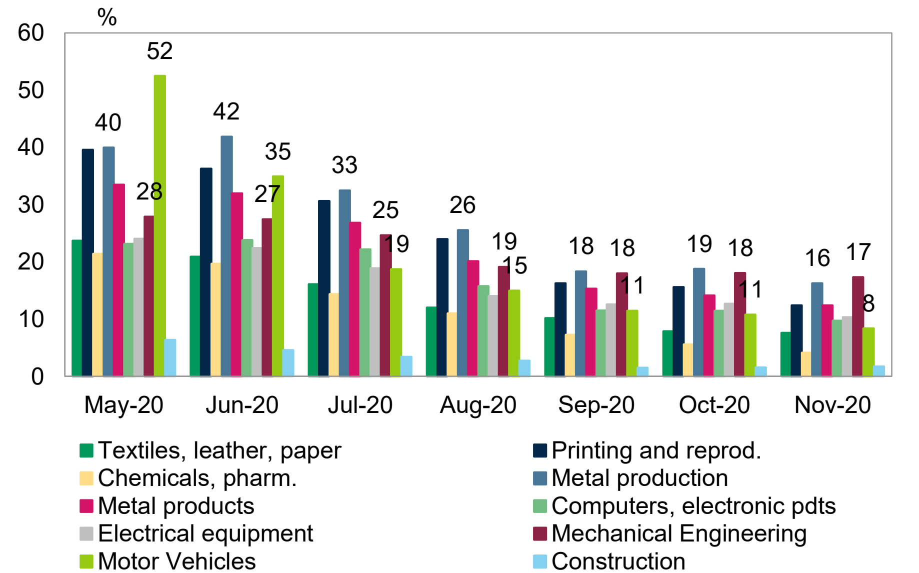
FEWER INDUSTRIAL EMPLOYEES ON FURLOUGH

Short-time work in industry



Sources: BA, Ifo, Crédit Agricole SA / ECO

Short-time work as % of employment in industry



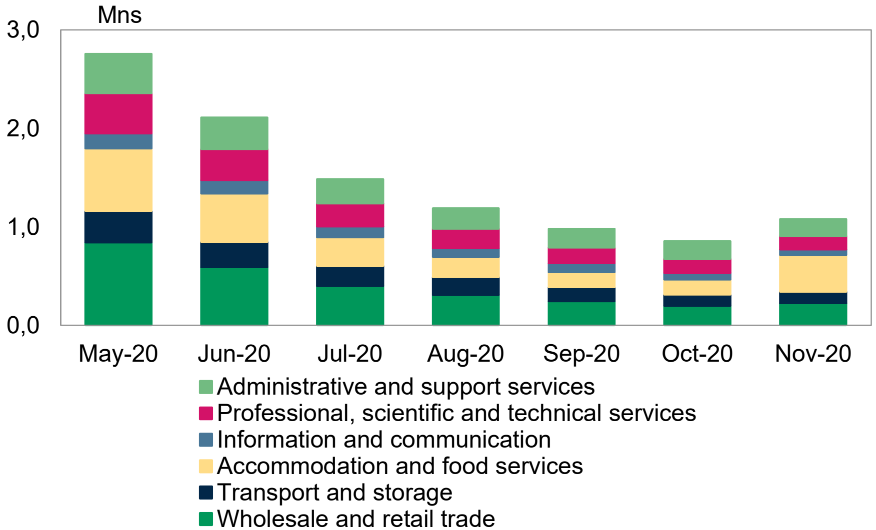
Sources: BA, Ifo, Crédit Agricole SA / ECO

In German industry, the automotive industry had the highest concentration of furloughed workers in May at some 500,000 employees. The other sectors with the highest exposure were machines and equipment and metallurgy, each with 280,000 workers affected. The pharmaceutical industry was in fourth position with close to 190,000 employees. The least exposed sectors were electrical equipment, IT equipment and textile manufacturing. When the outlook for industry brightened in the third quarter, many workers were taken off the schemes across most sectors. Reflecting the significant improvement in automotive, workers on furlough fell from 52% in May to around 8% currently. 10% of workers are still on furlough in other key industrial sectors, like metallurgy. On the other hand, the number of machines and equipment workers covered by the schemes stayed high in percentage terms at 17%.

FOCUS 2: EMPLOYMENT SPARED FOR NOW?

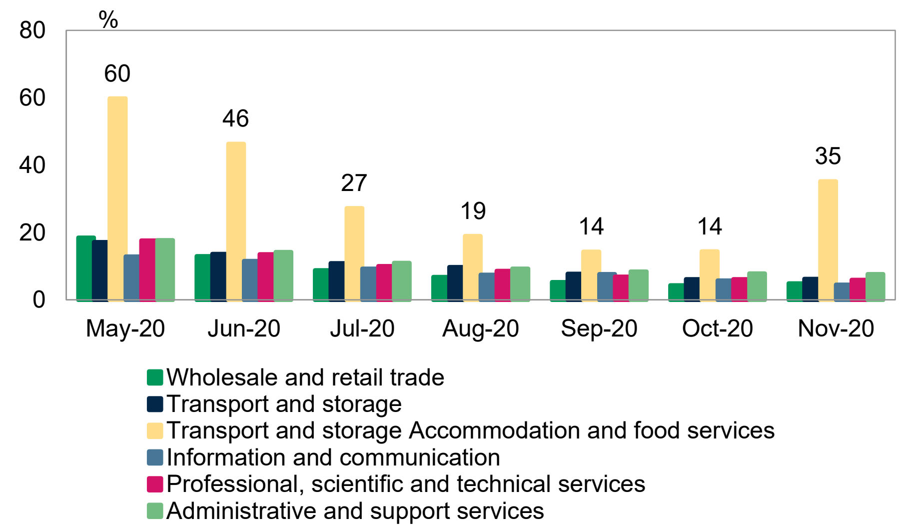
NEW UPWARD PRESSURES IN SERVICES

Short-time work in services



Sources: BA, Ifo, Crédit Agricole SA / ECO

Short-time work as % of employment in services



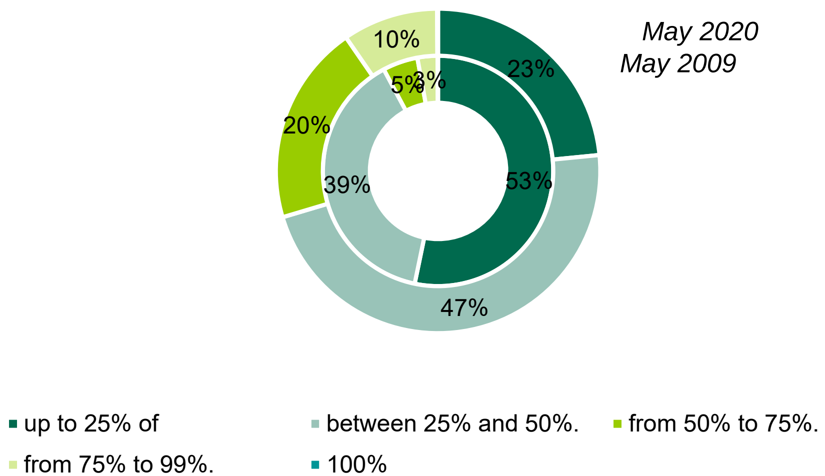
Sources: BA, Ifo, Crédit Agricole SA / ECO

Compared to what happened in the financial crisis of 2009, services have been more affected by the pandemic. The number on furlough is as high as in industry as a whole at more than 2 million at the height of the crisis. The worst affected services were also in retail with over 800,000 people on shorter hours. In second position, hotels and restaurants put more than 630,000 people on furlough, while scientific and technical activities and business services had round 400,000 people on furlough at the crisis peak. Just like in industry, the easing of restrictions and the upturn during the summer lifted most services. But restaurants remain closed except for take-out. Hotels can only take guests on essential business travel but no tourists, which accounts for the very high number on furlough in this industry. The partial lockdown imposed in the latter half of December might prove more harmful to these "non-essential" sectors, at least until Q1.

FOCUS 2: EMPLOYMENT SPARED FOR NOW?

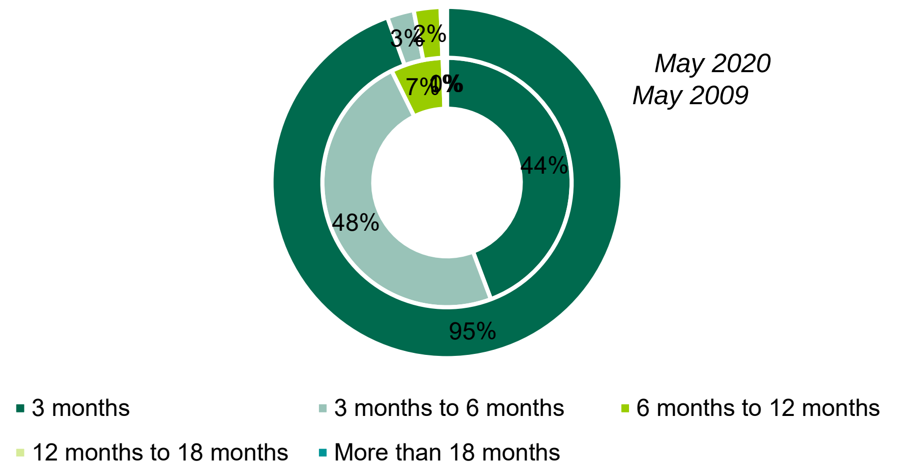
REDUCTION OF WORKING TIME AND DURATION IN THE SCHEME

Reduction of working time in short-time work



Sources: Bundesagentur für Arbeit, Crédit Agricole SA / ECO

Duration in short-time work



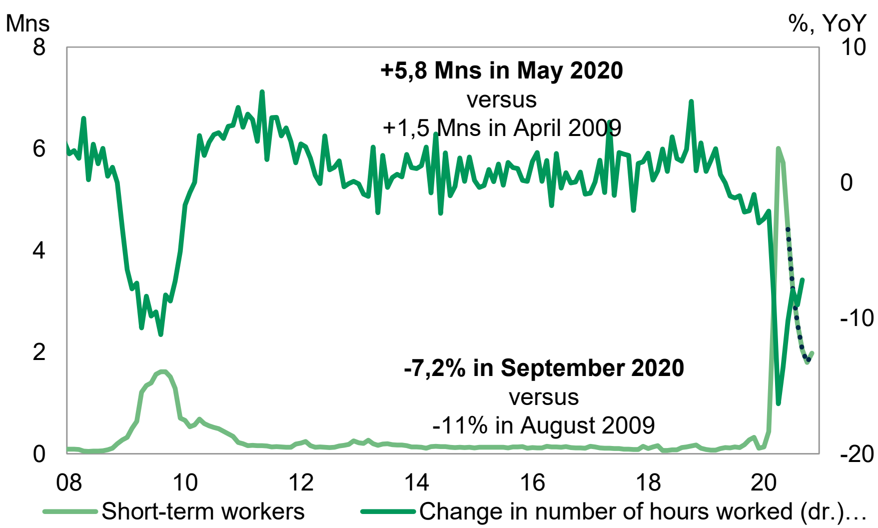
Sources: Bundesagentur für Arbeit, Crédit Agricole SA / ECO

The reduction in hours worked for people on short-time work is much higher than during the 2009 crisis. During the 2009 crisis, 53% of employees on short-time work were forced to reduce their hours by less than 25%, but today nearly 47% of employees on short-time work are being compelled to cut their working time by 25% to 50%. Only 23% of employees are experiencing a less than 25% decline in their hours. The percentage of people whose working hours were reduced by 50% to 75% doubled to 20% of those on furlough. However, the benefit periods initially provided for in the system seem shorter than during the 2009 financial crisis. Almost 95% of workers on shorter hours for longer than 3 months. Without a clear idea of how the pandemic might develop and if we'll see rolling lockdowns, we think companies will make use of furlough when needed. It seems clear that companies will continue to use *Kurzarbeit* scheme for as long as necessary since the German government has extended the scheme until December 2021.

FOCUS 2: EMPLOYMENT SPARED FOR NOW?

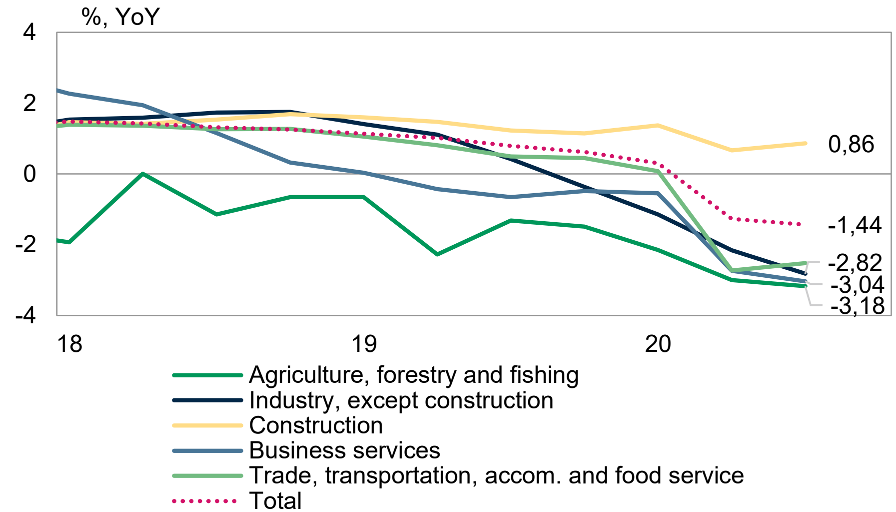
LABOUR MARKET HOLDS ITS BREATH

Short-time work and number of hours worked



Sources: Agentur für Arbeit, Crédit Agricole SA / ECO

The Beginning of the Decline in Employment by Sector



Sources: Destatis, Crédit Agricole SA / ECO

Take-up of the German furlough scheme peaked at 5.8 million people in May and then fell to a little under 2 million in November, a decline of one-third in the space of 6 months. The scale is unprecedented and hours worked fell 7.2% year on year in Q3 2020. But unemployment rose nonetheless. There were 700,000 fewer people in jobs, three times higher during the 2009 financial crisis. Only 200,000 jobs were lost in industry as a whole, while wholesale and retail were worst affected with 280,000 jobs lost. Affected to a lesser degree, job destruction in business services saw 188,000 jobs lost at the end of September. Businesses are still largely supported by state-guaranteed loans until December 2021 and a moratorium on loan payments extended to March 2021. As these supports are withdrawn over time, companies' financial difficulties may mount up, resulting in more business failures and, ultimately, higher unemployment. Our estimates are for unemployment to hit 4.2% this year (+1.1 points on 2019), climbing to 4.5% in 2021 and peaking at 4.7% in 2022.

CONSULT OUR LAST PUBLICATIONS

Date	Title	Theme
17/12/2020	United Kingdom – 2021-2022 Scenario: we are not out of the woods yet	UK
17/12/2020	World – Macroeconomic Scenario for 2021-2022: lasting scars after a chaotic recovery	World
17/12/2020	World – 2021-2022 Macroeconomic Scenario: economic and financial forecasts	World
17/12/2020	France – Residential real estate: Market resilient in the coronavirus pandemic	France, real estate
11/12/2020	France – Projecting GDP in this unusual crisis: a few words of explanation	France
10/12/2020	The lurking BEAST: the ECB's risk scenario and its implications	Eurozone
03/12/2020	How is the crisis affecting business?	Eurozone
26/11/2020	Update on emerging sovereign credit ratings	Emerging countries
18/11/2020	Central bank digital currency: an opportunity or a threat for banks?	Banks
10/11/2020	A short-lived upturn? Sketching out 2021	Eurozone
04/11/2020	United States: a crisis of legitimacy	United States

ECO
ÉTUDES ÉCONOMIQUES GROUPE

VILAS BOAS Philippe

Philippe.vilasboas@credit-agricole-sa.fr

THANKS FOR YOUR ATTENTION

YOU CAN SUBSCRIBE TO OUR PUBLICATIONS ON OUR WEBSITE : http://economic-research.credit-agricole.com/

Access and subscribe to our free online publications: application available in App Store and in Google Play

Crédit Agricole S.A. — Group Economic Research
12 place des Etats-Unis – 92127 Montrouge Cedex

Publication Manager: Isabelle Job-Bazille - **Chief Editor:** Armelle Sarda
Information centre: Dominique Petit - **Statistics:** Robin Mourier
Editor: Fabienne Pesty
Contact: *publication.eco@credit-agricole-sa.fr*