

ECONOMY

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## HOW COVID-19 IS FORCING US TO TRANSFORM THE ECONOMIC MODEL FOR THE PARIS REGION

**12 million**

INHABITANTS IN THE PARIS REGION

**734 billion**

EUROS GDP OF THE REGION IN 2018:  
ONE THIRD OF FRENCH GDP

**6.4 million**

JOBS

**over 1 million**

COMPANIES

ON 17 MARCH 2020, IN RESPONSE TO THE CORONAVIRUS EPIDEMIC, THE FRENCH GOVERNMENT DECIDED TO PLACE THE POPULATION IN LOCKDOWN. THE ECONOMY OF PARIS REGION, WHICH COMPRISES THE CITY OF PARIS AND SEVEN *DÉPARTEMENTS*, IS HIGHLY GLOBALISED AND INTERNATIONALLY OPEN. THE COVID-19 CRISIS AND THE LOCKDOWNS IN FRANCE, EUROPE AND AROUND THE WORLD HAVE THUS IMPACTED IT SIGNIFICANTLY.

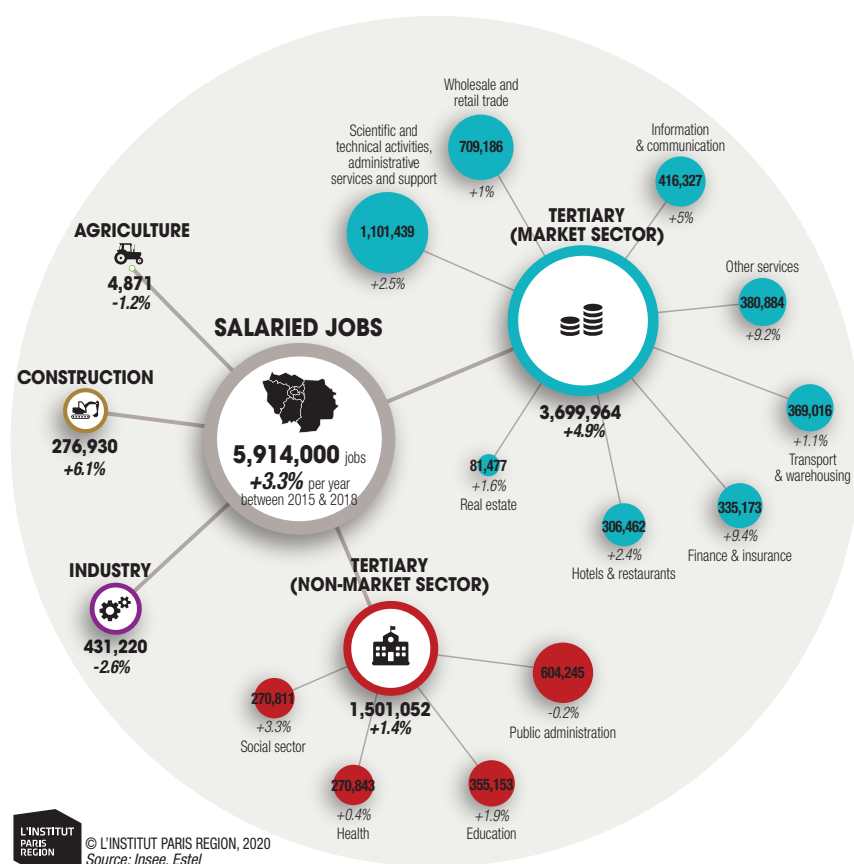
**T**he Paris Region, the economic and political capital region of France, has based its economy on the large-scale flow of people and goods. It is the world's leading tourist destination and the second most important destination for foreign investors in Europe. Like other major global regions, the Paris Region has been badly affected by the Covid-19 crisis. Some sectors such as digital and health have avoided the worst, and local and governmental plans have made it possible to protect jobs and businesses. These have now been extended into recovery plans that should protect certain strategic industries that provide many jobs, while helping the production system to change by going green and digital. The Covid-19 crisis calls into question the globalised model of the Paris Region's economy, which slowed down as a result of the first lockdown imposed on 17 March 2020.

### A BUOYANT METROPOLITAN ECONOMY IN 2019

The principal driver of France's economy, the Paris Region posted GDP of 734 billion euros in 2018, equivalent to one third of national GDP. Over a million firms and 6.4 million jobs are concentrated in the region, of which 88% are in the services sector (scientific and technical activities, wholesale and retail trade, information and communication, etc.), which attracts a population that is, on average, highly qualified (48% of employees in the Paris Region are graduates, compared to 37% nationally) and also makes support activities necessary (logistics, operational services, etc.). 12% of the region's jobs are in non-commercial sectors (administration, education, health and social services).

Tourism is one of the main drivers of the regional economy. In 2019 the Paris Region attracted 50 million visitors, 22.2 million of whom were from abroad.

## Distribution of jobs in the Paris Region by major sector in 2018 and evolution between 2015 and 2018



first quarter of 2020, compared to the same period in 2019. Job growth ceased and, despite numerous relief initiatives, almost 180,000 jobs have been lost in the Paris Region on the first semester of 2020, according to the French national institute for statistical and economic studies (Insee)<sup>4</sup>.

Some areas were particularly badly hit, especially the northeast of the region where jobs are more precarious and unemployment is higher. The crisis deepened social and spatial inequalities that were already present in the region. The centre of Paris was also badly affected, as it is where jobs in offices, hotels, restaurants and nightlife-related businesses are concentrated, as well as major tourist attractions and cultural venues. Paris has also suffered from the departure of almost 15% of its inhabitants, who moved to second homes outside the city during this period. In total, almost 450,000 people (business travellers, tourists, casual visitors, residents and commuters) left Paris when lockdown was imposed, spelling disaster for the economy.

The health crisis has revealed the major role of front-line workers who carry out face-to-face activities that are vital to the economy: cashiers, healthcare staff, delivery workers, cleaners, Post Office and public transport staff, etc. There are 765,000 such people, accounting for 14% of employees in the Paris Region (17.5% for the *département* of Seine-Saint-Denis)<sup>5</sup>.

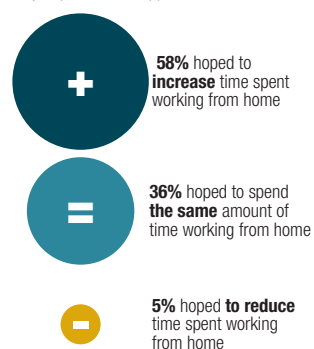
### A RESILIENT ECONOMY

The French State and local authorities provided massive support for sectors that were forced to cease their activities in 2020. In July the government mobilised over 470 billion euros to fund a relief plan aimed at containing a wave of redundancies and business closures and avoiding economic collapse. A raft of measures provided support for businesses forced to close: partial redundancy, tax relief, postponement of social security contributions, low-interest loans underwritten by the State and repayable over five years, etc. The creation of a relief fund made it possible to hand out compensation of up to 10,000 euros a month to businesses whose turnover fell due to forced closure. The Paris Region mobilised 1.3 billion euros to help recovery: 640 million for the economy, 238 million for ecological initiatives and transport, 231 million for employment and 192 million for community and healthcare initiatives.

With its strong emphasis on tertiary activity, the region's economic activity did not entirely cease thanks to the widespread use of teleworking. Almost 40% of employees shifted to remote working<sup>6</sup> in spring 2020, using high-quality digital infrastructure: there was a 30% increase in Web traffic during lockdown. Over 75% of the region's businesses were thus able to continue operating. The lockdown acted as a catalyst for changing work practices: previously, only 18% of employees in the Paris Region worked from home. The technical and administrative issues that hindered the development of teleworking have been overcome.

### Teleworking: increasingly popular since the first lockdown

Employees already working from home (18% of total employees) were asked about what they hoped would happen after lockdown



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Sources: Médiamétrie May 2020, L'Institut Paris Region

Despite the predominance of the tertiary sector, the region also boasts well-established industrial facilities in fields such as automotive and aerospace industries.

At the end of 2019, unemployment rate in the Paris Region was the lowest since the 2008 recession, standing at about 7% of the active population<sup>1</sup>. Despite several waves of industrial action, over 90,000 jobs and 244,000 companies (half of them are micro-enterprises) were created in 2019, in highly dynamic key sectors<sup>2</sup> (business services, construction, food, tourism, etc.)

Well on its way to achieving strong growth and supported by major development projects (especially the 2024 Olympic and Paralympic Games and the Grand Paris Express<sup>3</sup>), the regional economy has suffered a triple hit from the health, financial and social crisis relating to Covid-19.

### LOCKDOWN 1: A SHOCK FOR THE ECONOMY

The French government made the decision to impose a lockdown from 17 March to 11 May 2020, thus adopting a Welfare State approach to ensure people's health despite the economic cost: travel was prohibited, shops and businesses considered "non-essential" were closed and teleworking became the norm. The outcome was swift: economic activity in the Paris Region slowed by a third on the



## FOCUS Sectors most seriously affected by the pandemic



### A grim year for tourism

In 2019, tourism accounted for 305,000 jobs, over 80% of which were in hotels, restaurants and transport (road and air).

Tourist attractions were closed in March 2020 and international travel halted. The Paris Region, the most popular tourist area in the world, attracting over 10.5 million international tourists and 13.2 million French tourists in the first half of 2019, saw visits and hotel occupation rates drop by about 60% in the first half of 2020. Tourist business recovered slightly in the summer with the return of French and European visitors, but the second wave of the epidemic and the second lockdown from 30 October to 15 December, followed by a curfew, marked the end of a bleak year. In 2020, Paris and its region posted a drop in visitors (tourists and business travellers) of around 75%.

The health crisis, added to the ecological crisis, is an opportunity to rethink the development model for tourism in the region by moving from a mass-market approach to a more balanced approach.

### Leading attractions in difficulty

Disneyland Paris, the most popular tourist attraction in Europe, closed its gates for four months from March to July during the first lockdown and then at the end of October. Disneyland Paris is the leading single-site employer in France, with almost 15,000 permanent staff and 5,000 seasonal and fixed-term contract staff every year. 1,000 jobs are under threat at the park. The Louvre, the museum with the most visitors in the world, closed for six months in 2020 and was deprived of its foreign visitors. It welcomed only 2.7 million visitors in 2020, compared to 9.6 million in 2019 (a drop of 72%) and its revenue fell by over 90 million euros. French visitors accounted for 70% of admissions in 2020, compared to 25% in 2019. The palace and gardens of Versailles had barely 2 million visitors between January and October 2020, 73% fewer than during the same period in 2019.

### LOCKDOWNS

- **17 March-11 May 2020:** first lockdown in France. For 55 days, people were allowed out of their homes for a maximum of one hour, once a day, within a one-kilometre radius.
- **30 October -15 December 2020:** second lockdown. Following a new wave of infections, a new state of emergency was declared until February 2021.
- **February 2021:** far from being under control, the epidemic seemed to be accelerating. Virus variants appeared, raising the spectre of a third lockdown despite a huge vaccination campaign that started in January.



### The aerospace industry: the fallout of flight stoppages

The aerospace industry, which employs over 100,000 people in the Paris Region, suffered directly from the consequences of international flight stoppages. Roissy Charles-de-Gaulle and Orly airports closed, and have only partially resumed their activity. Only 30.1 million passengers came through the airports between January and October 2020, a 67% reduction compared to the same period in 2019.

The Paris Region is Europe's leading area for aerospace: the industry employs over 100,000 people, 50,000 of whom work for aircraft and equipment manufacturers. Due to the crisis, 20,000 jobs are under threat, as well as 11,000 maintenance jobs directly affected by the fall in air traffic. The prospects of the aerospace industry have significantly worsened due to the health crisis: pre-Covid, the sector was thriving and both jobs and orders were on the rise. Experts predict that production will not return to 2019 levels

until 2024. The aerospace industry and the air travel sector, already heavily criticised before the crisis for their contribution to greenhouse gas emissions, will have to integrate the «net-zero emissions» goal in their economic model. On June 2020, the government presented a 15 billion euro relief plan for the aerospace industry focusing on ecological transition to cut CO<sub>2</sub> emissions.

### Air France

The State owns 14% of the flag carrier, which has been hit hard by the crisis. A 7 billion euro government rescue plan was rolled out in April 2020. Air France plans to axe 6,560 out of a total of 41,000 jobs by the end of 2022, equivalent to 16% of its total payroll. Over half will be absorbed by natural wastage.





challenges in order to meet demand. The mass retail model is also under threat from alternative models (short supply chains, home delivery services and so on), which more closely meet consumer expectations.

### Retail: the rise of e-commerce

In France from 17 March to 11 May and from 4 to 28 November 2020, only so-called “essential” shops and businesses were allowed to open: food shops, pharmacies, banks, tobacconists, service stations and so on. Though demand for consumer products rose by 38% thanks to efficient logistics, demand for other goods fell sharply. The turnover of specialist retailers fell by 32.3% in May 2020, compared to May 2019, to the benefit of e-commerce: in the Paris Region there was a massive shift towards home delivery and click-and-collect services. These practices are set to become more widespread: almost 20% of consumers intend to continue purchasing on-line post-Covid-19<sup>7</sup>. The health crisis has also accelerated the development of the local economy: over 70% of consumers would like local shops to develop on-line services and home deliveries.

The crisis has accelerated the transformation of modes of consumption and the retail sector must now cope with new logistics and stock-related

### LOCKDOWN 2: LESS HARMFUL TO THE ECONOMY

After reaching a nadir in Q2, the economy bounced back sharply in Q3, growing 18.7% compared to the previous quarter. Tighter restrictions in October, followed by the November lockdown, squeezed the economy again by about 4% in Q4. The most affected sectors seem to have been those directly concerned by the restrictions (transport services, hotels, restaurants, leisure, etc.) whereas other sectors, especially industry and construction, built on the experience acquired during Lockdown 1 and were able to maintain their activity. After a drop in GDP of about 8.3% in 2020, the start to 2021 remains fraught with uncertainty vis-à-vis the short-term evolution of the health situation.



### Culture: winners and losers

Almost 45% of the country's cultural and creative industries (CCI) sector jobs are concentrated in the Paris Region. 300,000 people work in areas such as TV and radio, film and video games or in other creative segments of the economy (designers, graphic designers, etc.). 10% of the region's jobs are in the arts sector: more than automotive and aerospace industries and pharmaceuticals put together (7%). Cultural activity recovered slightly after the first lockdown in mid-May, but ground to a halt again in the autumn due to the new lockdown and curfew. The sector is set to post a 25% drop in revenue for 2020, compared to 2019, with huge disparities: live entertainment lost 72% of its revenue, the heritage sector 36% and the visual arts 31%, but digital entertainment escaped unscathed: revenue in the video games sector increased by 15%, for instance.

Independent bookshops, seen as “non-essential” retailers, were forced to close and complained of ruthless competition from digital giants, especially

Amazon, against which they are powerless to compete as they lack the required digital resources. “Non-essential” but indispensable for social life, culture is being reinvented using digital tools and social networks, which came into their own during lockdown: streaming platforms, podcasts, on-line visits to museums, ballets and operas viewable on-line in order to maintain connections with audiences, etc. Digital platforms have been much more widely used since the beginning of the health crisis. Economic models are changing more quickly than before, and the remuneration of artists and authors is becoming a crucial issue<sup>8</sup>.

## The four major challenges at the heart of the new model for the Paris Region

### A NEW ECONOMIC MODEL FOR THE PARIS REGION: FOUR MAJOR CHALLENGES

- Economise resources via a circular economy committed to carbon neutrality and low-tech.
- Fostering a more inclusive economy so that development benefits everyone and reduces inequalities, at a time when the population is getting older and young people are the primary collateral victims of the crisis.
- Shifting towards a more resilient economy promoting relocation, short supply chains and economic sovereignty in food, healthcare, digital tech and cybersecurity.
- Investing in strategic innovations such as digitalisation (new ways of working, learning, consuming and having fun), green industries, and research and training in energy and digital transition.



Last but not least, lockdown has been an opportunity for some sectors. The widespread use of on-line shopping has benefited the logistics sector, the haulage industry and on-line retailers. E-commerce, home deliveries and click & collect services have all benefited. These practices are set to become even more widespread: almost 20% of consumers intend to continue shopping on-line when the Covid-19 crisis is over<sup>9</sup>. The crisis has also accelerated the development of the local economy: more than seven out of ten on-line consumers would like local shops to develop web services and provide home deliveries.

In addition to this new consumer behaviour, the crisis has created an urgent need for support in the community. Interest in charity work has increased, with younger people volunteering; large numbers of French people have been eager to support the most vulnerable members of society. For businesses involved in the social and solidarity economy, which employs over 400,000 people in the Paris Region, the crisis is an opportunity to shift towards new business models, with more collective ways of operating and more democratic governance.

### THE POST-COVID ECONOMY IN THE PARIS REGION

The Covid-19 crisis has accelerated ecological, digital and social transformations that were already under way, and this acceleration challenges models of production and consumption. As in other European countries, French public authorities quickly put in place ambitious economic recovery plans, trying to avoid reconstructing the past while preparing for the future.

The end of the first lockdown did not bring a return to normal in terms of economic activity. Although

recovery was more rapid than expected nationally, it was slower in the Paris Region, especially due to its internationalisation. The difficulties encountered in the tourist sector, the arts sector and the automotive and aerospace industries, whose order books collapsed, hindered recovery. Conferences and international trade fairs have similarly not recovered, and businesses that depend on them (hotels, restaurants, museums and cultural venues) are still struggling<sup>10</sup>.

The health crisis has raised the question of French sovereignty in certain key sectors such as food and pharmaceuticals, highlighting the country's reliance on Asia and the vulnerability of health industry supply chains. Certain production facilities are being relocated, in France as in other European countries, but this will not be a very widespread movement according to industry professionals and may be of most benefit to North African and Eastern European countries. This industrial relocation trend may take other forms: for instance we are witnessing the development of "fablabs", local "factories" equipped with digital manufacturing tools and 3D printers.

The "France Relance" recovery plan is designed to protect sectors that have been badly affected and rebuild a more resilient social and economic model. Ecology and digital are its major focuses.

The "green" components of the recovery plans rolled out on different scales (Paris Region, France, EU) aim to accelerate the implementation of climate-friendly measures and allow France to achieve its carbon neutrality goals by 2050, in particular via decarbonised energy, energy-efficient renovation and the increased production and sale of electric vehicles. Many sectors will have to rethink their models and transition to "carbon neutrality"<sup>11</sup>,

### FAB CITY GRAND PARIS

This network supports the region's fablabs, which are eager to move the city towards a circular production model. Its mission is to make Paris into a "productive city" that produces what it consumes and relies on local resources. It is part of an international network of like-minded cities.

### 100 BILLION EUROS FOR ECONOMIC RECOVERY

To kick-start the economy after this unprecedented shock and build the France of 2030, the French government launched a historic two-year recovery plan worth 100 billion euros on 3 September 2020. The plan is built around three priorities: ecological transition, business competitiveness and social cohesion. 30 billion euros has been set aside for greening the economy: renovating homes to improve energy efficiency, cutting CO<sub>2</sub> emissions in public transport, developing new technologies (hydrogen, biofuels), etc. 34 billion euros will be used to reinforce competitiveness and economic sovereignty in key sectors, providing industries and businesses with support for innovation, relocation, etc. 36 billion euros will provide massive support for the healthcare system, protect domestic employment and the purchasing power of vulnerable citizens, etc.

especially residential construction and road transport, which are responsible for 33% and 30% of the region's greenhouse gas emissions respectively.

Moving ahead with digital transformation is also a major plank of the recovery plan, in order to provide universal access to high-quality digital services across the region. Digital has been an essential tool for "remote living" during the pandemic, and the digital transition is accelerating and affecting all aspects of daily life. It changes our way of working, living and travelling, our approaches to healthcare and our ways of experiencing and designing cities.

## NEW FORMS OF "REMOTE" BEHAVIOUR

The widespread development of teleworking is making companies rethink the traditional office model. Shared workspaces could become more common, including spaces shared by different companies or administrative services, accelerating a trend that began over ten years ago.

Working from home has become the norm and commuting has decreased, making many residents of the Paris Region rethink their options for both how they travel and where they live. Rural areas may, in time, see an influx of city-dwellers seeking better lifestyles.

Schools and universities have had to adapt to e-learning and use new digital spaces and tools.

Use of remote medical care has increased sharply, and almost 75% of people in the Paris Region who used telemedicine during lockdown are willing to do so again<sup>12</sup>.

The economic devastation caused by Covid-19 offers an opportunity to accelerate the transformation of the region's development model via new investment strategies and initiatives fostering renewed confidence in the future. The opportunity is there: now all that remains is to seize it. ■

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<https://www.insee.fr/en/information/4488538>

*This note is based on the technical report titled "Impact de la crise de la Covid-19 sur l'économie francilienne" [Impact of the Covid-19 crisis on the economy of the Paris Region] written by experts in the Economics Department of L'Institut Paris Region and published in December 2020. It analyses the different phases of the first wave of the pandemic from March to October 2020, providing early insights and outlining the strategic challenges the Paris Region will face in the near future.*

1. Source: Insee, unemployment rates as defined by ILO methodology.
2. Source: Insee, Analysis n°121, October 2020.
3. Infrastructure project to substantially expand the region's public transport network by 2030, with 200 kms of new lines and 68 new stations.
4. Source: Insee, Analysis n°121, October 2020.
5. Source: Insee, Analysis n°128, February 2021.
6. Source: Survey on Paris Region residents and Covid-19, Médiamétrie for L'Institut Paris Region.
7. According to an international poll - Price Waterhouse Cooper - 31 July 2020.
8. Source: Daniel Gervais, «La rémunération des auteurs et artistes à l'ère du streaming», (2015) CPI 1085. On-line article: <https://cpi.openum.ca/s/98>.
9. According to an international poll - Price Waterhouse Cooper - 31 July 2020.
10. Source: Insee, Analysis n°121 «Crise sanitaire: plus durement touchée pendant le confinement, l'économie francilienne se redresse ensuite moins vite qu'à l'échelle nationale», October 2020.
11. For a company, carbon neutrality means either not emitting greenhouse gases or absorbing as much as it emits. CO<sub>2</sub> is absorbed by natural environments (forests, farmland, etc.) and industrial processes (CO<sub>2</sub> capture and storage).
12. Source: Survey on Paris Region residents and Covid-19, Médiamétrie for L'Institut Paris Region.

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