

Returning to normal

Economic outlook

1st July 2021



Mesurer pour comprendre

The issues of Economic outlook and Points de conjoncture are available as soon as they are published on the INSEE website www.insee.fr.

Completed on 30 June 2021

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Returning to normal

A contrasting spring 2021, after a long winter

Winter 2021 was bookended by two lockdowns (November 2020 then April 2021), and was badly affected by the health restrictions. For 7 months, between November 2020 and May 2021, the French economy plateaued at less than 96% of its pre-crisis level (i.e. by convention, the Q4 2019 level). The cumulated loss of activity over this period would appear to have reached about 3 annual GDP points (against 6 annual GDP points lost between March and June 2020, during the first wave of the epidemic).

However, since early May, all the indicators, from the monthly business tendency surveys to the higher-frequency data, suggest a strong recovery, in line with the gradual lifting of lockdown. As a result, on a month by month basis, it is likely that the profile of Q2 2021 will be a very contrasting one. After April under lockdown, with activity at 5½% below the pre-crisis level, activity in May looks set to return to about 4% below this level then to 2½% in June. These overall estimates are unchanged from the previous Economic Outlook published at the beginning of May.

All in all, and taking into account the revisions introduced into the latest series of national accounts, French GDP would appear to have increased by 0.7% in Q2 compared to Q1 (after -0.1%), a rebound driven mainly by the increase in household consumption, which for the most part was less restrained at the end of the quarter than at the start. As was the case last year at the same time, the rebound is expected to be rapid and extensive – the mirror image of the sudden drops in activity linked to the health containment measures.

By the end of 2021, the French economy is expected to return to roughly its pre-crisis level

According to the business tendency surveys, business leaders and households seem to be sweeping away any remaining doubts regarding the possible persistence of the pandemic and the restrictive measures: the hope brought by the vaccine exceeds the threat of new variants. In June, household confidence therefore returned to its pre-crisis level, and the business climate was at its highest since 2007.

Although a resurgence of the epidemic cannot be ruled out, economic agents seem to believe that this would not necessarily result in such severe restrictive measures as during the previous waves. Given this assumption, French economic activity could return to more or less its pre-crisis level by the end of 2021.

Germany also looks set to return to its pre-crisis level by the end of 2021, preceded by the United States, which is expected to reach this target by this spring. Among the major European economies, Spain still appears to be the most affected (at 3% below its pre-crisis level at the end of the year), while Italy and the United Kingdom appear to be in an intermediate situation.

At the end of 2021, the French economy is nevertheless unlikely to mirror its status of end 2019

Rather, it is likely to be a distorted reflection of what it was formerly, as a result of the reshaping of sectors linked to the crisis. Overall, market services are expected to return to their pre-crisis level, but the branches most affected by the health measures (accommodation-food services, transport, etc.) are nevertheless expected to remain below this level – although the difference compared to the pre-crisis level is likely to be nothing like that measured during the lockdowns. Other service branches (e.g. information and communication) are expected to exceed their end of 2019 level of activity significantly. In industry, it is likely that the manufacture of transport equipment will remain affected.

On the demand side, household consumption and corporate investment at the end of 2021 are expected to exceed their level measured two years earlier by about 1%, and imports look set to return to their previous level. Exports, on the other hand, are likely to remain 4% below their Q4 2019 level.

All in all, the quarterly growth forecasts for Q3 (+3.4%) then Q4 2021 (+0.7%) suggest a relatively rapid recovery. As an annual average, GDP is expected to increase by 6.0% in 2021 (after -8.0% in 2020), driven mainly by domestic demand and in particular by household consumption (+5.2% forecast, after -7.2% in 2020). The contribution of foreign trade to annual growth is expected to be slightly negative.

The unemployment rate is unlikely to peak again

During the health crisis, payroll employment fell much less than economic activity, protected mainly by an extensive reliance on furlough schemes. By the end of 2021, these schemes are expected to decrease gradually, but the rebound in payroll employment (fairly vigorous from Q1) is likely to match that in economic activity. All in all, payroll employment looks set to increase by more than 300,000 in 2021, and it too is expected to return to its pre-crisis level by the end of 2021.

The lifting of health restrictions is expected to enable some of those who had to leave the labour market to return. The number of active workers is therefore likely to rebound sharply, especially in H2 2021. The rise in both the number of workers and in the number of people in employment is expected to result in near stability in the unemployment rate (8.2% forecast for the end of 2021, after 8.1% at the beginning of 2021, similar to the pre-crisis level).

Inflation is likely to be relatively dynamic but household purchasing power still looks set to accelerate

Inflation was very low in 2020, mainly as a result of falling energy prices. The global recovery has pushed up oil prices and thus caused inflation to rebound: to +1.5% year-on-year in June 2021, and it is expected to reach 2% during the summer, before easing slightly, with core inflation settling at around 1%.

In the business tendency surveys, the balance of opinion among industrialists on the general prospects for selling prices in their sector reached a historic high in June, reflecting the increased prices of inputs and, occasionally, tensions over sourcing. However, these tensions are unlikely to have more than moderate repercussions on consumer prices by the end of the year, in a context where margin rates have been generally preserved during the crisis. In addition, there are unlikely to be any “second-round” effects causing wages to accelerate over our forecasting period (end of 2021).

Household income is still likely to be dynamic in 2021: earned income is expected to pick up while social benefits gradually decline. On average over the year, despite the rise in inflation, the purchasing power of households' gross disposable income looks set to accelerate (+1.8%, after +0.4% in 2020). Given that consumption is brisk, households' savings ratio, after peaking in 2020, is expected to return to a level close to its pre-crisis level by the end of 2021, at a little over 15%.

The “lost ground” compared to the pre-crisis trend trajectory is expected to be limited to about 1.5 GDP points

By the end of 2021, the French economy overall is expected to return to its level at the end of 2019: it would then be 2 to 2½ GDP points below the level that could have been expected if the pre-crisis trend trajectory had been able to continue over these two years. However, this measurement of “lost ground” is not definitive. In the longer term, we can attempt to simulate, at a detailed sector level, the effects of changes in preferences that are likely to persist beyond the crisis.

This exercise involves mobilising trends specific to each sector before the crisis and producing assumptions about their different degrees of resilience. All in all, these estimates are consistent with a loss of aggregated GDP of around 1.6 points compared to the pre-crisis trend GDP. More than half of this loss is expected to be from sectors representing just over 15% of total value added (including the manufacture of transport equipment, accommodation-food services, transport services, etc.).

However, in addition to sectoral effects, the productivity trend of the economy as it emerges from the crisis is surrounded by significant uncertainties, some pulling it upwards, like the accelerated adoption of digital technologies, but others pulling it down, like the weakening of human capital linked with the closure of schools and the difficulties that may have resulted from distance learning.

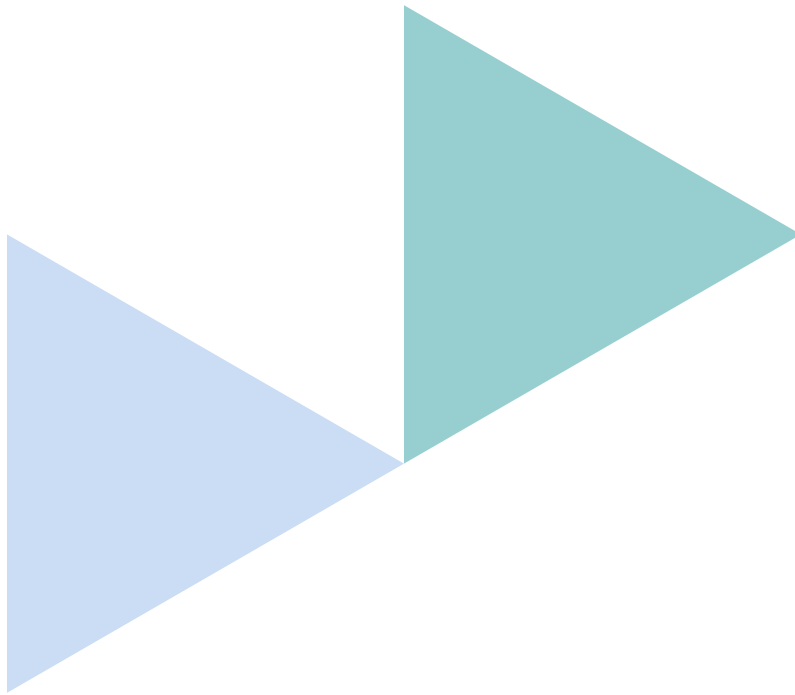
Risks of forecasting: not all are negative

As at the start of the crisis, forecasts presented in this Economic Outlook are conditional on the health situation being stabilised, or at least on the assumption that any deterioration would not lead to the introduction of such forceful restrictions as were applied for the first three waves of the epidemic.

Signs of occasional overheating in some sectors, especially tensions over sourcing, are all areas for vigilance. At this stage, it is mainly automotive production, which has been in decline for several months, that has been affected. Other sectors could be affected in turn, although these difficulties are related primarily to “restarting” the world’s economy and should therefore mostly diminish.

Finally, assuming that the epidemic is contained, there is a possibility that activity in H2 will exceed the forecasts, in a context where both household income and the productive fabric have been generally preserved. Responses to the Covid-19 pandemic were certainly exceptional in several respects: the scale and suddenness of the lockdown measures, and at the same time, the scale and speed of economic policy responses, and finally the scale and speed of vaccine rollout. Taken together, all these measures could create conditions for a stronger than expected recovery. ●

Special analysis



Sector-specific effects of the Covid-19 crisis between now and the end of 2022: Estimating the “ground lost” with respect to pre-crisis trends

Alexis Loublier

The impact of Covid-19 on GDP in the medium and long term is a subject of great debate among economists. The unusual nature of this crisis has rendered familiar analytical frameworks redundant, and makes it difficult to estimate potential GDP using traditional tools. Nonetheless, the crisis has been defined by significant disparities between sectors which look likely to endure, at least partially, during the recovery. This study presents a simulation for the activity lost by different (sub-) sectors of the economy between now and the end of 2022, calculating the “ground lost” during this period, in terms of overall activity, compared with a scenario extrapolated from pre-crisis trends.

Our analysis divides activities into four main categories:

- Some sectors have been hit particularly hard by the continuing public health restrictions, and could also suffer in the long term from a downturn in demand or potential constraints on their production capacities. These include activities which depend heavily on international tourism and business travel. The sectors affected include aeronautical equipment, air transport, hotels and culture.*
- Some other sectors are feeling the lasting effects of the crisis, but to a lesser extent since the collapse in demand has been less spectacular. These sectors include forms of transport other than air travel, motor vehicles and restaurants.*
- Other sectors, however, have been less severely affected by the public health restrictions or have been able to more easily adapt their production methods. In the long term, there is no reason why they should endure a serious downturn in activity. These sectors include retail, food and energy.*
- Finally, some sectors should be scarcely affected by the crisis in the long term, for example agriculture and construction. Some might even benefit, such as ICT and telecommunications, buoyed by the widespread adoption of remote working and the acceleration of the digital transformation. Chemical and pharmaceutical activities have also flourished.*

The impact estimates are calculated with reference to a pre-crisis trend scenario in which GDP would have grown by 1.2% per annum between 2020 and 2022, a scenario which is broken down sector-by-sector on the basis of the trends specific to each activity before the crisis. Our simulated forecasts group the various sectors of activity into four groups on the basis of their resilience, and are partly derived from the results of the DARES Acemo-Covid survey.

When aggregated, these estimates indicate an overall GDP loss of 1.6 points by the end of 2022, in relation to the pre-crisis GDP trend. More than half of this loss should come from sectors which represent only around 15% of total value added. This estimate of the “lost ground” by the economy has been calculated for illustrative purposes only, given the high levels of uncertainty and lack of perspective. It is possible, for example, that those sectors which have been hit hardest by the crisis might bounce back more vigorously than predicted in our model, between the end of 2022 or in the longer term, which would serve to limit the ground lost. Moreover, while the sector-specific approach is well-suited to the unusual nature of this crisis and the recovery now in progress, it is less compatible with the analysis of certain important medium and long-term effects. In particular, the productivity trend for the economy as a whole as it moves past the crisis is shrouded in significant uncertainty, with upside risks such as an acceleration in the adoption of digital technologies, and downside risks such as a weakness of human resources as a result of school closures and the difficulties associated with distance learning. ●

Sector-specific effects of the Covid-19 crisis between now and the end of 2022

1. The long-term consequences of the Covid crisis for the economy are particularly difficult to predict

Using traditional tools to estimate the impact of the Covid crisis on the long-term potential of the French economy is a particularly difficult proposition. This crisis is very specific, it is in fact unique in the history of economic recessions, with shocks impacting both supply and demand accompanied by major disparities between sectors. In these conditions, a sector-by-sector approach to estimating the lasting damage to activity levels post-Covid seems particularly germane.

1.1. Generally speaking, the tools traditionally used to estimate GDP in the long term are subject to considerable uncertainty

The concept of potential GDP is usually employed to estimate the volume of economic activity excluding short-term fluctuations. It corresponds to the maximum level of economic activity which can be achieved by an economy in the long term, i.e. without creating inflationary tension, making full use of its factors of production (capital stock, quantity of potential labour) and taking into account the overall productivity of these factors (OPF).

Estimates of potential GDP are subject to considerable uncertainty, especially when estimates are being made in real time. Unlike actual GDP, potential GDP is an unobservable variable which must instead be estimated. Various methods are commonly used, ranging from the purely statistical to techniques involving more structural modelling of the economy (for example, the use of production functions)¹. In all cases, these methods make use of statistical smoothing techniques intended to identify the components of macroeconomics liable to fluctuate in the short term. This naturally leads them to attach too much significance to the latest available information. The resulting “end of period bias” skews the estimates of potential growth in a highly procyclical manner, and thus requires frequent revisions².

The uncertainty surrounding potential GDP is even greater in times of crisis, when the fluctuation of macroeconomic variables is very strong and predictions become more uncertain. The Covid-19 crisis is no exception: we witnessed an 8.0% decline in actual GDP in 2020, followed by a recovery still shrouded in great uncertainty, not least how the savings accumulated since the onset of the crisis will be used³.

1.2. There is no historical precedent for the Covid shock

Historiquement, les récessions importantes sont généralement accompagnées d'un ralentissement du potentiel de croissance.

Historically, major recessions have generally been accompanied by a slowdown in growth potential. The IMF has demonstrated that recessions are linked to lasting GDP losses, arising largely from permanent damage to the overall productivity of factors of production⁴. Past experience also tends to suggest that financial crises usually lead to greater GDP losses than simple recessions, while the losses associated with the latter are greater than those caused by localised epidemics⁵.

¹ For an introduction to the different methodologies, see for example Lequien, M. and Montaut, A. (2014), Insee, Document de travail N° G2014/09, and Guillet, X. et al (2018): 'Supply tensions and the position of the economy in the cycle', Insee Conjoncture in France report December 2018.

² For context, potential growth for 2018-2019 has been revised downwards by 0.3 points by both the IMF and the Commission since the end of 2019, and this was well before the Covid crisis hit.

³ In spite of the uncertainty, it is nonetheless necessary to calculate a potential growth scenario for the purposes of multi-annual budgetary planning. See for example the Stability Programme for 2021-2027, published in April 2021.

⁴ See for example Chapter II of the World Economic Outlook for April 2021.

⁵ See for example Bodnar et al (July 2020): 'The impact of COVID-19 on potential output in the Euro area', ECB Economic Bulletin, Issue 7/2020 or Martin Fuentes, N. and Moder, I.(2020): 'The scarring effects of COVID-19 on the global economy', ECB Economic Bulletin, Issue 8/2020.

France's potential GDP appears to have slowed considerably since the last major crisis in 2008-2009. Potential growth was estimated at around 1.9% for the period 2000-2007, while the estimated average for the period 2020-2022 was around 1.2% before Covid hit (DG Trésor: 1.30%; IMF: 1.4%; European Commission: 1.2%; OECD: 1.3% for 2020; OFCE: 1.2%; Banque de France: approx. 1.2%⁶). Above and beyond certain factors which predate the crisis of 2008-2009 (such as the long-term trend for a slowdown in productivity), the crisis may have impeded investment, which in turn may have reduced the accumulation of capital and probably exacerbated the slowdown of productivity⁷.

Nonetheless, the Covid crisis is not comparable to the shocks which have contributed to previous recessions. Strictly speaking, the Covid crisis is neither a "targeted" exogenous shock (like a localised economic or a sharp change in oil prices, for example), nor a financial crisis, since the public health crisis has not thus far led to significant financial instability. As such, comparisons with previous crises, useful as they may be, are not sufficient when it comes to predicting the long-term consequences of the current upheaval.

1.3. The exceptional nature of the Covid crisis, with shocks impacting both supply and demand accompanied by major disparities between sectors, requires a sector-by-sector analysis of activity levels

The shock caused by the Covid-19 pandemic in 2020 was unusual in that it affected both supply and demand simultaneously⁸. The eruption of the pandemic in March 2020 led to the implementation of public health restrictions and social distancing measures. The shock thus had an impact on supply, with some businesses ordered to close, others forced to reorganise their production activities to maintain social distancing, constraints for parents obliged to look after their children while schools were closed, and disruption to certain supply chains. The shock also affected demand, due to people choosing to avoid social interactions and the general uncertainty generated by the crisis.

The shock of 2020 has also affected different sectors to wildly varying degrees. The constraints placed upon both supply and demand have directly penalised certain sectors (those sectors most dependent upon social interaction), while also indirectly affecting other sectors via propagation effects spreading through production and distribution networks⁹.

If they had been merely temporary, the initial constraints placed upon supply and demand would probably not have significantly affected the potential of the economy. Once those constraints had been rapidly removed, activity could have made up for previous losses in a quasi-mechanical fashion, taking into account the efforts by governments to absorb the shock on behalf of households and businesses¹⁰. In this hypothetical scenario, the production capacities of the economy would simply have been temporarily "paused".

⁶ See for example: Public Finance Act 2018-32 of 22 January 2018 for the period 2018-2022; IMF (2019), World Economic Outlook, October 2019; European Commission (2019), Autumn Forecasts, October 2019; European Commission (2020), Debt Sustainability Monitor 2019, Institutional Paper 120, January 2020; OECD (2019), OECD Economic Survey – France; OFCE (2021), Economic Perspectives 2021-2022, OFCE Policy Brief 89, April 2021; and Banque de France (2019), Macroeconomic Projections for France, December 2019.

⁷ See for example Bruneau, C. and P.-L. Girard (2020), «Évolution tendancielle de la productivité du travail en France», 1976-2018, Document de Travail France Stratégie n°2020-18, December 2020.

⁸ See Baleyte, J. et al (2021), 'The French economy in 2020: a year of upheaval', Insee Analyses No. 64, May 2021, and Dauvin, M. & R. Sampognaro (2021), 'Le modèle «mixte»: un outil d'évaluation du choc de la COVID-19', OFCE Review, 172 (2021/2).

⁹ Ibid.

¹⁰ See for example Carnot N. (2021), 'How has the macroeconomic cost of the crisis been shared?', INSEE Blog, 28 May 2021.

However, following the relatively swift end to the “severe” lockdown of spring 2020, the shock induced by the pandemic became a long-term prospect. The emergence of new variants and a second wave of infections in the autumn led to the introduction of further public health measures, once again weighing upon both supply and demand, and delaying the return to normality.

From a theoretical perspective, the protracted nature of the pandemic is liable to have a lasting impact on activity in certain sectors via multiple channels. Targeting certain sectors in particular, **public health restrictions** are liable to engender phenomena connected with the reorganisation of production and reallocation between sectors, or simply lead to losses for certain sectors. Furthermore, the crisis is likely to lead to **lasting changes to consumer preferences requiring adaptations to supply** in certain sectors, an effect which may be positive or negative depending on the sector. Finally, a **reduction in the production capacities** of certain sectors could be fuelled by long-term job losses, bankruptcies and under-investment.

These sectoral disparities make it necessary to evaluate the impact of the crisis on a sector-by-sector basis. The rest of our study is devoted to quantifying the sectoral heterogeneity observed in 2020-2021 (► [part 2](#)), and proposing an evaluation of its impact on aggregate GDP in the long term (► [part 3](#)).

2. The present crisis has been defined by significant disparities between sectors which are liable to have lasting consequences for aggregate GDP

In this section we present an overview of the differentials in levels of activity and capacity to bounce back in 2020-2021, branch by branch. The resulting sectoral differentiation table allows us to infer how these sectoral effects could have a more lasting effect on aggregate GDP.

The estimates contained in this study are calculated in *volumes at constant prices*, for simplicity's sake and in order to facilitate evaluations at a detailed sectoral level. As such, they may differ slightly from the estimates found elsewhere in this *Economic Outlook report* which, like the quarterly accounts, are based on *chained volumes*.

2.1. The aggregated level of activity forecast for June 2021 reflects the varying fortunes of different sectors

Across the economy as a whole, activity is currently believed to be more than 2% below its pre-crisis level. For the month of June, the activity shortfall compared with T4 2019 is estimated at -2.2% (estimated in volume terms at constant prices). The continued rebound in activity in H2 should subsequently allow the economy to almost make up for this shortfall by the end of the year.

This aggregate figure conceals considerable heterogeneity among the sectors (► [figures 1 and 2](#)). With a few exceptions, such as agriculture, all sectors saw massive downturns when the initial public health restrictions were introduced (prompting a 30% decline in total activity in April 2020), but the rebound in activity since that first lockdown has varied considerably from one sector to the next.

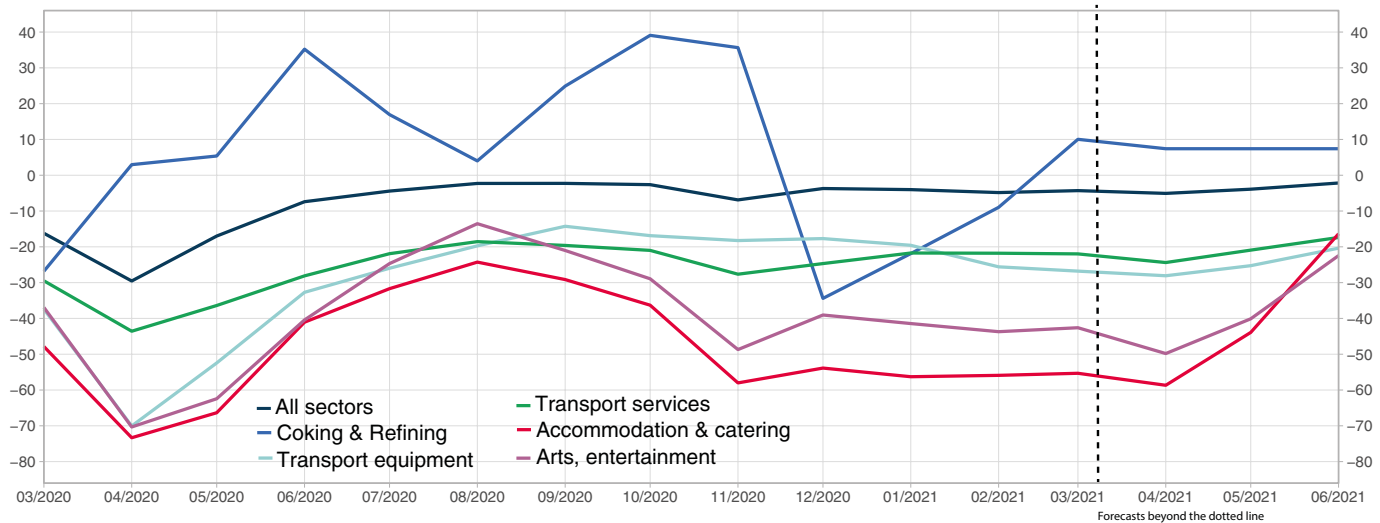
Some sectors have been barely affected by the crisis, while others have actually benefited (► figure 2). These sectors have already clearly exceeded their 2019 levels, and continue to enjoy sustained growth:

- This is certainly true of ICT and telecommunications (where the predicted activity level for June 2021 was 7% above the level for T4 2019), buoyed by the **widespread adoption of remote working** and, more generally, by the **acceleration of the digital transformation** brought about by the crisis;
- The same applies to chemicals and pharmaceuticals (+2.8% forecast in June), which have performed dynamically as a result of the health crisis.

Certain sectors have withstood the crisis more easily than others, and have already returned to their pre-crisis levels. They include financial services and property services.

► 1. Value added lost in the worst-affected sectors

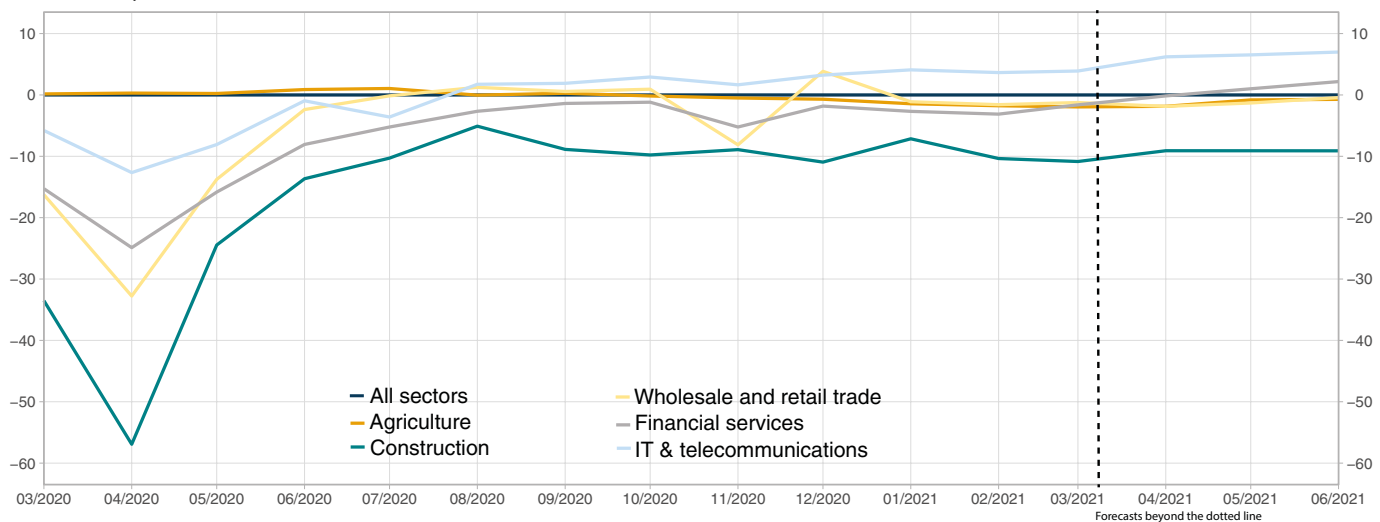
% difference in Q4 2019



Source: Monthly estimates constructed for the purposes of analysing the economic outlook (underlying this Economic Outlook report), volumes at constant prices

► 2. Value added lost in the most resilient sectors

% difference in Q4 2019



Source: Monthly estimates constructed for the purposes of analysing the economic outlook (underlying this Economic Outlook report), volumes at constant prices

Sector-specific effects of the Covid-19 crisis between now and the end of 2022

Furthermore, some sectors which endured particularly heavy losses during the first lockdown have become more resilient in the aftermath, and are now less affected by public health restrictions:

- The construction sector, for example, is expected to be down by around 9% in June 2021 (compared with a drop-off of 60% in April 2020), and is now less affected by anti-Covid restrictions;
- The same can be said of wholesale and retail which have virtually returned to the levels seen in Q4 2019 (after a 33% fall in April 2020), particularly by adapting production processes (e.g. the rise of *click & collect*) in order to keep activity levels stable in spite of the constraints.

However, a number of sectors are still being heavily penalised by the crisis, with activity levels down by more than 10% in June 2021 compared with T4 2019 (► figure 1):

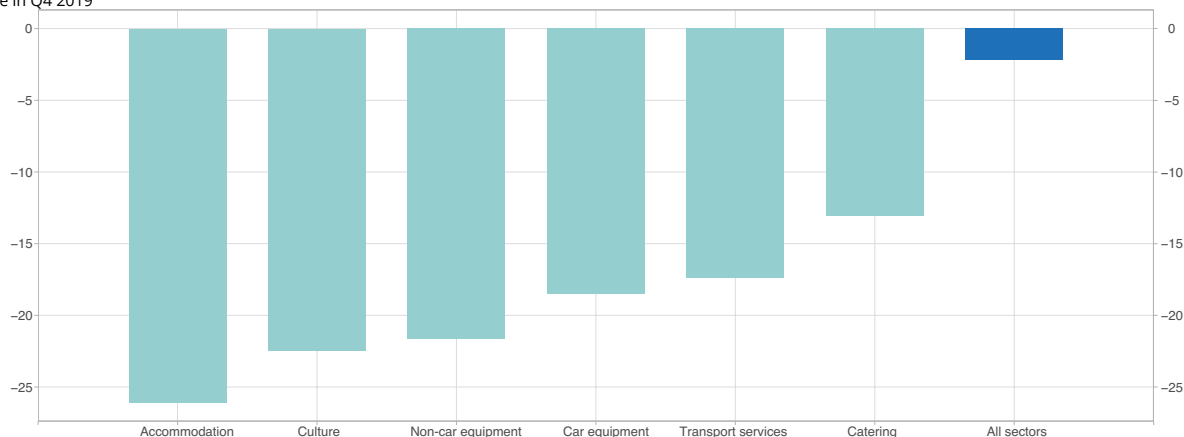
- **These are the sectors which have been hit hardest by the continued presence of health restrictions**, since not only are they more exposed to these restrictions than other sectors, they are also less able to adapt their modes of production. This is particularly true of hotels (a 26% shortfall predicted for June 2021 compared with 2019), culture (down 22% in June) and, to a lesser extent, bars, cafés and restaurants (down 13% in June).

- **Moreover, above and beyond the direct effect of the public health restrictions, some of these sectors have seen their activity compromised by a downturn in demand.** Prominent examples include aeronautical equipment (with a shortfall of 28% predicted for June 2021) and air travel (-27% in June). To a lesser extent, these factors have affected forms of transport other than air travel, which have nonetheless benefited from some of the traffic lost by air travel, and sales of motor vehicles.

- **Production capacities have been reduced by constraints affecting the supply chain** (in the motor vehicle sector for example), which may also be contributing to the slowdown in these sectors.

► 3. Predictions for value added lost in June 2021

% difference in Q4 2019



Note: these estimates for volumes at constant prices may differ slightly from the estimates found elsewhere in this Economic Outlook report, which use chained volumes.
Source: Monthly estimates constructed for the purposes of analysing the economic outlook (underlying this Economic Outlook report), volumes at constant prices

2.2. The short-term rebound in aggregate GDP is heavily dependent on the rebound of the worst-affected sectors

2.3. These sectoral disparities could also have consequences for aggregate GDP in the longer term

Those sectors which are still most affected by the crisis represent around **10% of total value added**. In these sectors, the shortfall in relation to T4 2019 should still be greater than 10% in June 2021 (► [figure 3](#)).

In spite of their relatively small contribution to total value added, these sectors have a significant impact on the trajectory of aggregate GDP (► [figure 4](#)):

Almost 85% of the value added lost in June 2021 compared with 2019 can be attributed to these sectors.

Looking beyond 2021, the different rates of recovery observed thus far suggest that a degree of sectoral heterogeneity may persist. For example, although they are likely to become increasingly lenient, some public health restrictions could remain in place, particularly limits on the number of people allowed to attend events or enter certain places. Furthermore, the slowdown in demand in certain sectors, particularly those associated with long-distance travel, could become a more structural, long-term phenomenon. If any businesses were to collapse, this could have a more lasting negative impact on the production capacities of certain sectors. On the other hand, certain sectors may continue to enjoy the sort of sustained growth observed over the past year, or else grow more dynamically with the help of government support.

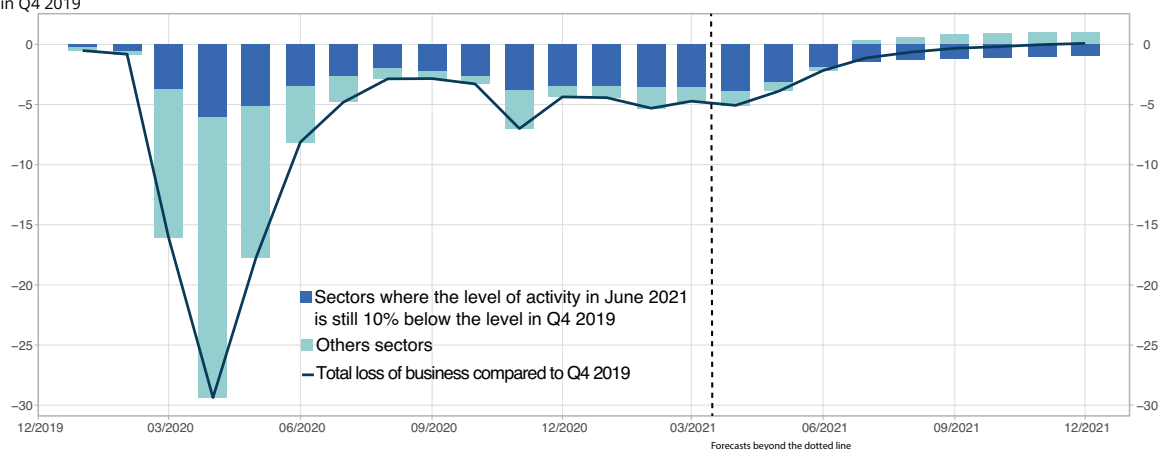
The combined effect of these factors, liable to have consequences for aggregate GDP in the medium term, is examined in [part 3](#).

3. Assessing the “ground lost” by the end of 2022

In this section we adopt a more long-term approach, seeking to estimate the lasting consequences for economic activity of the sectoral disparities which have characterised the present crisis. The metric used for this purpose is the shortfall in activity in relation to its long-term pre-crisis trend level, not the comparison with T4 2019 which we used in Part 2. Considering the differential with 2019 gives us a clearer idea of the short-term rebound effects in play, whereas considering the differential with the long-term trend, by directly comparing activity levels with the levels we would have expected to see if the crisis had not intervened, allows us to evaluate the more lasting consequences for activity, what we might call the “ground lost” by the economy.

► 4. Breaking down the loss of value added

% difference in Q4 2019



Note: these estimates for volumes at constant prices may differ slightly from the estimates found elsewhere in this Economic Outlook report, which use chained volumes.
Source: Monthly estimates constructed for the purposes of analysing the economic outlook (underlying this Economic Outlook report), volumes at constant prices

Sector-specific effects of the Covid-19 crisis between now and the end of 2022

3.1. The approach used here: constructing pre-crisis trend values for different sectors and scenarios in 2022

Definition of “ground lost” by the end of 2022

We should perhaps begin by defining what we mean by the “ground lost” by the end of 2022.

The ground lost is defined as the differential in December 2022 between actual value added (in volume) and the trend or counterfactual forecasts for value added, *i.e.* the level it should have achieved if the crisis had not occurred.

This allows us to define and calculate the ground lost by the economy as a whole, and branch by branch.

Counterfactual scenarios

Our counterfactual scenario is based on a hypothetical trend for total value added to increase by 1.2% per annum in 2020, 2021 and 2022. This trend should not be mistaken for a new, INSEE-approved estimate of potential growth; it simply corresponds to the mean annual growth of total value added over the period 2012-2018. It also coincides with the mean value of the pre-crisis estimates for potential growth ([part 1.2](#)).

This trend is broken down branch by branch (at Level A17 of the classification of activity), extrapolating on recently-observed trends for the division of value added between the sectors.

Construction of the branch-by-branch scenarios for the period to end of 2022

The scenarios for value added up to December 2022 are constructed branch by branch in several steps. The classification of activity used for the sectoral aggregations is A17, but for certain branches calculations are made at a more detailed level of analysis (A48 or A129).

The quarterly accounts (detailed results, DR) for Q1 2021 provide the starting point for this exercise.

For the period to December 2021, value added figures for the various sectors are calibrated using the underlying forecasts which inform the *Economic Outlook report* for July 2021.

For those branches which are not expected to have returned to their 2019 levels by December 2021, the results of the Acemo-Covid survey on the prospects for a return to “normal levels” of activity are used to estimate a date at which they will match their late-2019 levels. The Acemo-Covid survey¹¹ poses the following question: “When do you think the economic activity of your organisation will return to its normal level?” Assuming that the “normal level” alluded to in the survey corresponds to the level recorded in late 2019, it is possible to calculate a theoretical data at which this level will be achieved. Naturally, this data is only used for those branches for which the underlying forecasts of the *Economic Outlook report* do not predict a return to normality by December 2021.

¹¹ Dares (2021), “Activity and employment conditions during the Covid-19 crisis,” results of the April 2021 survey

Finally, in order to construct sector-specific scenarios for 2022, the resilience of the branches is assessed on a scale of 1 to 4, with the sectors in the 1st category being the least resilient (► Table 1). The purpose of dividing the branches into 4 categories based on their resilience is to mirror the sectoral differentiation table featured in Part 2, which classifies sectors on the basis of their sensitivity to public health restrictions, the demand for their output and any constraints affecting their production capacities.

We then assign a fixed estimate to each branch, reflecting the hypothesis of a more or less rapid return to trend levels of activity by December 2022. This quantification relies (i) on the differentiation and sector-specific dynamics observed in 2020-2021, (ii) where relevant, on information derived from the Acemo Covid survey, and (iii) on a degree of subjective judgement.

► Table 1. Classification of sectors based on their resilience, and stylised scenarios

in %

Classification	Sub-sector	A17 Code	Difference in Dec. 2022 compared to Q4 2019	Difference in Dec. 2022 compared to trend VA
Sectors 1	Transport equipment except automobile (CL2)	C4	-6	-10
	Air transport (H51Z)	HZ	-21	-20
	Accommodation (IZ1)	IZ	-3	-8
	Film production (J59Z, J60Z)	JZ	-1	-8
	Travel agencies (N79Z)	MN	-2	-8
	Trade fairs and exhibitions	MN	-2	-8
	Arts and entertainment (RZ0)	RU	-2	-8
Sectors 2	Transport other than air travel	HZ	-4	-3.5
	Automotive transport equipment (CL1)	C4	0	-5
	Coking refining	C2	9	-4
	Other industrial products (except pharmaceuticals and chemicals)	C5	2	-3.5
	Automobile trade and repair (GZ1)	GZ	3	-3.5
Sectors 3	Catering (IZ2)	IZ	0	-5
	Energy	DE	6	-1
	Food	C1	4	-1.5
	Electrical equipment	C3	5	-2
	Trade except automobile (GZ2, GZ3)	GZ	4	-2
	Real estate activities	LZ	4	-1.5
	Scientific activities (excluding R&D, travel agencies and exhibitions & fairs)	MN	3	-2.5
Sectors 4	Other services (except arts and culture)	RU	4	-1.5
	Agriculture	AZ	1	0
	Chemistry, pharmacy	C5	7	1.5
	Construction	FZ	5	0
	Financial activities	KZ	10	0
	R&D (M72M, M72N)	MN	6	0
	IT, telecommunications	JZ	20	1.5
	Public administration	OQ	-1	0
Total			3	-1.6

Note: the sector-specific scenarios for 2022 should not be considered as forecasts, strictly speaking, but rather as stylised scenarios illustrating the sectoral differentiation inferred from (i) the differentiation and dynamics observed in 2020-2021, (ii) some information derived from the Acemo Covid survey, and (iii) a degree of subjective judgement.

Source: author's calculations

Sector-specific effects of the Covid-19 crisis between now and the end of 2022

The sector-specific scenarios for 2022 should not be considered as forecasts, strictly speaking, but rather as stylised or illustrative scenarios for potential future developments:

- **Sectors in Cat. 1:** These sectors are presently **severely affected by public health restrictions** (sectors in which the health restrictions are particularly strict, or where adapting production methods is difficult), and may also endure **a lasting downturn in demand** or enduring constraints on their production capacities. This includes branches which are particularly dependent upon international tourism and business travel. At the end of 2022, the differential between predicted activity levels and their pre-crisis trend should stand at **over 8%**. *This category includes: aeronautical equipment, air travel, hotel, travel agencies, culture, trade fairs and salons;*

- **Sectors in Cat. 2:** These sectors should still sustain losses compared with their pre-crisis trends, but to a lesser extent than those in Sector 1 because the **decline in demand will be less significant**. At the end of 2022, the differential between predicted activity levels and their pre-crisis trend should stand at **around 3-5%**. *This category includes: transport other than air travel, motor vehicle manufacturing and sales, restaurants, manufacture of coke, refining, certain industrial products;*

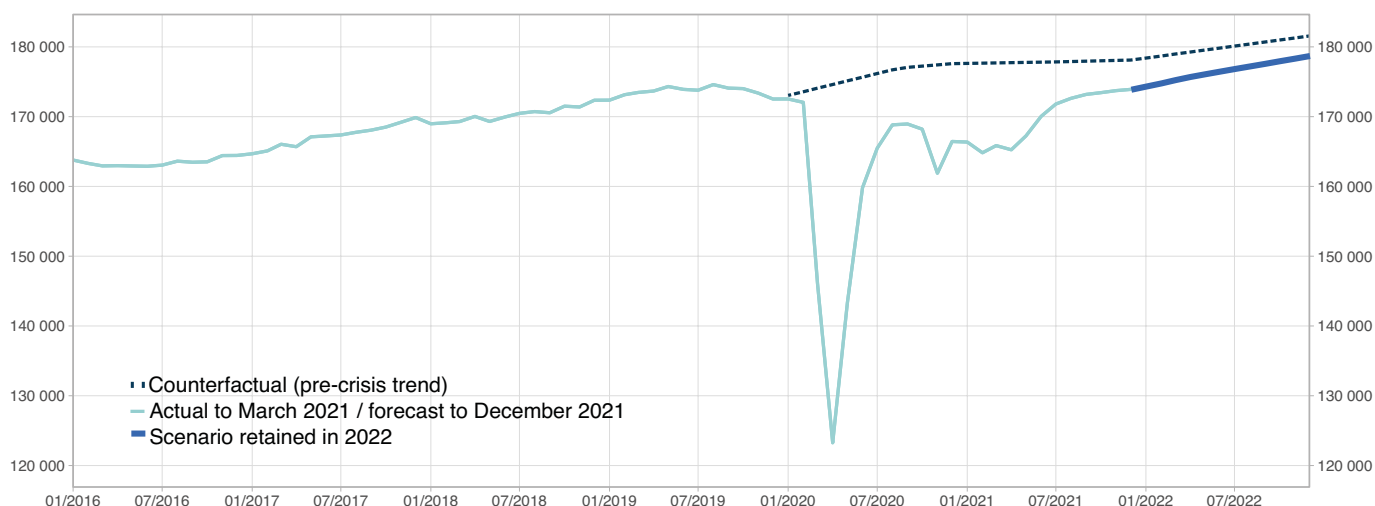
- **Sectors in Cat. 3:** Unlike Sectors 1 and 2, these sectors have had greater latitude to adapt their production methods to the Covid-induced restrictions, and should not be overly affected by a downturn in demand. At the end of 2022, the differential between predicted activity levels and their pre-crisis trend is expected to stand at **around 1-2.5%, which is broadly in keeping with the decline in total activity**. *This category includes: energy, food, retail, property, some services;*

- **Sectors in Cat. 4:** These are the sectors which, in theory, should be least affected by the crisis in the long term. They are expected to have **totally caught up to their pre-crisis trend level by the end of 2022, or even to have surpassed it**. *This category includes: agriculture, financial activities, construction, ICT, R&D, chemicals, pharmaceuticals.*

Total value added is thus attained by aggregating the value added figures calculated for each branch.

► 5. Monthly figures for total value added

volume at constant prices in € bn



Source: Until December 2021, Monthly estimates constructed for the purposes of analysing the economic outlook (underlying this Economic Outlook report), volumes at constant prices.

Data used

The data used here are calibrated with the monthly estimates constructed for the purposes of analysing the economic outlook (underlying the Quarterly Accounts for April 2021). The data series used are given in volumes at constant prices, not chained volumes, in keeping with the approach adopted in the *Economic Outlook report for October 2020*¹².

3.2. Results

The simulations indicate that the “ground lost,” i.e. the differential between total value added and the pre-crisis trend for value added, will be equivalent to around 1.6 points by the end of 2022 (► figure 5). This figure is obtained by aggregating the different sectoral scenarios defined in Part 3.1. Considering the forecasts for 2021-2022, economic activity should return to its level of Q4 2019 by the end of 2021.

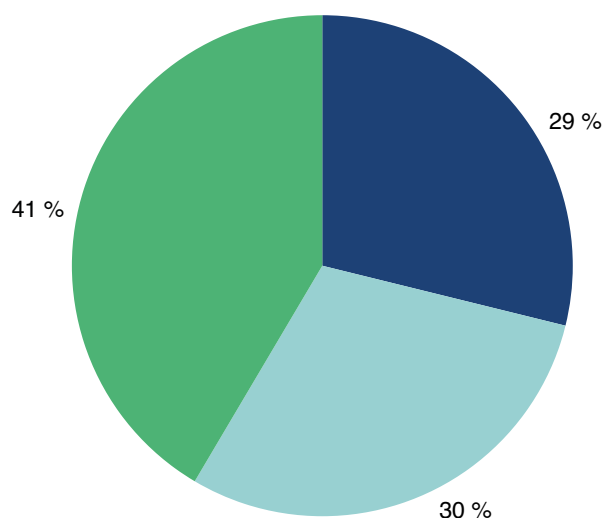
The sectoral heterogeneity of exposure to the crisis accounts for more than half of this lost ground (► figure 6). The sectors most heavily affected by the crisis (Categories 1 and 2), although they represent barely 15% of total value added, are expected to account for almost 60% of the GDP gap with pre-crisis trend levels at the end of 2022. Other sectors, i.e. those in Cat. 3 whose activity has seen only a modest decrease and those in Cat. 4 which are expected to regain or exceed their pre-crisis trend levels, represent just below 85% of total value added, and account for 42% of lost GDP.

There are two major lessons to be taken from these simulations:

- **The heterogeneity of sectoral exposure to the crisis is likely to lead to a significant loss of GDP at the aggregate level.** The exact extent of that loss will ultimately depend on the actual losses sustained by each sector, but the contribution of the losses sustained by the sectors in Categories 1 and 2,

¹² See Marquis, J. (2020), “Sectors most affected by the lasting impacts of the health crisis are likely to represent about 9% of value added,” *Economic Outlook report*, October 2020.

► 6. Breaking down the “ground lost,” estimated at 1.6% of total value added by the end of 2022 in %



■ Sectors 1: sustained decline in demand, loss of more than 8%
■ Sectors 2: sustained decline in demand, 3-5% loss
■ Sectors 3 and 4: small drop in demand, adaptability, losses of 1-2.5% (sectors 3) and none or with gain (sectors 4)

Source: author's calculations

in relation to their pre-crisis trends, should have a significant impact at the macroeconomic level;

• **A significant loss of activity could persist beyond 2022.** The worst-affected sectors (Cats. 1 and 2) are those whose production and growth models could be threatened in the long term by the present crisis. They could thus contribute to a significant and lasting decline in economic activity, well beyond 2022. However, Categories 3 and 4 could compensate for their losses after 2022.

Of course, these simulations are subject to numerous uncertainties:

- The losses forecast for the worst-affected sectors (Categories 1 and 2) could be even more substantial, for example if public health constraints are tightened again or if the pandemic drags on to varying degrees internationally, continuing to penalise activities related to business travel and intercontinental tourism.
- At the other extreme, a rapid and total lifting of public health restrictions could allow some badly-affected sectors to catch up more quickly, particularly hotels, restaurants and culture.
- Furthermore, some of the sectors identified in these simulations as being relatively unscathed by the crisis could see more sustained growth and temporarily surpass their pre-crisis trend levels. This might include the retail sector, particularly if households decide to spend more of their accumulated savings. Similarly, there is an upside risk associated with those sectors which have benefited from the acceleration of the digital transformation (ICT and telecommunications, in particular) and the healthcare sector, which could exceed their pre-crisis trend projections by more than anticipated.

Whatever the case may be, the estimates for ground lost produced by this forecasting exercise should be considered as illustrative only, in light of the high levels of uncertainty and lack of perspective. While the sector-by-sector approach used in this study is pertinent given the nature of the present crisis, it is not intended to detect and quantify all medium-term effects. **In particular, the impact of the crisis on the productivity trend of the economy as a whole is a major source of uncertainty with both upside and downside risks:**

- **On the upside, productivity after the crisis could be bolstered by the acceleration of the digital transformation engendered by the crisis.** This increased uptake of new technologies should, in theory, have consequences for activity across all sectors. This effect cannot be detected by the simulations contained in this study (above and beyond the impact on activity level in the digital sectors).
- **On the downside, the damage to human capital caused by school closures and the difficulties associated with distance learning could have lasting consequences for productivity,** and thus for activity. The magnitude of any such effect would probably be limited, and it is not taken into consideration in this exercise.
- Furthermore, if businesses were to maintain a significant amount of remote working this could affect the dynamics of certain sectors. At the present juncture, this effect could potentially be positive or negative, and in any case is far from certain¹³.

¹³ See for example: Batut, C. & Y. Tabet (2020), «Que savons-nous aujourd'hui des effets économiques du télétravail?», Trésor-Eco n°270, November 2020.

• **Finally, a sectoral reallocation phenomenon could theoretically boost long-term productivity and, ultimately, overall activity**, particularly if those sectors which feel the lasting effects of the crisis are also among the least productive. No such effect is explicitly taken into account in these simulations¹⁴ : above and beyond the difficulties involved in attempting to quantify such an effect, the process of sectoral reallocation would take time, since it requires a readjustment of skills which would have consequences for potential activity in the meantime. ●

¹⁴ In this forecasting exercise, the surplus activity of those sectors surpassing their pre-crisis counterfactual forecasts by the end of 2022 is small and does not carry any great risk in terms of reallocation.

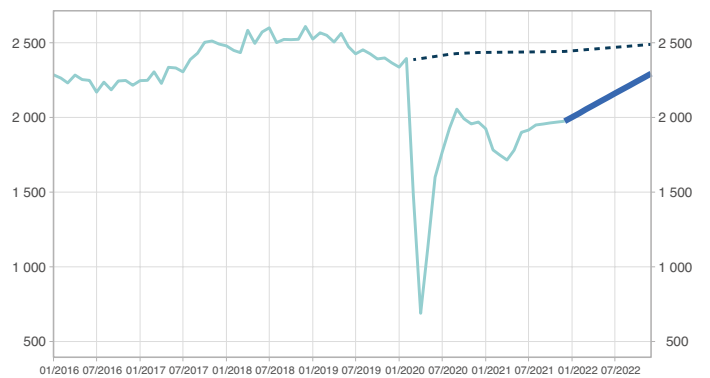
► **Value added by sector in monthly terms (selected sectors)**

volume at constant prices in € m

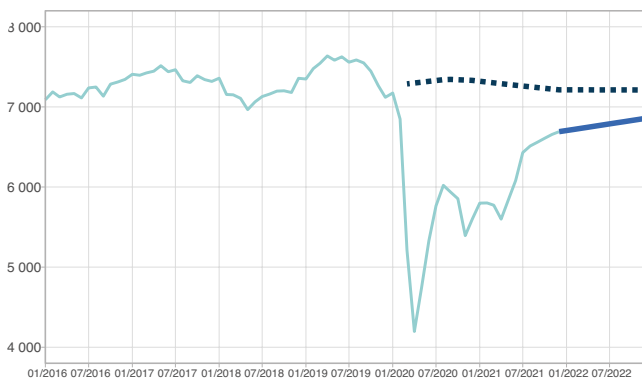
Common legend

- ⋯ Counterfactual (pre-crisis trend)
- Actual to March 2021 / forecast to Dec 2021
- Scenario retained in 2022

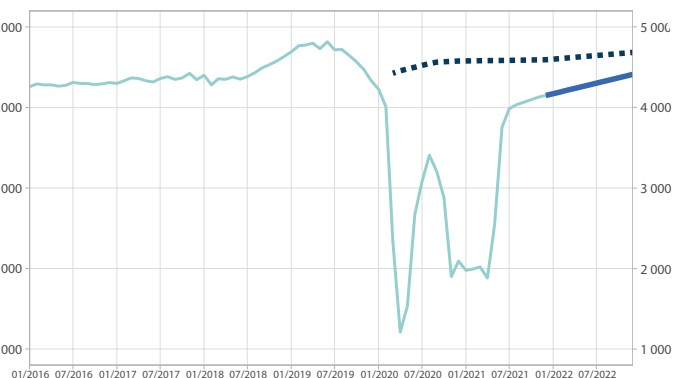
Manufacture of transport equipment (C4)



Transport and storage (HZ)



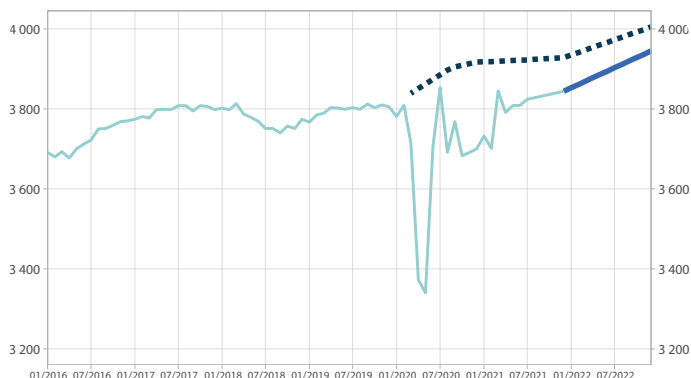
Accommodation and catering (IZ)



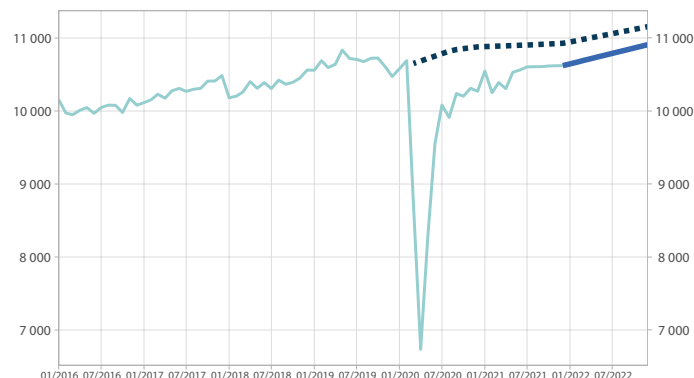
Sector-specific effects of the Covid-19 crisis between now and the end of 2022

► Value added by sector in monthly terms (selected sectors)

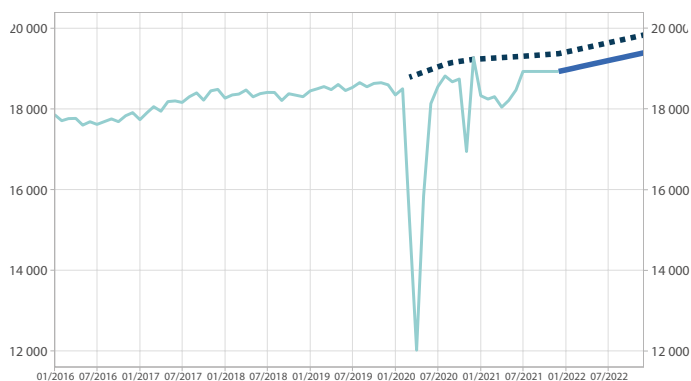
Manufacture of food products, beverages and tobacco products (C1)



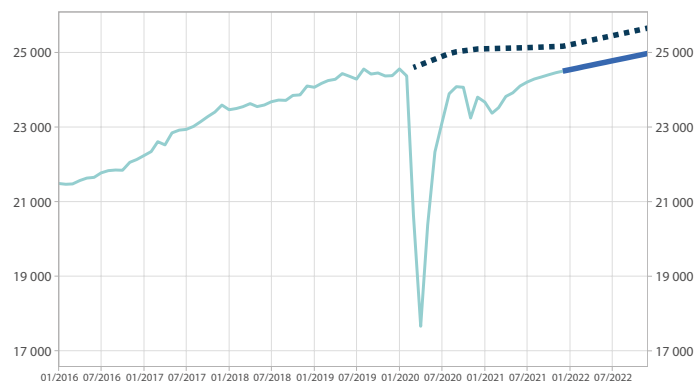
Manufacture of other industrial products (C5)



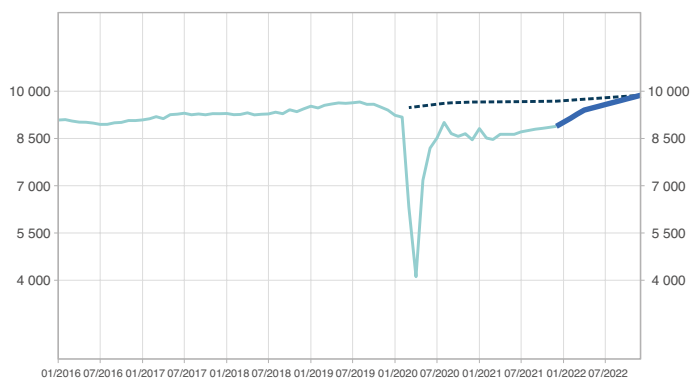
Trade; repair of motor vehicles and motorbikes (GZ)



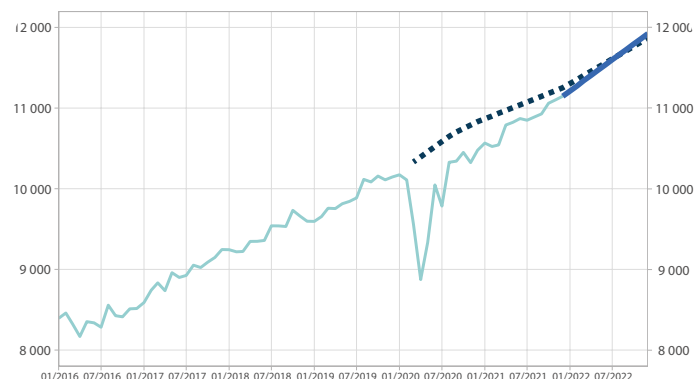
Scientific and technical activities; administrative and support services (MN)



Construction (FZ)



Information and communication (JZ)



Source: Until December 2021, Monthly estimates constructed for the purposes of analysing the economic outlook (underlying this Economic Outlook report), volumes at constant prices.

French economic outlook



Economic activity

After Q4 2020 was affected by the second national lockdown (-1.5% compared to Q3), GDP was almost stable (-0.1%) in Q1 2021, according to the detailed results in the quarterly accounts published at the end of May. In a context where restrictive health measures were gradually strengthened from January, economic activity deteriorated slightly from month to month, until the new lockdown in April when it would appear to have reached -5½% compared to the pre-crisis level, i.e. by convention Q4 2019.

The gradual lifting of lockdown restrictions then proceeded according to the calendar set out at the end of April, with the lifting of the curfew even being brought forward to 20 June as the virus was circulating less. Thus activity would seem to have rebounded, to -4% in May then -2½% in June compared to its pre-crisis level, an increase of 0.7% in Q2 (compared to the previous quarter). Assuming that the health situation stabilises by the end of the year, activity then looks set to accelerate in Q3 (+3.4%), driven by the buoyancy of domestic demand and the sharp rebound in the branches most affected by the restrictions, notably services (accommodation-catering, transport, other service activities). It is then expected to slow in Q4, to +0.7%. Thus in December, GDP is likely to have returned almost to its pre-crisis level. All in all, across the whole of 2021, it should increase by 6.0% compared to 2020 (after -8.0%).

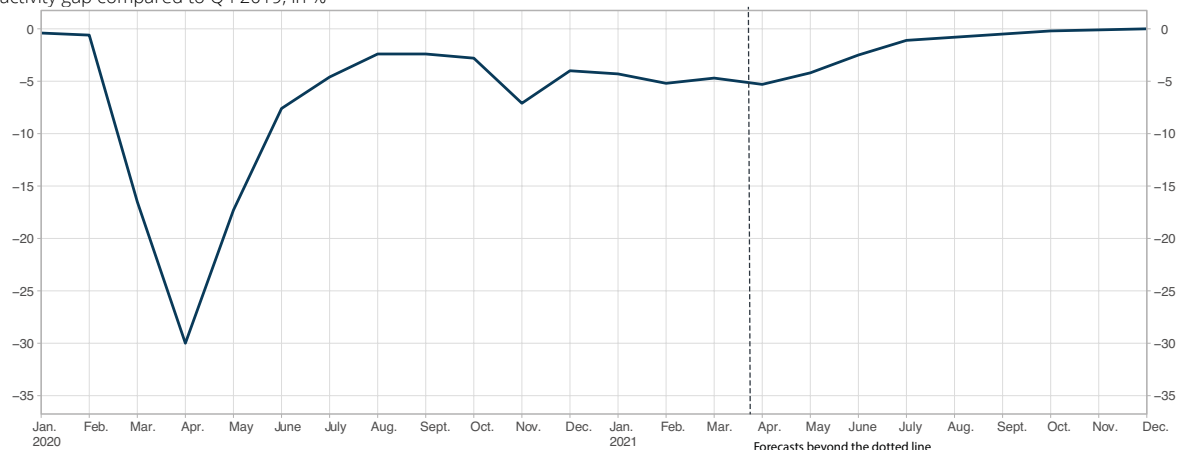
In Q1 2021, economic activity was still much affected by health restrictions, but was almost stable compared to the previous quarter

In Q1 2021, according to the detailed results in the quarterly accounts, economic activity was 4.7% below its pre-crisis level, virtually the same as in Q4 2020 (-4.6%). The strengthening of restrictive health measures in force since October 2020 (curfew, closure of certain activities) between January and March resulted in the introduction of a lockdown at the end of March, initially at a local level.

After a one-off peak in January then a backlash in February, industry stabilised in March, and across the whole of Q1 it stood at -3.5% compared to its pre-crisis level (after -3.7% in Q4 2020, ► **Figure 8**). Despite monthly fluctuations, activity in agrifood, the manufacture of capital goods and “other industrial branches” increased compared to Q4 2020, rising above -2% compared to the pre-crisis level. Conversely, the automotive industry was affected by shortages of electronic components: activity in the transport equipment branch was already penalised by problems in aeronautical construction, and declined to 23.9% below its pre-crisis level (after -18.0% in Q4 2020). Meanwhile, building construction increased slightly throughout Q1. Activity in market services was affected by the

► 1. Estimated and then forecast monthly activity losses

economic activity gap compared to Q4 2019, in %



How to read it: in March, economic activity was down by about 5% compared to its Q4 2019 level. In April, it would appear to be settled at -5½% compared to this level

Source: INSEE calculations from various sources

strengthening of health measures, and deteriorated slightly, reaching -6.8% compared to pre-crisis (after -6.3% in the previous quarter). For the branches of accommodation-catering, other service activities (culture, leisure, sport) and, to a lesser extent, trade and services to businesses, their activity fell back compared to the previous quarter. On the other hand, activity in non-market services increased slightly, exceeding the pre-crisis level, driven by coronavirus testing and the ramping up of the vaccination campaign.

Q2 2021 was much more contrasted than Q1: lockdown in April, then gradual reopening in May and June

From 3 April, lockdown was extended to national level: closure of “non-essential” businesses once again (although the list was shorter than in November), ban on inter-regional travel and journeys beyond a radius of ten kilometres. According to the industrial production index, production declined slightly in the manufacturing industry, especially in agrifood, transport equipment and,

to a lesser extent, other industrial products. The turnover index is also in decline in most service branches (trade, transport services, accommodation-catering, services to businesses and other service activities).

In June, the business climate, as calculated from companies’ responses to INSEE’s business tendency survey, continued to improve sharply, reflecting the lifting of lockdown and hopes for an end to the crisis. It improved particularly in retail services and trade, sectors that had been badly affected by the health restrictions and which were therefore galvanised as these measures were gradually lifted (► Figure 2).

Among the high-frequency indicators available, all vehicle road traffic declined sharply in April 2021, to as much as 25% below the pre-crisis level, then returned above this level in May with the lifting of restrictions on travel (► Figure 3). Heavy goods traffic remained stable in April – apart from a dip linked to the Easter weekend – suggesting, as in November, that lockdown had little impact on movement linked directly to industrial activity; then from May it too was back above the pre-crisis level.

► 2. Business climate in manufacturing industry, services and retail trade

normalised to 100 and a standard error of 10

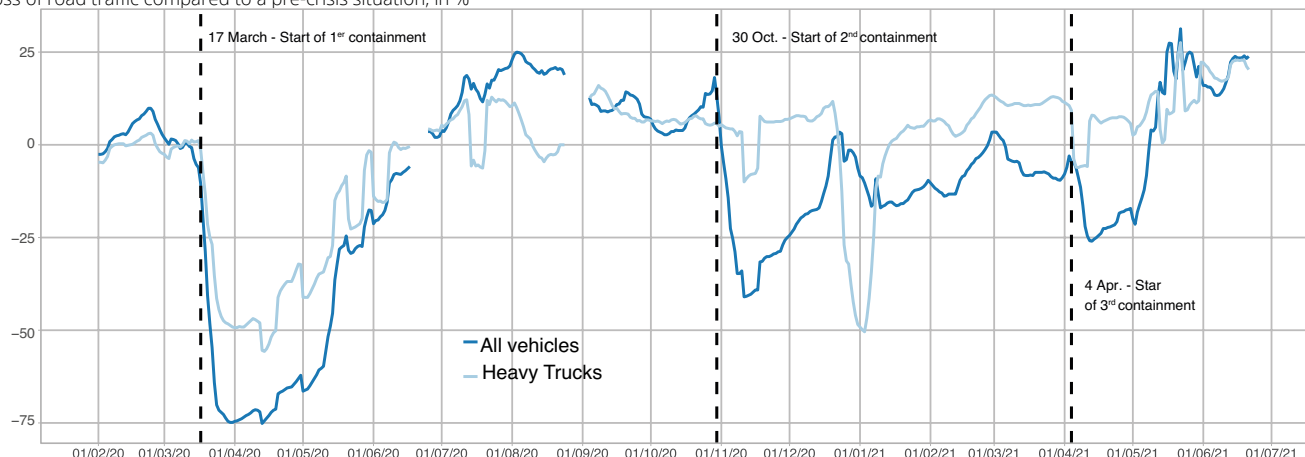


How to read it: in June 2021, the composite indicator for the business climate in services was 112.9.

Source: INSEE

► 3. Road traffic in France

loss of road traffic compared to a pre-crisis situation, in %



How to read it: on 1st June 2021, road traffic in France was 22% higher for heavy goods vehicles and 16% higher for all vehicles combined, compared to a similar day before the crisis.

Note: the last point represents 21 June 2021.

Source: Cerema, INSEE calculations

French economic outlook

Daily electricity consumption by companies connected directly to RTE (► **Figure 4**) also gives an idea of change in economic activity in certain specific branches. It suggests stability around the pre-crisis level in “other branches of industry” (textiles, chemical products, metallurgy, etc.), and around a lower level in transport equipment. In transport services, however, electricity consumption rose substantially in May.

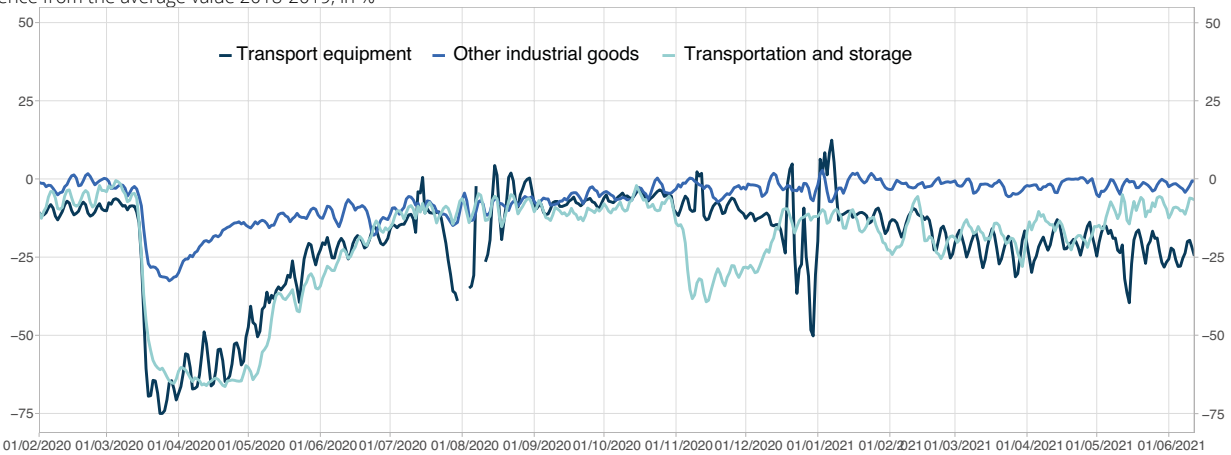
Regarding services, the number of Google searches in April was very much in decline in the semantic fields “shop”, “hotel”, “restaurant”, “cinema”, “theatre” and “air” (► **Figure 5**). These numbers later bounced back from mid-May as businesses reopened. Searches for the term “shop” returned almost to the pre-crisis level in mid-June, while searches for “restaurant” exceeded this level; meanwhile, other fields still remained below this level (“theatre”, “air”).

All in all, these different information sources tend to confirm the estimate given in the Economic Outlook of 6 May 2021 of a loss of activity of around 5½% in April (compared to the pre-crisis level). In May and June, activity would appear to have moved back up gradually, as a result of the gradual easing of restrictive measures: it would therefore appear to stand at -4% in May and -2½% in June compared to pre-crisis, i.e. -4% on average over the whole of Q2 (after -4.7% the previous quarter, ► **Figure 8**).

At sectoral level, industry would seem to have steadily continued its recovery, reaching -3% compared to pre-crisis (after -3.5%). This would appear to have been driven by agrifood and capital goods which are expected to return to their pre-crisis level, and by other industrial products (-1% from the pre-crisis level). Sourcing difficulties in the automotive sector would again

► 4. Daily electricity consumption by companies connected directly to RTE

in difference from the average value 2018-2019, in %



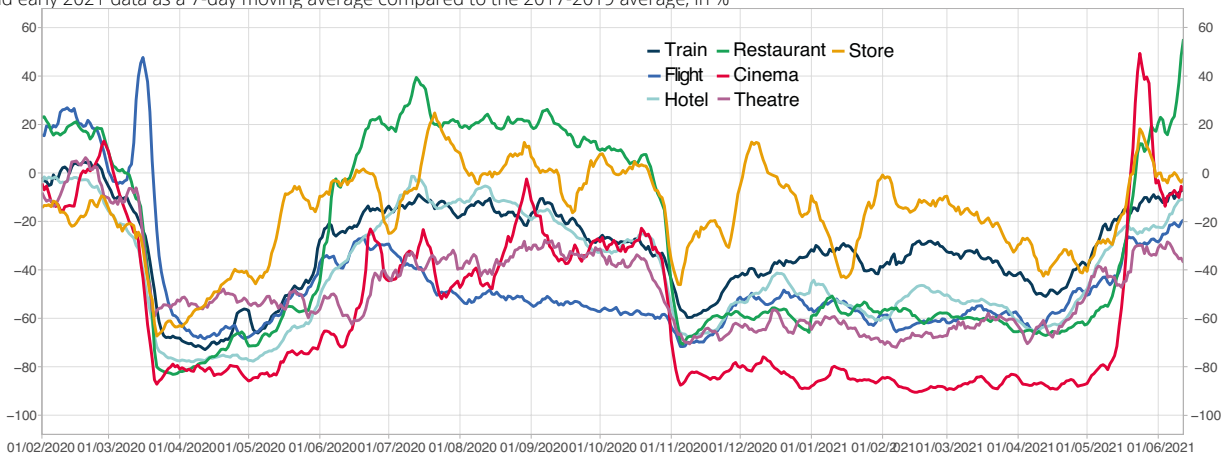
How to read it: on 10 June 2021, electricity consumption in the transport services branch was 6% lower than the average consumption for a similar month and weekday.

Note: the last point represents 13 June 2021. The seasonal adjustment of these data was performed on relatively short series and is therefore uncertain; in the transport equipment branch, some extreme points linked only to seasonal effects (during summer 2020) have been removed to improve clarity.

Source: RTE, INSEE, INSEE calculations

► 5. Frequency of keyword searches on internet

2020 and early 2021 data as a 7-day moving average compared to the 2017-2019 average, in %



How to read it: on 24 May 2021, the 7-day moving average for the number of Google searches in France in the semantic field “shop” was 23% higher compared to the average of the 7-day moving averages for every 24 May between 2017 and 2019.

Note: the last point represents 26 June 2021.

Source: Google Trends, INSEE calculations

seem to have hampered the manufacture of transport equipment (-25% compared to pre-crisis in Q2 2021), with repercussions on suppliers and metallurgy, whereas manufacturers of electronic components faced high demand. Naval and aeronautical construction, on the other hand, would appear to have experienced a (slight) improvement, while still remaining at a reduced level. Building construction would appear to have maintained a similar level to the previous quarter. In market services, activities most affected by the easing of restrictions in May and June would seem to have picked up significantly, whether in accommodation-catering, transport services or other service activities (where restrictions had been in force, depending on the circumstances, sometimes since October 2020). Due to its dramatic fall in April related to lockdown, and despite the recovery that would appear to have followed (as the level of activity in June exceeded that in January), activity in trade would appear to have declined slightly in Q2 compared to Q1, settling at 3% below its pre-crisis level. In the other service branches, activity would seem to have continued to increase, even exceeding the pre-crisis level (financial and real estate services, information-communication). After a dynamic Q1 (especially in March), activity in non-market services is likely to remain almost stable, especially in health services, with the drop in testing offset by the continuing vaccination programme and by some catch-up effects with the backlog of operations that had to be postponed given the health context of recent months.

All in all, GDP would appear to have increased by 0.7% in Q2 2021 (► **Figure 10**). From the point of view of demand, household consumption, stimulated by the

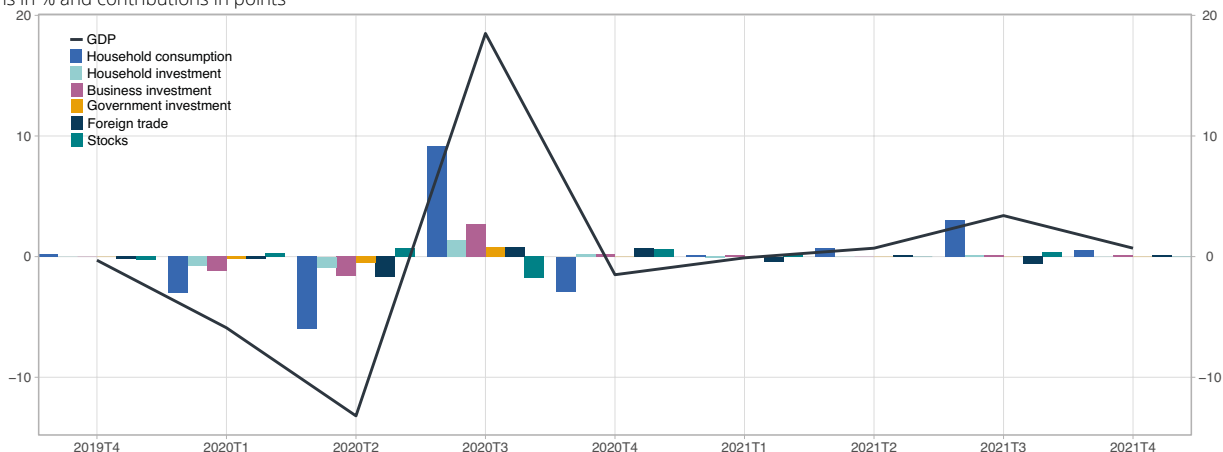
lifting of restrictions, would appear to be the main driving force behind this increase (contribution of +0.7 points, ► **Figure 6**). Foreign trade would also seem to have contributed (+0.1 points): exports would seem to have benefited from the upswing in world demand for French products, in a context of a general improvement in the health situation for our partners; imports would also appear to have increased but less vigorously, and they were penalised in April by the drop in consumption associated with lockdown. Lastly, the contribution of investment is expected to be less (+0.1 points) and that of changes in inventories marginal.

In H2 2021, economic activity looks set to continue its growth, driven by the momentum of domestic demand

In Q3 2021, and assuming that the health situation has stabilised, activity is expected to increase briskly in July then – as was the case in summer 2020 – slow in August and September as it gets closer to the pre-crisis level, to settle finally at around 1% below this level in September (► **Figure 1**). Industry should continue its recovery, with its level across the whole quarter standing at -2% compared to pre-crisis, while market services look set to rebound very vigorously once restrictions are lifted, to -1% compared to their pre-crisis level after -5% the previous quarter (► **Figure 8**). In addition to these rebounds associated with reopenings, a growing number of branches are likely to return in the longer term to levels higher than their pre-crisis level, following more trend growth.

► 6. Quarterly variations in GDP and contributions of main demand items

variations in % and contributions in points



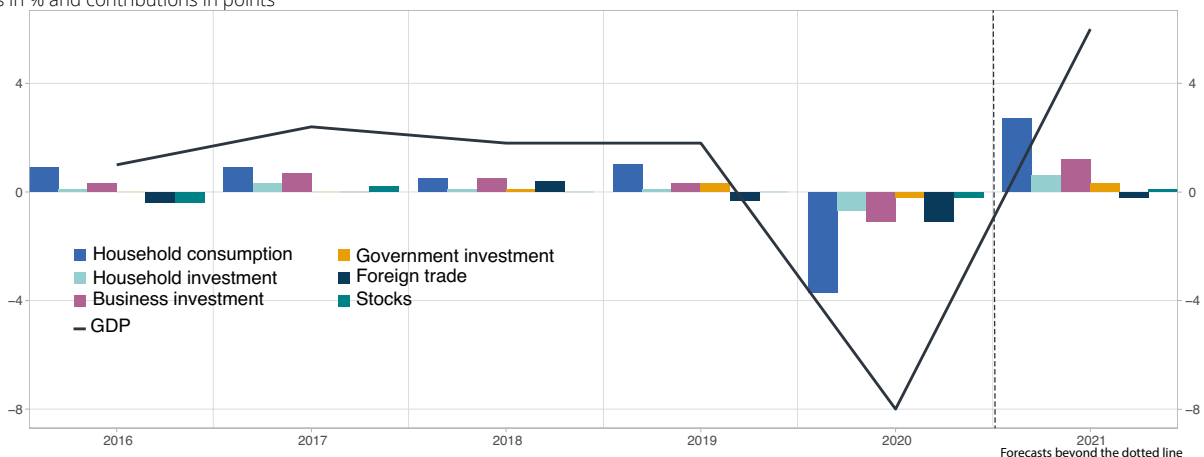
How to read it: in Q2 2021, GDP would appear to have increased by 0.7% compared to Q1 2021; the contribution of household consumption would appear to have been 0.7 points.

Source: INSEE calculations from various sources

French economic outlook

7. Annual variations in GDP and contributions of main demand items

variations in % and contributions in points



How to read it: in 2021, GDP is expected to increase by 6.0% compared to 2020; the contribution of household consumption is expected to be 2.7 points.
Source: INSEE calculations from various sources

8. Estimate then forecast of losses of economic activity in 2021 by branch

difference to the fourth quarter of 2019, in %

Branch	weight	2020				2021				Contrib. Q2 2021
		Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	
Agriculture, forestry and fishing	2	0.3	0.2	0.1	-0.8	-2.0	-1	-1	-1	0
Industry	14	-5.3	-22.1	-5.0	-3.7	-3.5	-3	-2	-1	0
Manufacture of food products, beverages and tobacco-based products	2	-1.1	-9.3	-0.8	-3.0	-1.1	0	0	1	0
Coke and refined petroleum	0	4.6	27.4	30.5	28.8	111.4	126	127	127	0
Manufacture of electrical, electronic, computer equipment; manufacture of machinery	1	-7.1	-24.7	-6.3	-4.3	-1.8	0	0	1	0
Manufacture of transport equipment	2	-12.7	-51.1	-20.5	-18.0	-23.9	-25	-19	-18	0
Manufacture of other industrial products	6	-5.9	-23.1	-5.0	-3.2	-2.2	-1	0	0	0
Extractive industries, energy, water, waste treatment and decontamination	3	-2.2	-13.2	0.4	2.5	1.4	1	2	3	0
Construction	6	-13.1	-31.5	-7.9	-9.6	-9.2	-9	-8	-7	0
Mainly market services	57	-5.7	-17.9	-4.3	-6.3	-6.8	-5	-1	0	-3
Trade; repair of automobiles and motorcycles	10	-6.7	-17.8	-0.2	-1.9	-2.5	-3	1	1	0
Transport and storage	5	-11.5	-33.6	-17.4	-21.9	-19.6	-18	-9	-7	-1
Accommodation and catering	3	-20.5	-59.6	-27.1	-48.5	-55.1	-40	-10	-8	-1
Information and communication	5	-1.9	-7.2	0.1	2.6	4.0	7	7	9	0
Financial and insurance activities	4	-5.0	-15.2	-1.8	-1.4	-1.1	0	2	3	0
Real estate activities	13	-1.4	-3.9	-0.8	-0.5	-0.5	0	1	1	0
Scientific and technical activities; administrative and support services	14	-4.9	-17.8	-2.5	-2.5	-3.5	-2	0	1	0
Other service activities	3	-9.8	-41.2	-13.4	-25.3	-26.5	-23	-12	-8	-1
Mainly non-market services	22	-4.6	-14.9	1.1	-0.2	0.5	0	1	0	0
Total VA	100	-5.7	-18.3	-3.4	-4.7	-4.8	-4	-1	0	-4
Taxes and subsidies		-7.0	-18.0	-1.5	-3.9	-4.4	-4	-1	0	
GDP		-5.9	-18.3	-3.1	-4.6	-4.7	-4	-1	0	

Forecast

How to read it: in Q2 2021, loss of activity in the accommodation-catering branch would appear to have been -40% compared to the pre-crisis level; the contribution of this branch to the total loss would appear to have been -1 point.

Source: INSEE calculations from various sources

9. Estimated then forecast loss of economic activity in 2021

	2020				2021				2020	2021
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Quarterly variation (in %)	-5.9	-13.2	18.5	-1.5	-0.1	0.7	3.4	0.7	-8.0	6.0
Difference compared to pre-crisis level (Q4 2019)	-5.9	-18.3	-3.1	-4.6	-4.7	-4.0	-0.8	-0.1		

Forecast

Note: annual changes for the last two columns.

How to read it: in Q2 2021, GDP would appear to stand at -4.0% compared to the pre-crisis level (Q4 2019), an improvement (+0.7%) compared to Q1 2021.

Source: INSEE calculations from various sources

Thus in Q4, industry is expected to be only 1% below its pre-crisis level, while market services generally look set to return to their pre-crisis level. All in all, GDP is expected to have almost returned to its pre-crisis level by the end of the year. However, sectoral differences are still likely to remain within this time period, with some branches still well below their pre-crisis level: accommodation and catering, services to households, manufacture of transport equipment, transport services (► [Special analysis](#)).

As a quarterly variation, GDP is expected to increase by 3.4% in Q3, then 0.7% in Q4 (► [Figure 9](#)). As in Q2, domestic demand, and especially household consumption, is expected to drive this improvement (household consumption contributions +3.0 points in Q3 then +0.5 points in Q4, ► [Figure 6](#)). Foreign trade, however, is likely to hamper activity (contribution of -0.6 points in Q3). The buoyancy of domestic demand is likely to lead to a sharp increase in imports, whereas exports are expected to increase during the summer at

a more moderate pace. At the end of 2021, among the different demand items, exports are expected to have fallen behind most compared to pre-crisis levels (-3.9%) whereas household consumption is likely to exceed its pre-crisis level by 1.0% (► [Figure 11](#)).

All in all, as an annual average, GDP looks set to rebound sharply in 2021 (+6.0% after -8.0%). Household consumption, which made the greatest contribution to losses in 2020, is now likely to balance this by contributing most to the increase in 2021, at around +2.7 points (► [Figure 7](#)), followed by investment, at +2.0 points. The contribution of foreign trade is expected to be slightly negative, as in 2019 and 2020. Of course, the scenario for H2 is surrounded by uncertainties: it is still conditional on the health situation remaining stable. Any new restrictions could weigh heavily on the economy in the event of an upswing in the epidemic; conversely it is quite possible that activity will grow faster than expected if the health situation remains favourable. ●

French economic outlook

► 10. Goods and services: resources-uses balance at chain-linked prices for the previous year

changes Q/Q-1 (in %), seasonally adjusted data - YTD

	2019				2020				2021				2019	2020	2021
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Gross domestic product	0.6	0.6	0.2	-0.3	-5.9	-13.2	18.5	-1.5	-0.1	0.7	3.4	0.7	1.8	-8.0	6.0
Imports	2.0	0.1	-0.4	-1.0	-5.1	-18.3	16.2	2.2	1.1	1.2	5.0	1.3	2.4	-12.2	8.9
Total resources	0.9	0.6	0.0	-0.6	-5.6	-14.5	18.1	-0.6	0.1	0.8	3.6	0.8	2.1	-8.9	6.7
Household consumption expenditure	0.8	0.4	0.4	0.3	-5.7	-11.6	18.3	-5.6	0.1	1.3	5.9	1.0	1.9	-7.2	5.2
General government consumption expenditure**	0.1	0.3	0.4	0.3	-2.9	-11.4	17.5	-0.9	-0.1	-0.3	1.7	-0.4	1.0	-3.5	4.7
of which individual general government expenditure	-0.1	0.3	0.2	0.2	-4.1	-13.0	20.9	-1.7	-0.1	-0.1	3.2	-0.3	0.6	-4.9	5.9
of which collective general government expenditure	0.5	0.4	0.7	0.3	-0.7	-8.2	12.6	1.0	-0.2	-0.7	-0.7	-0.7	1.8	-0.1	3.2
Gross fixed capital formation (GFCF)	0.9	1.7	1.1	-0.1	-9.8	-13.9	23.3	1.7	0.2	0.3	1.0	0.8	4.1	-8.9	9.2
of which Non-financial enterprises (NFE)	0.1	1.4	1.1	-0.1	-9.2	-12.8	22.1	1.2	1.0	0.3	1.0	0.7	2.7	-8.1	9.5
Households	0.8	1.5	0.5	-0.1	-13.8	-17.2	31.0	4.6	-2.0	0.3	1.0	0.9	2.8	-12.2	10.9
General government	2.7	2.5	1.8	0.0	-5.4	-12.6	20.8	0.0	-0.1	0.2	1.0	0.8	9.1	-4.4	6.8
Exports	1.5	-0.4	-0.9	-1.6	-5.9	-24.8	21.6	4.9	-0.2	1.6	3.2	1.7	1.5	-16.1	9.0
Contributions (in points)															
Domestic demand excluding inventory**	0.6	0.7	0.6	0.2	-6.0	-12.1	19.6	-2.8	0.1	0.7	3.6	0.6	2.1	-6.7	6.1
Changes in inventories**	0.2	0.0	-0.2	-0.4	0.3	0.7	-1.9	0.6	0.2	0.0	0.3	0.0	0.0	-0.2	0.1
Foreign trade	-0.2	-0.2	-0.1	-0.2	-0.2	-1.8	0.9	0.7	-0.4	0.1	-0.6	0.1	-0.3	-1.2	-0.2

■ Forecast

* Consumption expenditure of general government and non-profit institutions serving households (NPISH)

** Changes in inventories include acquisitions net of valuable items

How to read it: in Q2 2021, exports would appear to have grown by 1.6% compared to Q1 2021; the contribution of foreign trade to quarterly GDP growth would appear to be 0.1 points.

Source: INSEE calculations from various sources

► 11. Goods and services: resources-uses balance at chain-linked prices for the previous year, compared to pre-crisis

changes Q/Q-1 (in %), seasonally adjusted data - YTD

	2020				2021			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross domestic product	-5.9	-18.3	-3.1	-4.6	-4.7	-4.0	-0.8	-0.1
Imports	-5.1	-22.4	-9.9	-7.9	-6.9	-5.8	-1.1	0.2
Total resources	-5.6	-19.2	-4.6	-5.2	-5.1	-4.3	-0.8	-0.1
Household consumption expenditure	-5.7	-16.7	-1.4	-6.9	-6.8	-5.6	0.0	1.0
General government consumption expenditure**	-2.9	-14.0	1.0	0.1	0.0	-0.3	1.4	1.0
of which individual general government expenditure	-4.1	-16.6	0.8	-0.9	-1.0	-1.2	2.0	1.6
of which collective general government expenditure	-0.7	-8.8	2.7	3.7	3.5	2.8	2.0	1.3
Gross fixed capital formation (GFCF)	-9.8	-22.3	-4.2	-2.6	-2.3	-2.0	-1.0	-0.3
of which Non-financial enterprises (NFE)	-9.2	-20.8	-3.3	-2.1	-1.1	-0.8	0.2	0.9
Households	-13.8	-28.6	-6.4	-2.1	-4.1	-3.8	-2.9	-2.1
General government	-5.4	-17.4	-0.2	-0.2	-0.2	0.0	1.0	1.8
Exports	-5.9	-29.2	-13.9	-9.7	-9.9	-8.4	-5.5	-3.9

■ Forecast

* Consumption expenditure of general government and non-profit institutions serving households (NPISH)

How to read it: in Q2 2021, exports would appear to be at -8.4% compared to the pre-crisis level (Q4 2019).

Source: INSEE calculations from various sources

Foreign trade

In Q1 2021, world trade continued to grow (+3.1% after +4.4%), driven by trade in the emerging countries. World demand for French products also continued to increase in Q1, but at a less sustained pace than that of world trade (+1.3% after +4.6%).

Foreign trade affected French GDP growth in Q1 2021, with exports having declined slightly (-0.2% after +4.9% in Q4 2020) while imports continued to increase (+1.1% after +2.2%). In Q2, the upswing in imports would appear to have continued at a moderate pace, with restrictive measures in force for part of the quarter affecting domestic demand for manufactured products. Exports, on the other hand would appear to have picked up with the acceleration of world demand for French products.

In H2 2021, imports are expected to become particularly dynamic, driven by domestic demand, with exports likely to increase moderately, still hampered by some sectors (transport equipment).

World trade is expected to grow at a sustained pace throughout 2021

In Q1 2021, world trade continued to grow (+3.1% after +4.4%, ► **Figure 1**), exceeding its Q4 2019 level (+3% above this level, ► **Figure 2**). This buoyancy is mainly due to trade by the emerging countries (+8.3% after +3.2%), while that of the advanced countries increased more slowly (+0.5% after +5.0% in Q4 2020).

In Q2 2021, world trade would appear to have grown again, by around 2.6%, led this time by the economic recovery of the advanced countries. The same is expected in Q3 and Q4: the improvement in the health situation and the buoyancy of the upswing in the advanced countries looks set to lead to an increase in world trade, and at a sustained pace.

World demand for French products slowed in Q1 (+1.3% after +4.6%, ► **Figure 1** and **3**), with Brexit causing a

► 1. World trade and world demand for French products

quarterly variations (T/T-1), in %

	2020				Q1	2021			2020	2021
	Q1	Q2	Q3	Q4		Q2	Q3	Q4		
World trade	-3.2	-11.7	11.6	4.4	3.1	2.6	2.4	1.4	-6.5%	12.7%
Imports from advanced economies	-3.2	-13.3	13.6	5.0	0.5	3.0	3.0	1.4	-7.0%	11.4%
Imports from emerging economies	-3.1	-8.5	7.6	3.2	8.3	2.0	1.3	1.3	-5.5%	15.1%
Global demand addressed to France	-3.0	-13.8	13.8	4.6	1.3	3.1	3.0	1.4	-6.9%	12.1%

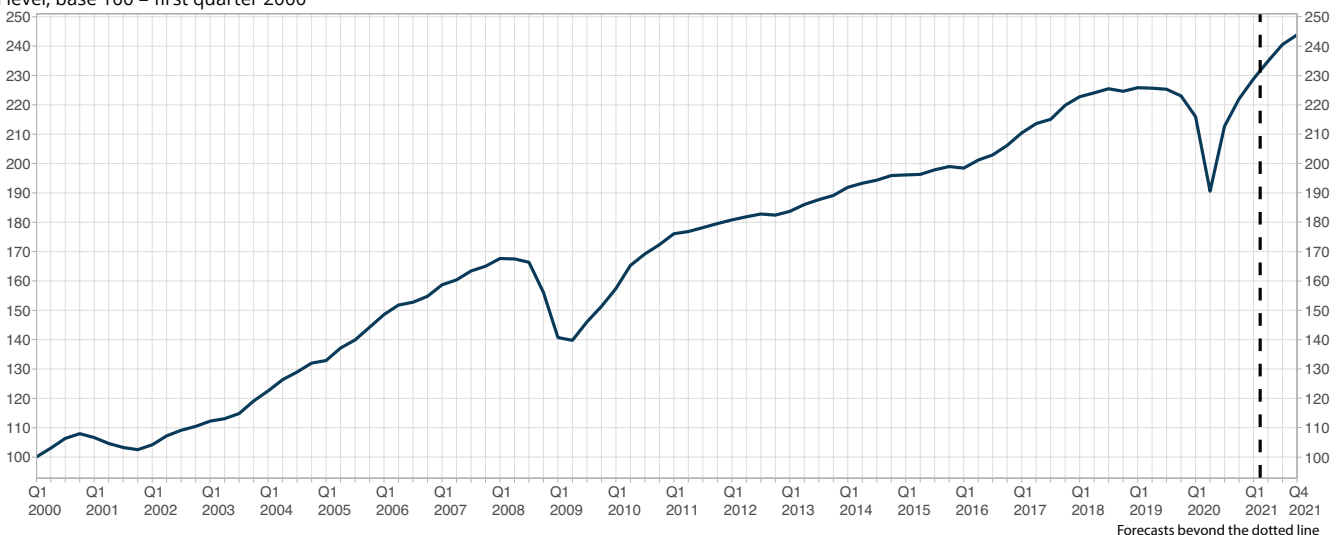
■ Forecast

How to read it: In the second quarter of 2021, world trade would have grown by +2.6%. Over the year 2021, it would increase by +12.7%.

Source: INSEE

► 2. World trade by level

in level, base 100 = first quarter 2000



How to read it: in Q1 2021, world trade was worth 2.28 times its level in Q1 2000.

Source: DG Trésor, INSEE

French economic outlook

drop in imports from the United Kingdom (-13.9% in Q1 2021). Their rebound in Q2 would appear to have contributed to accelerating world demand for French products (+3.1%). In H2 2021, world demand is expected to continue to grow, driven by the dynamism of trade in the advanced countries.

French exports look set to resume growth in the spring

In Q1 2021, and despite the increase in world demand for French products, French exports fell back slightly (-0.2%, ► **Figure 4**). Exports linked to tourism certainly declined significantly (-15.4%). This was also the case, although to a lesser extent, for exports of manufactured products (-0.7%). Exports of transport equipment moved even further from their pre-crisis level (-7.9%), probably linked to the sourcing problems affecting this sector. However, exports of energy products and services increased (+15.4% and +3.0%).

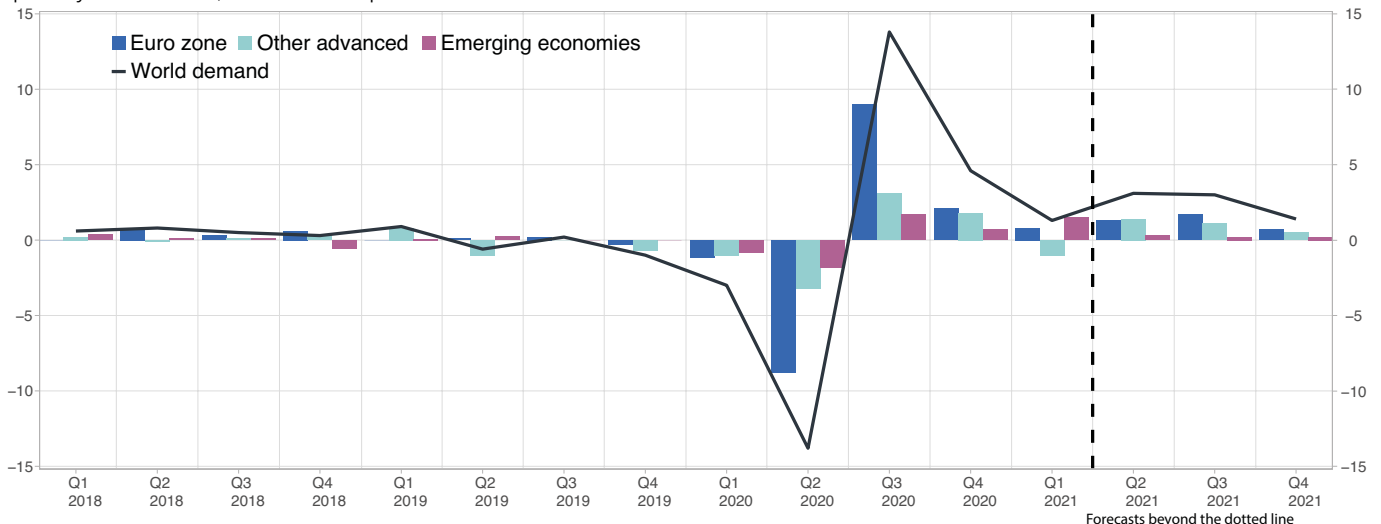
In Q2, exports would appear to have increased and are expected to continue this rebound into the following quarters. This momentum is expected to result in an upswing in Q2 of exports of transport equipment, especially aeronautical equipment, but also, during the summer, in the recovery of exports linked to tourism. All in all, French exports look set to grow by 9.0% in 2021 after falling by -16.1% in 2020.

French imports are expected to continue to grow until the end of 2021

In Q1 2021, imports continued to increase (+1.1% after +2.2% in Q4 2020, ► **Figure 4**). This rise is due to imports both of manufactured products and of services (+1.8% and +0.9% respectively). On the other hand, imports linked to tourism fell (-9.8%, like exports) as did those of energy products (-5.2%).

► 3. Foreign demand for French products and contribution of main trading partners

quarterly variations in %, contributions in points



How to read it: in Q2 2021, world demand for French products would appear to have increased by +3.1%.

Source: INSEE

In Q2, the drop in household consumption of manufactured goods during lockdown would appear to have severely limited the rise in imports. In H2, however, the rebound in consumption is expected to lead to a marked acceleration in imports of manufactured products, strengthened by imports linked to tourism during the summer period.

The contribution of foreign trade to change in GDP looks likely to be slightly negative in 2021

In Q1 2021, the shrinking of exports in parallel with the rise in imports affected activity (contribution of -0.4 points to the quarterly change in GDP). By rebounding

in Q2, in a context where imports are expected to rise slowly, this should allow foreign trade to contribute positively to change in activity (+0.1 points). In H2, however, trade is expected to hamper activity once again, as imports are forecast to be more vigorous than exports. Over 2021 as a whole, the contribution of foreign trade to growth is expected to be slightly negative (-0.2 points). In addition to health conditions, other factors may influence the development of foreign trade (Brexit, changing tensions over customs tariffs, fluctuations in exchange rates, competitiveness of companies, etc.). However, in 2021, sectoral jolts caused by changes in the health situation are still expected to be the main determining factor affecting foreign trade. ●

► 4. French foreign trade

variation in %, volumes of previous year's chained prices, contributions in points

	quarter variations								annual variations	
	2020				2021				2020	2021
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Exports										
Total	-5.9	-24.8	21.6	4.9	-0.2	1.6	3.2	1.7	-16.1	9.0
Manufactured products (67%)	-4.9	-27.8	28.8	5.4	-0.7	2.0	2.0	1.0	-15.4	10.2
Imports										
Total	-5.1	-18.3	16.2	2.2	1.1	1.2	5.0	1.3	-12.2	8.9
Manufactured products (69%)	-4.1	-20.2	23.6	1.5	1.8	0.5	5.0	1.0	-9.9	11.1
Contribution of foreign trade to GDP	-0.2	-1.8	0.9	0.7	-0.4	0.1	-0.6	0.1	-1.2	-0.2

■ Forecast

How to read it: in Q2 2021, French exports would appear to have increased by +1.6%. Across the whole of 2020, they declined by -16.1%.

*Share of exports (or imports) of manufactured products in total exports (or imports), in 2020.

Source: INSEE

Employment and unemployment

In Q1 2021, payroll employment rebounded, but did not get back to its pre-health crisis level: +86,000 jobs after -296,000 for the whole of 2020. As a result, at the end of March 2021, payroll employment was still 210,000 below its pre-crisis level (end of 2019), a level comparable to that at the start of 2019. In Q2 2021, and with the easing of health restrictions from May, activity would appear to have gained in momentum, especially in services to households and accommodation-catering, and payroll employment would seem to have accelerated (+101,000 between the end of March and end of June). In Q3 and Q4 2021, payroll employment is expected to continue to increase but less rapidly: +134,000 across the half year. The rebound in employment is likely to be held back on the one hand by the gradual tightening of short-time working schemes, and on the other by a small upswing in productivity gains in certain sectors, especially industry.

In 2020, self-employment would appear to have done better than simply withstand the health crisis, as numbers increased by 30,000, once again boosted by micro-entrepreneurs. In 2021, the dynamism of micro-entrepreneurs is expected to weaken and 40,000 self-employed jobs are likely to be destroyed. Lastly, total employment (payroll employment and self-employment) is expected to increase by 281,000 in 2021 and to recover its pre-crisis level by the end of the year.

Across the whole year, the upswing in employment on the one hand, and the return to the labour market of people who were forced out because of the crisis on the other hand,

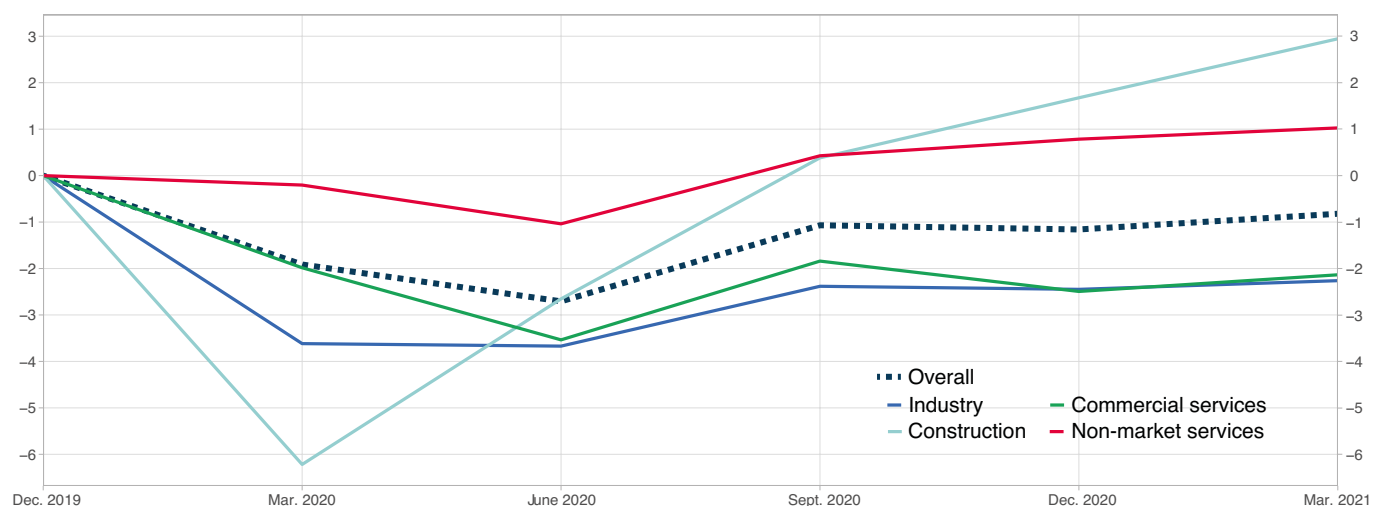
are likely to largely offset each other, with the result that the unemployment rate is expected to be virtually stable by the end of 2021.

In late March 2021, payroll employment was still lower than its pre-crisis level in industry and the market tertiary sector but exceeded it in construction and the non-market tertiary sector

Between the end of December 2020 and the end of March 2021, payroll employment in France (excluding Mayotte) increased: +86,000 after -23,000. This rebound happened between the November 2020 lockdown and the national lockdown put in place at the beginning of April. Payroll employment grew particularly in the tertiary sector, both market (+44,000) and non-market (+20,000), and in building construction (+20,000).

At the end of March 2021, payroll employment was still well below its level at the end of 2019 (-210,000 jobs, or -0.8% compared to payroll employment at the end of 2019, ► **Figure 1** and **2**). However, the loss of jobs at the end of Q1 2021 remained much less than the drop in activity itself (-5% for GDP in Q1 2021, compared to Q4 2019), due to the extensive use of short-time working schemes. These payroll job losses related particularly to accommodation-catering (-145,000 between the end of 2019 and the end of March 2021), services to households (-64,000) and trade (-27,000).

► 1. Payroll employment compared to the end of 2019



How to read it: at the end of March 2021, payroll employment was 0.8% down on its level at the end of 2019.

Note: in this graph, temporary workers are counted in the sector where they carry out their assignment.

Scope: France (excluding Mayotte)

Source: INSEE

Conversely, payroll employment exceeded its pre-crisis level in the non-market tertiary sector (+83,000 between the end of 2019 and the end of March 2021), driven by hirings in the health sector, linked directly to the health crisis. Payroll employment has also clearly exceeded its level at the end of 2019 in building construction (+47,000). In this sector, jobs were adjusted to activity largely by reducing the recourse to temporary employment and hence were able to react particularly quickly both downwards in spring 2020 and upwards in summer.

During 2021, payroll employment is expected to continue to pick up but is likely to be hampered by the gradual tightening of short-time working schemes and an upturn in productivity gains

The easing of health restrictions since early May would appear to have galvanised activity, and payroll employment would appear to have increased by 101,000 between the end of March and the end of June. The rebound appears to concern mainly those sectors that were most affected by these restrictions: accommodation-catering (+51,000, with a gradual reopening of bars and restaurants from 19 May) and services to households (+25,000, with the reopening of museums, cinemas and concert halls). All in all, payroll employment would appear to have risen by 187,000 in H1 2021.

Over the rest of 2021, payroll employment should continue to grow, but a little less rapidly: +70,000 in Q3 2021 and +64,000 in Q4, or +134,000 in H2. The rebound in payroll employment is expected to match that in economic activity, but is likely to be slowed down by

the gradual tightening of short-time working measures, which allowed employers to retain their workforce, even if they were not working. Accommodation-catering would be concerned (+32,000 in H2 2021 after +43,000 in H1), also services to households (+3,000 in H2 2021 after +31,000 in H1). In addition, after experiencing an exceptional lull in 2020, apparent labour productivity is expected to rebound strongly in 2021. At the end of the year, it should slightly exceed its pre-crisis level in certain sectors, driven in particular by companies that continued to invest. This is expected to be the case for industry in particular (-14,000 in H2 2021 after +18,000 in H1).

Finally, payroll employment is expected to increase by 321,000 in 2021 and should therefore exceed its pre-crisis level slightly. In the two years affected by the health crisis, 25,000 net payroll jobs would appear to have been created, against 216,000 per year on average between 2015 and 2019. With activity almost back to its end of 2019 level, this very small improvement in employment is expected to mark a slight drop in apparent labour productivity, explained by the persistence of some short-time working in certain sectors.

Total employment (payroll employment and self-employment) looks set to increase by 281,000 in 2021 after a decline of 266,000 in 2020 and should therefore return to its pre-crisis level

In 2020, self-employment appears to have done better than simply withstand the crisis: numbers would appear to have increased by 30,000, driven by a rise in the number of micro-entrepreneurs. However, this still represents a marked slowdown compared to the two

► 2. Change in payroll employment

in thousand, SA, at the end of the period

	Evolution over 3 months								Evolution over 1 year		Evolution since end of 2019	
	2020				2021				2020	2021	End of March 2021	End of Dec. 2021
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Agriculture	-8	-2	2	9	-3	2	0	-2	1	-3	-2	-2
Industry	-125	-2	44	-2	6	12	-2	-12	-84	4	-78	-80
Construction	-99	57	48	21	20	5	20	20	27	66	47	92
Commercial tertiary sector	-241	-188	206	-79	44	91	52	55	-302	241	-259	-61
Trade	-44	-18	31	-7	9	-7	15	23	-37	41	-27	4
Transports	-48	1	25	21	-3	13	-12	-22	0	-24	-3	-24
Accommodation and catering	-58	-83	58	-55	-8	51	17	15	-137	75	-145	-63
Corporate services	-38	-32	35	-1	16	3	15	14	-37	48	-21	11
Household services (including culture and recreation)	-40	-40	44	-35	6	25	3	0	-70	35	-64	-36
Tertiary non-trading	-16	-67	118	29	19	-9	1	2	63	13	83	76
Ensemble	-489	-202	418	-23	86	101	70	64	-296	321	-210	25

Note: in this table, temporary workers are counted in the sector where they carry out their assignment.

Scope: France (excluding Mayotte)

Source: INSEE

French economic outlook

previous years (+66,000 self-employed jobs in 2018 and +121,000 in 2019). The buoyancy of micro-entrepreneurs, driven since 2018 by the doubling of the turnover ceiling and in 2020 by the unusual circumstances of the health crisis, is likely to weaken in 2021. As a result of the downward trend in the number of “traditional” self-employed (excluding micro-enterprises) and the

end of the aid schemes associated with the crisis, self-employment is expected to fall back by 40,000.

Finally, total employment (payroll employment and self-employment) is expected to increase by 281,000 in 2021, and should return to virtually the same level as two years previously, pre-crisis (+15,000).

How to forecast employment in the time of Covid?

Since the start of the crisis, the usual econometric equations linking payroll employment and value added (presented in the special report “Slowdown in labour productivity and forecasting employment in France”, *Conjoncture in France*, June 2018) are no longer used to forecast employment: the exceptional context makes the notion of the apparent labour productivity trend underlying this type of model, and hence their use, inappropriate.

They have been replaced by tools based on comparing, at a relatively disaggregated sectoral level, payroll employment on the one hand and economic activity and workforce retention on the other. This retention can be observed directly through the use of the short-time working scheme, but it can go beyond this (and it is then estimated from the balance of the different components). Thus the aim is to understand the link between payroll employment and some of its determinants (economic activity, workforce retention) since the start of the crisis in order to forecast what employment behaviour and workforce retention could be in companies in the near future.

Main assumptions

Based on these observations, there are three main assumptions involved in forecasting employment for Q2, Q3 and Q4 2021:

•Economic activity assumption

The assumption is based on the economic activity scenario and particularly on sectoral activity losses compared to Q4 2019 (► [Economic Activity Sheet](#)). Throughout 2021, activity is expected to return gradually to its pre-crisis level in most sectors, but to remain below this level in the sectors most severely affected by the restrictions, such as accommodation-catering, services to households and transport, or by a long-term drop in demand, as in the manufacture of transport equipment.

•Workforce retention assumption

This is based mainly on the assumption of relying on short-time working. From July 2021, in general, compensation for short-time working will gradually be reduced. It was assumed that at the end of 2021 this rate would be zero for all sectors apart from those that had been most affected by the crisis in the long term (services to households, accommodation-catering and manufacture of transport equipment) for which a long-term scheme has been put in place.

•Productivity assumption

The gradual upturn in activity is likely to go hand in hand with a slight increase in productivity at the end of 2021 compared with the end of 2019 in some sectors of industry and the market tertiary sector, thus resulting in fewer job creations for a given economic activity.

•Self-employment

In addition, because of the way the self-employed declare their income, the employment of self-employed workers is currently not yet known for 2020. Pending the first estimates, advance information observed in VAT declarations and business start-ups has produced a slightly higher forecast for self-employment in 2020, before a downturn in 2021.

A look back on previous forecasts

The change in payroll employment observed in Q1 2021 has proved to be very much greater (+0.3% against -0.3%) than that forecast in the Economic Outlook of 11 March 2021. ●

The unemployment rate looks set to be virtually stable until the end of 2021

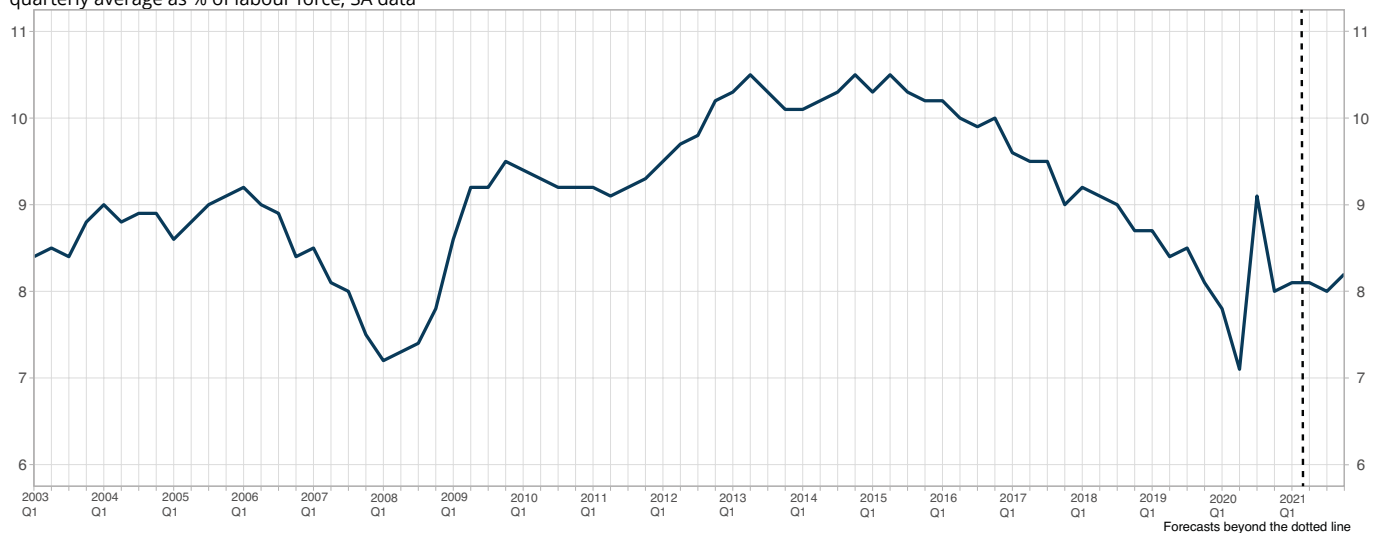
In Q1 2021, the unemployment rate was virtually stable compared to the previous quarter (+0.1 points, ► **Figure 3**), at 8.1% of the active population, after a drop of 1.1 points at the end of 2020 (► **Figure 4**). Two factors can account for this virtual stability in the unemployment rate: the small increase in employment on average over the quarter (+23,000), and the continuing behaviour of withdrawing labour as a result of the crisis and the restrictive health measures imposed. During the first two lockdowns, some of those without work stopped searching actively for a job (perhaps because their specific sector of activity had stopped work), and therefore withdrew from the labour market; as a result, they were no longer considered as unemployed according to the ILO definition.

By the end of 2021, the lifting of health restriction measures should mean that these people can return to the labour market, by resuming their active search for a job. The number in the active population is therefore expected to rebound sharply and return to its trend level: it is expected to increase by 377,000 over the year, mainly in H2 (+274,000).

At the same time, employment should increase by the end of 2021 and is expected to return to its pre-crisis level (+267,000 over the last three quarters of the year). These two phenomena, the upswing in employment and the return of those who had been excluded from the labour market, are expected to cancel each other out to a large extent. As a result, the unemployment rate is likely to remain virtually stable until the end of the year, reaching 8.2% at the end of 2021, 0.2 points above its level at the end of 2020, and only 0.1 above its pre-crisis level at the end of 2019. ●

► 3. Unemployment rate (ILO definition)

quarterly average as % of labour force, SA data



Scope: France (excluding Mayotte), household population, persons aged 15 or over.
Source: INSEE, Labour Force Survey

► 4. Change in employment, unemployment and the active population

variation in quarterly average in thousands, SA data

	2020				Q1	2021			Cumulative change since end 2019
	Q1	Q2	Q3	Q4		Q2	Q3	Q4	
Employment (1)	-34	-737	357	167	23	52	165	50	44
<i>reminder: employment at the end of the period</i>	-481	-195	425	-15	76	91	60	54	15
Unemployment (2)	-101	-274	665	-347	18	10	-3	61	29
Active population = (1) + (2)	-135	-1011	1022	-180	41	62	162	112	73
<i>trend labour force</i>	15	15	15	15	10	10	10	10	99
Variation in unemployment rate	-0,3	-0,7	2,0	-1,1	0,1	0,0	-0,1	0,2	0,1
Unemployment rate	7,8	7,1	9,1	8,0	8,1	8,1	8,0	8,2	

How to read it: between Q4 2020 and Q1 2021, employment increased by 23,000 on average, unemployment by 18,000 and the active population by 41,000.

The unemployment rate increased by 0.1 points, reaching 8.1%.

Note: unemployment corresponds here to total employment (payroll + self-employment).

Scope: France (excluding Mayotte), persons aged 15 or over

Source: INSEE, Labour Force Survey, Quarterly employment estimates

Consumer prices

Inflation has been on an upward trend since the end of 2020, due mainly to the rebound in energy prices, which were much higher than their level a year earlier. In June, it settled at 1.5% year-on-year according to the provisional estimate, after 0.0% in December 2020. In H2 and assuming that the price of oil remains stable over this period, inflation should continue to rise, with recent increases in the price of agricultural and industrial commodities starting to pass through to consumer prices. It is expected to be more than 2% by the end of the summer and, if the prices of oil and other commodities stop rising, it could fall back to 1.8% by the end of the year.

Core inflation is expected to rise to +1.1% year-on-year in June 2021, after +0.9% in May. This increase is mainly due to the prices of manufactured products. Over the rest of the year, core inflation looks set to remain stable overall, at +1.1% year-on-year in December.

As an annual average, headline inflation is expected to rebound significantly, to +1.5% against +0.5% in 2020 and 1.1% in 2019. Core inflation is also expected to rise to +0.9%, after +0.6% in 2020 and 0.8% in 2019.

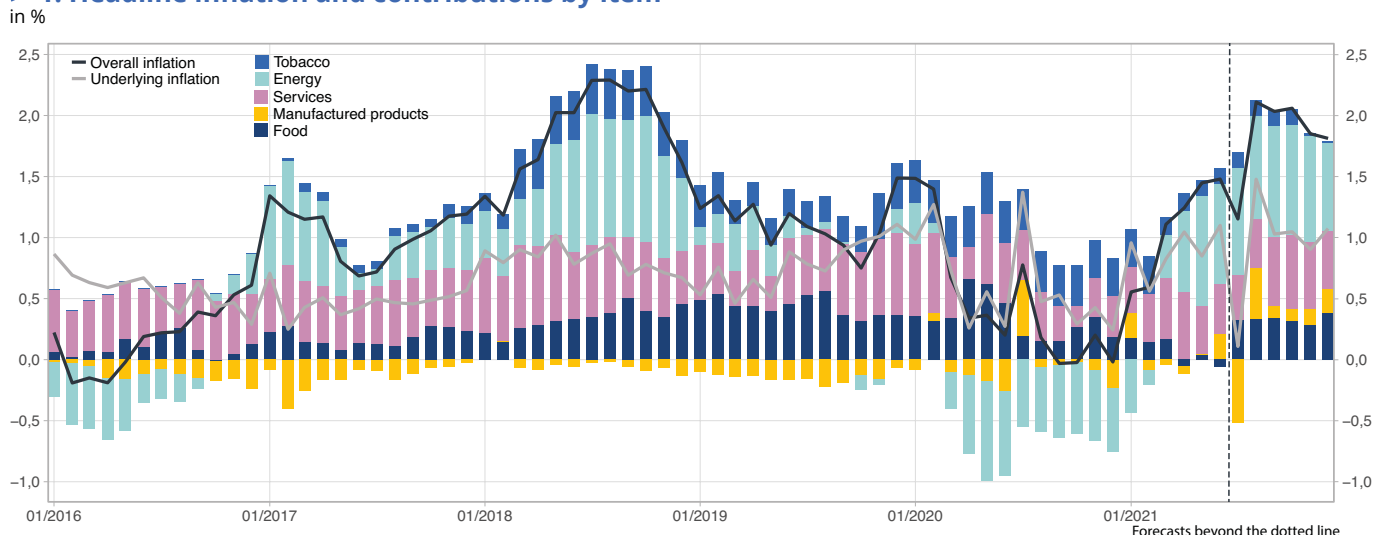
Headline inflation rose sharply between January and June 2021

In January 2021, headline inflation stood at +0.6% year-on-year. It rose to +1.5% in June 2021, driven by the prices of energy products: in the previous year, these had remained at very low levels, then increased throughout H1 2021, in the wake of the price of Brent (► **Figure 1**).

Concerning food products, year-on-year inflation declined in April and May, following the prices of fresh produce, which had indeed increased significantly during the first lockdown in 2020. In June, inflation in food products continued to decline, by 0.3% year-on-year.

After a first one-off increase in January linked with the postponing of the winter sales, prices of manufactured products returned to a higher level than the year before, rising by 0.9% year-on-year in June, after +0.8% in January. Prices of clothing-footwear rose 3.7% year-on-year in June due to the delay in the start of the summer sales (originally set for 23 June to 20 July 2021, they will now be held from 30 June to 27 July 2021).

► 1. Headline inflation and contributions by item



Source: INSEE

Prices of services rose considerably in April (+1.2% after +0.8% in January). However, this is a one-off increase, linked to the sharp drop in the prices of services in April 2020 during the first lockdown. Inflation in services then declined, reaching +0.9% year-on-year in June. Prices of transport services fell by 0.8% year-on-year in June, after +0.2% in January. Meanwhile, the prices of health services declined year-on-year, to -0.4%. However, the prices of communication services accelerated between January and June 2021, from +2.0% to +3.5%, because of a rise in the price of some contracts.

Finally, between January and June, tobacco prices had the effect of bringing inflation down, but only to a limited extent. As a result, after increases in March and November 2020, the price of a packet of cigarettes has not been raised further and tobacco prices should therefore slow from March 2021: inflation fell to +5.3% year-on-year in June 2021, after +12.7% in January.

In H2 2021, inflation is expected to continue to rise, but more moderately

By December 2021 and assuming that the price of a barrel of Brent is \$70, inflation is expected to rise to +1.8% year-on-year, after dropping to +1.2% in July and

a peak of around 2.0% year-on-year between August and October. Such an increase would be due to the high level of agricultural and industrial commodity prices and the buoyancy of the price of services, especially transport services. Core inflation is expected to hold steady, at +1.1% year-on-year, as in June.

The prices of food products look set to accelerate from July and their increase year-on-year should stand at +2.1% in December. Inflation in fresh produce is expected to increase, mainly due to the effect of exiting from the year-on-year figures because of the particular momentum observed one year earlier. In addition, the frost damage suffered by some crops in the spring could affect fresh fruit and vegetable prices through to the end of the summer. This effect is expected to be marginal, however, compared to that referred to previously. Inflation in produce other than fresh is also likely to rise, as the increase in prices of agricultural commodities in H1 starts to be passed through to consumer prices ¹ (► Focus).

Inflation in services is expected to be +1.0% year-on-year in December 2021, after +0.9% in June. This is likely to be driven in particular by inflation in transport services (+3.6% year-on-year in December after -0.8% in June), largely due to particularly low prices a year earlier,

¹ The forecast is made under the usual assumption of stability in the prices of agricultural commodities over the forecasting period, the same principle as adopted for the price of oil.

► 2. Consumer prices

change in %

Regroupements IPC* (pondérations 2021)	January 2021		April 2021		May 2021		June 2021		December 2021		Annual averages		
	yoy	cyoy	yoy	cyoy	yoy	cyoy	yoy	cyoy	yoy	cyoy	2019	2020	2021
Food (17.9%)	1.0	0.2	-0.3	-0.1	-0.3	0.0	-0.3	0.1	2.1	0.4	2.5	1.9	1.1
including: fresh food (2.6%)	5.1	0.1	-3.6	-0.1	-2.7	-0.1	-3.4	-0.1	4.5	0.1	4.3	7.3	2.5
excluding: fresh food (15.2%)	0.3	0.0	0.3	0.1	0.2	0.0	0.3	0.1	1.7	0.3	2.1	1.0	0.8
Tabacco (2.4%)	12.7	0.3	5.8	0.1	5.3	0.1	5.3	0.1	0.4	0.0	10.6	13.7	5.7
Manufactured products (25.0%)	0.8	0.2	-0.2	-0.1	-0.1	0.0	0.9	0.2	0.8	0.2	-0.6	-0.2	0.3
including: clothing and footwear (3.5%)	3.7	0.1	-2.3	-0.1	-0.2	0.0	3.7	0.1	2.0	0.1	-0.3	-0.5	0.8
medical products (4.4%)	-1.4	-0.1	-1.0	0.0	-1.0	0.0	-0.7	0.0	-1.4	-0.1	-2.8	-2.0	-1.0
other manufactured products (17.1%)	0.7	0.1	0.4	0.1	0.2	0.0	0.7	0.1	1.1	0.2	-0.1	0.3	0.4
Energy (7.5%)	-5.8	-0.4	8.8	0.7	11.7	0.9	11.8	0.9	9.7	0.7	1.9	-6.1	8.0
including: oil products (3.4%)	-11.7	-0.4	13.9	0.5	19.4	0.7	16.3	0.6	12.2	0.4	0.6	-11.8	9.9
Services (47.3%)	0.8	0.4	1.2	0.6	1.1	0.5	0.9	0.4	1.0	0.5	1.0	0.9	1.0
including: rent-water (8.5%)	0.3	0.0	0.9	0.1	1.0	0.1	1.1	0.1	0.8	0.1	0.4	0.3	0.9
health services (6.5%)	0.1	0.0	-0.9	-0.1	-0.4	0.0	-0.4	0.0	-0.4	0.0	-0.1	0.4	-0.3
transport (1.7%)	0.2	0.0	1.7	0.0	4.6	0.1	-0.8	0.0	3.6	0.1	0.7	-1.7	2.9
communications (2.4%)	2.0	0.0	4.2	0.1	3.5	0.1	3.5	0.1	2.9	0.1	-1.1	1.0	2.7
other services (28.1%)	0.9	0.2	1.3	0.4	0.9	0.2	1.1	0.3	1.1	0.3	1.6	1.4	1.0
All (100%)	0.6	0.6	1.2	1.2	1.4	1.4	1.5	1.5	1.8	1.8	1.1	0.5	1.5
All excluding energy (92.5%)	1.2	1.1	0.7	0.6	0.6	0.6	0.8	0.7	1.2	1.1	1.1	1.1	1.0
All excluding tabacco (97.6%)	0.3	0.3	1.1	1.1	1.3	1.3	1.4	1.4	1.8	1.8	0.9	0.2	1.4
Core inflation (60.1%)**	1.0	0.6	1.0	0.6	0.9	0.5	1.1	0.7	1.1	0.7	0.8	0.6	0.9

■ Provisional

■ Forecast

yoy: year-on-year

cyoy: contribution to the year-on-year value of the overall index

* Consumer price index (CPI)

** Index excluding public tariffs and products with volatile prices. corrected for tax measures

Source: INSEE

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especially for air transport. In addition, the prices of rents and communication services look set to slow, whereas prices in other services are expected to increase at the same pace as in June. Lastly, the prices of health services are expected to fall, as in June, to -0.4% year-on-year in December.

Assuming that the price of a barrel of Brent is \$70, energy prices should remain well above their level from a year before. Their inflation is likely to develop at around +11% year-on-year between July and November, then decrease slightly, to +9.7% in December, with the end of 2020 marking the start of their upturn.

Prices of manufactured products are expected to slow down slightly in December to +0.8% year-on-year, after +0.9% in June. In July 2021, they look set for a one-off decline of 1.8% year-on-year, because of the week's delay in the 2021 summer sales, combined with the after-

effects of postponing the summer sales in 2020: prices of clothing-footwear saw a strong increase because there were fewer days of sales in July than usual. The fall in the price of this item would largely explain the drop in headline and core inflation in July 2021. They should then rebound strongly in August. For the same reasons, the prices of other manufactured products are expected to drop by 1.3% in July, as the prices of some products such as personal items and household appliances are also affected by the sales. They should then rebound to +1.1% in December, after +0.7% in June, driven by the recent increases in the prices of industrial commodities (these prices being assumed to be stable over the forecasting period).

With no general increase in the price of a packet of cigarettes, tobacco prices should continue to slow until December. Thus they are unlikely to increase by more than +0.4% year-on-year in December, after +5.3% in June. ●

The rise in commodity prices, a determining factor in inflation in 2021

In a context marked by the global economic rebound, inflation should pick up sharply in 2021, averaging +1.5% across the year compared with +0.5% in 2020 and 1.1% in 2019. This clear uptick should be driven in particular by the increase in energy prices: prices fell sharply in 2020 as the global economy slowed, whereas in 2021 the prices of energy products, particularly Brent crude oil, have almost returned to their pre-crisis levels. In Q1 2021, oil prices and the prices of food (corn, soy and wheat) and industrial commodities increased sharply, with demand buoyed by the global economic recovery. The increase in these prices should contribute to the overall acceleration of consumer prices over the course of the year, with rises of 0.4 points for energy products, 0.3 points for industrial commodities and 0.1 points for food. Furthermore, the business tendency surveys do not yet indicate the presence of knock-on effects for wages, although wage increases are possible in some sub-sectors of industry.

In 2021, the rise in inflation should partly represent a reaction to the unusual price movements of 2020

In 2021, estimated and forecast monthly inflation displays an upward trend which can be partly attributed to the atypical fluctuation of prices in 2020. Indeed, monthly inflation is usually expressed in year-on-year terms, i.e. as the difference between prices in a given month and those prices in the same month of the previous year. In order to better understand the variations in inflation in 2021, we can simulate the rate of inflation which would have been observed (or forecast) if prices in 2021 had varied in a manner consistent with their average trajectory (we call this “counterfactual inflation,” reflecting both the long-term trend for price variations and the reaction to the atypical fluctuations of 2020). The difference between the inflation forecast/observed in 2021 and this counterfactual inflation thus represents the price fluctuations specific to 2021 (“effects specific to 2021,” see ► [box](#)).

In 2021, counterfactual inflation accounts for a significant proportion of headline inflation (0.9 points, with headline inflation forecast to average 1.5% over 2021). It increases mechanically over the first months of 2021, rising from 0.1% year-on-year in January to 1.2% in May, then remaining by and large superior to 1.0% until December (► [figure 1](#)).

The increase of inflation in early 2021 is driven largely by energy prices, an after-effect of the slump in oil prices in the spring of 2020: the base effect linked to energy prices thus has a positive effect on inflation from April 2021 onwards, intensifying in May and remaining observable until December. All in all, it should contribute 0.2 points to inflation in 2021.

Prices of services constitute the other major determining factor in counterfactual inflation, contributing 0.5 points to headline inflation over the year as a whole: as a result of the public health crisis and subsequent restrictive measures, the prices of certain services – particularly transport services – experienced unusual monthly fluctuations, which were less pronounced than usual.

Methodology

A counterfactual index was created in order to highlight the different components of inflation in 2021, and identify price variations specific to 2021.

To begin with, a counterfactual value is constructed for inflation by calculating the variation in consumer prices in 2021 using the average monthly variations recorded in recent years (2014-2019). In this scenario, prices in 2021 reflect their average seasonal variation and trend: the year-on-year figures thus represent what inflation would have looked like if the year 2021 had witnessed “normal” price variations. As well as reflecting the trend variation in prices, this counterfactual inflation also incorporates the consequences of atypical price variation in 2020 (“base effects”) as well as other effects including changes to the CPI weighting system and the return of more familiar seasonal variation in prices.

The difference between this “counterfactual” inflation and the actual variation seen in the consumer price index (available in provisional form for the months up to June, then forecast from July onwards) is then defined as “inflation specific to 2021,” reflecting price variations whose causes are specific to 2021. ●

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The prices of food products also have a positive impact on counterfactual inflation, albeit a more modest one (contributing +0.1 points to inflation over the year). They also have a negative impact in April and May: in these months in 2020, the prices of food products rose as a result of supply chain difficulties caused by the first lockdown and robust household demand. Finally, tobacco prices have a positive effect on counterfactual inflation (+0.2 points on average over the course of the year), but this contribution tapers away as the year progresses, as a result of the end of the twice-yearly increases in the price of cigarettes, formerly scheduled for March and November.

Meanwhile, manufactured goods have a negative impact on counterfactual inflation: this is particularly due to the delaying of the summer sales, meaning that prices of these goods fell less sharply than usual in July 2020, leading to a decrease in counterfactual inflation for July 2021.

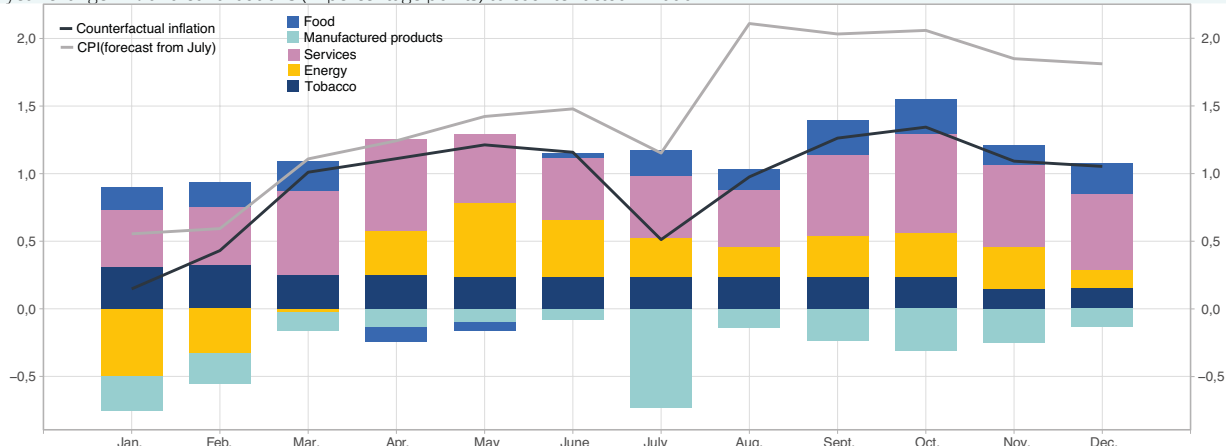
The specific circumstances of the year 2021 are expected to contribute 0.6 points to headline inflation

As an annual average, counterfactual inflation should be 0.6 points below the consumer price index (as observed, and then forecast from June 2021 onwards). This difference corresponds to the inflationary effects specific to 2021, and their impact on the consumer price index, particularly in our forecasts (► **figure 2**). The proportion of inflation which can be attributed to developments specific to 2021 should be considerably smaller than that linked to counterfactual inflation. Nonetheless, after a one-off increase in January (linked to the postponement of the January sales), it should continue its broadly upwards trend until August, before dropping off slightly thereafter.

The main determining factor in the effects specific to 2021 should be energy prices, as a result of the constant

► 1. Headline inflation forecast for 2021, "counterfactual" inflation and contributions to the latter

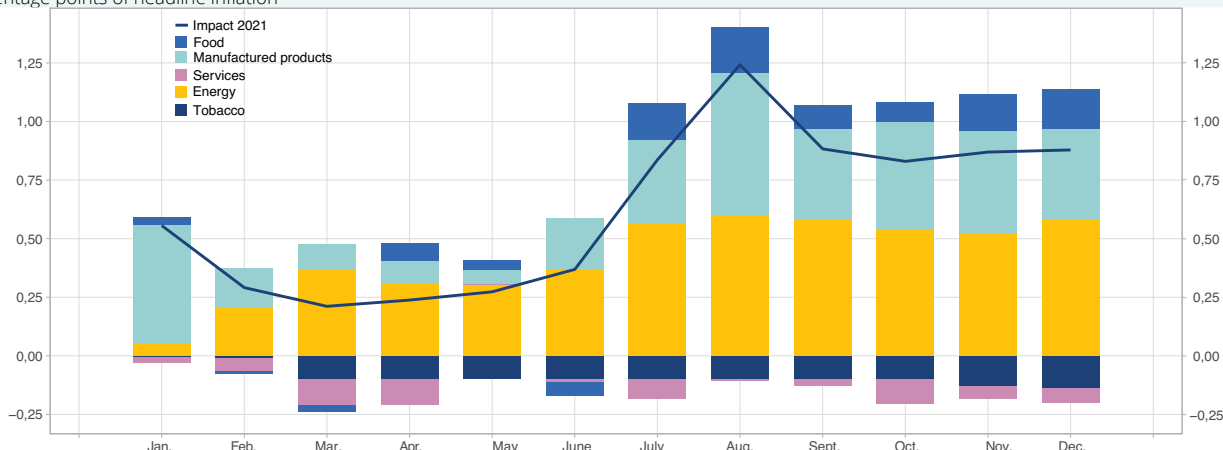
year-on-year change in% and contributions (in percentage points) to counterfactual inflation



How to read it: in April 2021, headline inflation stood at 1.2% year on year in April 2021. Counterfactual inflation, that is, inflation as it would have been in 2021 if prices had moved similarly to past years (2014-2019), stood at 1.1%. Energy prices contribute 0.3 percentage point to this counterfactual inflation. Source: INSEE

► 2. Effects specific to 2021 and their contributions

in percentage points of headline inflation



How to read it: in April 2021, the effects specific to 2021 contribute 0.2 percentage point of headline inflation. Energy prices contributed 0.3 point and the price of tobacco for -0.1 point. Source: INSEE

rise of oil prices since the start of the year. Energy prices should thus contribute 0.4 points on average to the effects specific to 2021 (► [figure 3](#)), working on the hypothesis that oil and commodity prices will stabilise in H2.

The prices of manufactured goods should bolster inflation by an average of 0.3 points over the course of 2021. The other determining factor should be food prices, which are expected to make a positive contribution to inflation throughout 2021, equivalent to 0.1 points on average, primarily as a result of the increase in food commodity prices. Finally, the prices of services and tobacco should have negative specific effects in 2021, each down -0.1 points on average.

Commodity price increases should contribute 0.7 points to inflation in 2021

One of the factors contributing to the inflation specific to 2021 is the recent upward trend in commodity prices, affecting energy, food and industrial products. In the short term, the impact of these price increases on consumer prices may be transmitted via multiple channels: direct transmission, when price increases affect a product consumed directly by households; or indirect, when price increases affect a production input used by businesses, leading to an increase in

production costs with potential repercussions for retail prices. While these channels may operate concurrently, their lag times are not the same: direct transmission is felt more rapidly than indirect transmission, which depends on companies' capacity to tighten their margins, for example.

The price of Brent crude increased by 46% between January and June 2021, and the knock-on effects for consumer prices of energy products should be virtually immediate, making their full impact felt in H1 2021. The effects should spread more slowly to other sectors (food, industry) via increases in the cost of production, subsequently passed on to consumer prices throughout the year 2021. As such, the increase in oil prices witnessed since late 2020 should impact headline inflation by 0.4 percentage points in 2021: the inflation resulting from variations in energy prices specific to 2021, as seen above, can thus be virtually exclusively attributed to the rising price of Brent crude.

Staple food prices (soy, corn, wheat), and the prices of food commodities in general, also rose in Q1 (► [figure 4](#)) and should remain at a high level in the second quarter. Econometric modelling (error correction model) for the determination of food product prices all along the chain of production (agricultural production, food industry production, consumer prices) suggests a

► 3. Breakdown of inflation in 2021

overall inflation in %, contributions in points

	planned	base effect	effet 2021
Overall inflation in 2021	1.5	0.9	0.6
Food	0.2	0.1	0.1
Tobacco	0.1	0.2	-0.1
Manufactured products	0.1	-0.2	0.3
Energy	0.6	0.2	0.4
Services	0.5	0.5	-0.1

NB: due to rounding-up, the sum of these contributions may differ slightly from the true total.

Source: INSEE

► 4. Variation in the prices of major commodities between Q4 2020 and Q2 2021

Matières premières	Hausse par rapport au T4 2020	Causes
Oil	46%	Higher demand in connection with the economic recovery
Food raw materials	21%	
Wheat	28%	Offer weakened by weather conditions
Soy	22%	Speculation on grain prices and sustained demand
Maize	9%	Delay in sowing in Brazil and concerns about harvests
Industrial raw materials	18%	
Iron	24%	Unfavorable climate in producing countries and anticipation of future demand
Copper	17%	Chinese demand, dollar weakness and anticipation of future demand
Palladium	8%	Rebound in vehicle sales

Source: INSEE

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transmission period of between two and three quarters for the effects to be passed on from commodity prices to consumer prices (► [figure 5](#)). The increase in commodity prices should be passed on to agricultural production costs after one quarter, then passed on to food industry production costs after another quarter or so. Finally, a third quarter is needed for this increase to finally be passed on to consumer prices. As such, the increase in food commodity prices in H1 2021 should primarily affect consumption prices in H2: it is expected to contribute 0.1 points to headline inflation over the year. Here again, the inflation attributable to variations in food prices specific to 2021 will essentially be driven by the increase in food commodity prices.

Finally, prices of industrial commodities also increase in Q1, up 8.3% on Q4 2020, and should bolster headline inflation by 0.2 points in 2021. Increases in commodity prices are passed down the production chain gradually, with transmission lag times of between 2 and 3 quarters. The effect of recent price increases on the consumer price index could thus be observable in H2.

At present, there is no tangible indicator for potential “knock-on effects” at the macro-economic level

Above and beyond the short-term effects discussed above, broader ramifications (known as “knock-on effects”) may be felt in the long term. Increases in consumer prices may lead to pay rises, leading to an increase in production costs and thus to further increases in consumer prices for all products (the “price/wage spiral”).

However, this price/wage spiral does not seem to be having an effect for the moment, at the general level. Business tendency surveys for the manufacturing industry have shown, since the start of the year, a noticeable increase in the balance of opinion regarding the general price outlook, in keeping with the expected increase in the consumer price index (► [figure 6](#)). Nevertheless, in the quarterly survey of businesses in the manufacturing industry, the balance of opinion regarding the general outlook for wages – which in 2019 appeared to be relatively strongly correlated with the labour cost index (wages only)¹ – showed only a tentative increase April 2021, remaining well below pre-crisis levels (► [figure 7](#)). The downturn in activity in

¹ The labour cost index – wages only (ICT – salaires seuls) is conceptually similar to the measurement of average wage per capita (SMPT) in the market sector used in the Quarterly Accounts. These two indicators cover the whole of payroll employment, but the labour cost index measures total payroll in relation to the hourly volume of work, whereas SMPT measures it in relation to the number of people in employment.

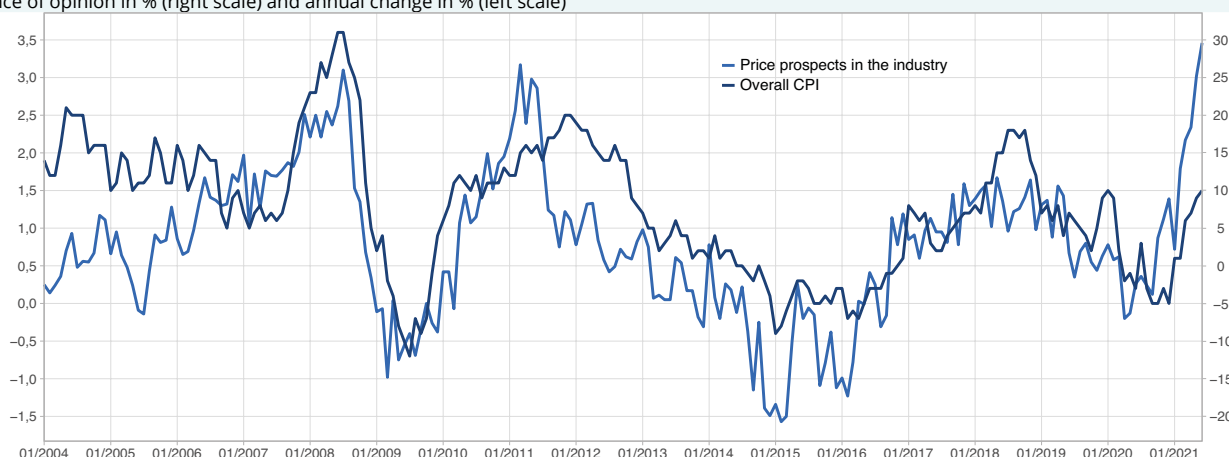
► 5. Estimated lag times and effects of commodity price increases on consumer prices

	Lag time for transmission to consumer prices	Impact on headline inflation
Oil (Brent)	Almost immediate	0.4 points
Food raw materials	2 to 3 quarters	0.1 points
Industrial raw materials	2 to 3 quarters	0.2 points

Source: INSEE

► 6. Overall consumer price index and balance of opinion on the general outlook for industrial prices

balance of opinion in % (right scale) and annual change in % (left scale)



Source: INSEE, monthly business survey in industry

relation to the pre-crisis trends, and the relatively high rate of unemployment, may well explain why upwards pressure on production and consumer prices is not being reflected, at least in the short term, in rising wages.

At this stage the variation between sub-sectors is relatively small (► **figure 8**). The balances of opinion regarding the general outlook for wages remain below their 2010-2019 average levels across all sub-sectors, in spite of the recovery from the low

point witnessed in Q2 2020. Some sub-sectors are dealing with a combination of strong demand and supply chain difficulties, but there has also been a resurgence, albeit a moderate one at this stage, of recruitment difficulties, which are nonetheless less prevalent than they were before the pandemic (► **figure 9**). The variation in these indicators will be monitored attentively in the business tendency surveys over the coming quarters. ●

Guillaume Arion

► 7. Labour cost index (LCI) - wages only - manufacturing industry and balance of opinion on the general outlook for wages in the manufacturing industry

balance of opinion in % (right scale) and annual change in % (left scale)

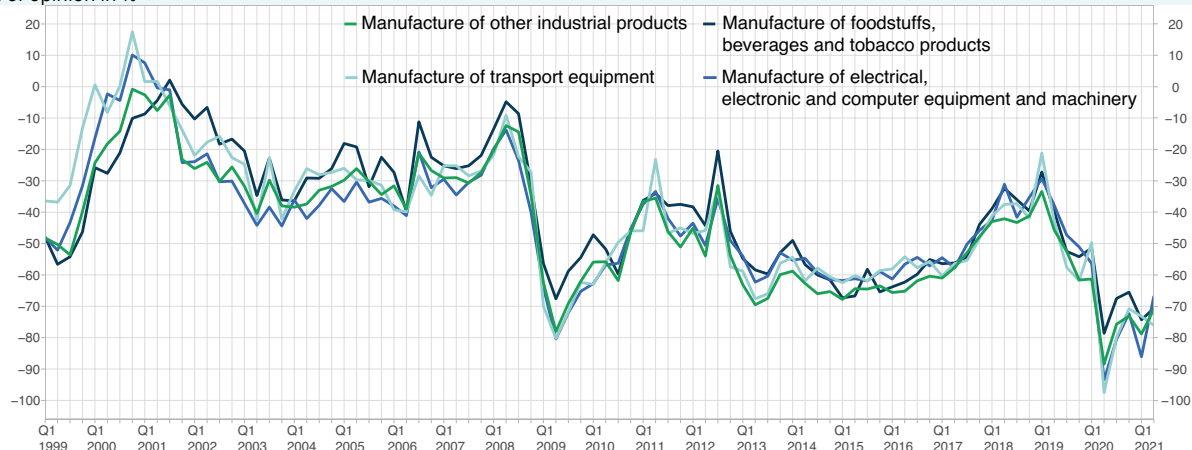


How to read it: the question relating to wages is only included in the business tendency survey for industry.

Source: INSEE, monthly business survey in industry

► 8. Balance of opinion on the general outlook for wages in different sub-sectors of industry

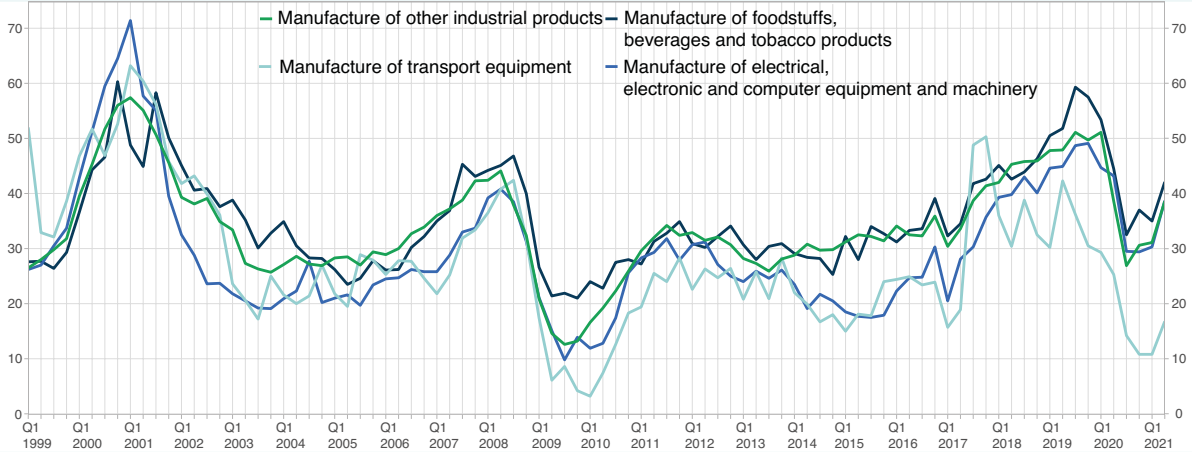
balance of opinion in %



Source: INSEE, quarterly business survey in industry

► 9. Companies affected by recruitment difficulties in different sub-sectors of industry

in %



Source: INSEE, quarterly business survey in industry

Household income

Households' gross disposable income (GDI) was particularly dynamic towards the end of 2020, in Q3 with a strong rebound in activity, then in Q4 with many budget support measures in place. After slipping back slightly in Q1 2021, households' GDI would seem to have picked up in Q2, boosted by the resumption of activity. Then, in H2 it is expected to slow as support measures are gradually withdrawn.

On average over 2021, household GDI is expected to accelerate sharply (+3.2% after +1.0% in 2020) as a result of the rebound in earned income, which had fallen back last year. Given the acceleration in household consumer prices, the purchasing power of GDI should rise by +1.8% in 2021, after +0.4%. Per consumption unit, it is expected to increase.

Earned income looks set to bounce back strongly in 2021

In 2021, earned income should increase by 6.1% after falling back sharply in 2020 (-3.7%, ► [Figure 1](#)). In fact, gross payroll is expected to rebound under the effect of the upswing in employment and the increase in working

time (decline in the use of short-time working schemes and absences for sick leave and child care), but also due to the buoyancy of the average wage per capita (► [Box](#)).

In addition, the gross operating surplus (GOS) of sole proprietors should increase markedly over the year (+8.3% after -0.6% in 2020). This rebound would mainly reflect the growth overhang recorded at the end of 2020: after falling dramatically in H1 2020, the GOS of sole proprietors was very dynamic in H2, taking advantage of the rebound in activity in Q3 and more generally of support mechanisms put in place, including the Solidarity Fund which was ramped up in Q4. By the end of 2021, the upturn in economic activity is expected to support the value added of sole proprietors, while the amounts allocated under the Solidarity Fund gradually decline.

Property income, meanwhile, should pick up by +2.5% in 2021 after a substantial decline in 2020 (-12.6%): income distributed by companies in particular is expected to increase by 12.2% due to the rebound in dividends paid. In addition, the financial savings accumulated in the course of 2020 should produce interest, although this will be reduced as a result of slightly lower rates.

► 1. Household gross disposable income

variations in %

	Quarterly changes									Annual changes		
	2020				2021					2019	2020	2021
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Gross disposable income (100%)	-0.8	-1.7	3.2	1.9	-0.2	0.7	-0.3	-0.2	3.4	1.0	2.6	
including:												
Earned income (72%)	-2.5	-10.1	12.7	0.6	0.0	0.6	1.6	0.2	3.1	-3.7	5.0	
Gross wages and salaries (64%)	-2.4	-10.9	13.3	-0.7	0.5	0.3	1.6	0.7	3.2	-4.1	4.5	
GOS of sole proprietors* (8%)	-3.2	-4.0	8.0	10.5	-3.4	2.1	1.4	-3.0	2.3	-0.6	8.5	
Social benefits in cash (35%)	3.4	10.4	-6.9	2.6	-0.5	0.0	-3.1	-1.8	2.9	9.5	-1.8	
GOS of "pure" households (14%)	-0.3	-1.7	3.1	0.6	0.6	1.0	1.1	0.7	3.2	1.1	3.7	
Property income (6%)	-4.5	-3.8	-2.4	-1.5	0.0	5.8	2.5	2.8	-2.3	-12.6	2.5	
Social contributions and taxes (-27%)	-0.3	-7.8	10.1	-1.9	0.6	0.3	1.9	-0.3	0.5	-3.2	2.9	
Household consumer prices	0.2	-0.1	0.2	0.0	0.8	0.4	0.2	0.2	0.8	0.6	1.3	
Purchasing power of gross disposable income	-1.0	-1.6	3.0	1.9	-1.0	0.3	-0.5	-0.4	2.6	0.4	1.3	
Household purchasing power by consumption	-1.1	-1.7	2.9	1.8	-1.1	0.0	-0.6	-0.5	2.0	0.0	0.7	

■ Forecast

How to read it: after a decline of 0.2% in Q1 2021, household gross disposable income would appear to have increased in Q2, with +1.0%. Annual change is expected to be +3.2% in 2021.

Note: figures in brackets give the structure for 2019.

* The gross operating surplus of «pure households» corresponds to the output of housing services, less the intermediate consumption required to generate this output (particularly financial services related to loans) and taxes (land tax). This output corresponds to the rents which property owners receive from their tenants, or could receive if their property was rented («imputed rents»).

Source: INSEE

French economic outlook

Social benefits are likely to slip back in 2021

Social benefits should fall back in 2021 (-1.6% after +9.5% in 2020) due to the gradual reduction in several support mechanisms for households, assuming that health restrictions are eased. In fact, payments via the short-time working scheme, which were still very high in Q1 (although slightly down compared to the end of 2020), should remain at more or less the same level in Q2 then decrease sharply by the end of the year as earned income picks up (► **Figure 2**). In addition, automatic stabilisers (unemployment benefits, housing benefits, earned income supplement (RSA), etc.) should play a declining role, as employment and the economic situation improve. Also, the various forms of exceptional aid paid out since Q3 2020 (increase in adult disabled allowance (AAH), exceptional aid targeting the most vulnerable populations) are expected to decline or even stop from Q3 onwards. Provided there is no new wave of the epidemic before the end of the year, health expenditure reimbursements are expected to decline (decrease in the number of tests, then of vaccines administered, etc.) as well as the daily allowances paid.

All in all, social benefits would appear to have remained relatively stable in Q2 2021 (-0.2%) after the slight drop at the beginning of the year (-0.5%), and they are then expected to fall back by another 2.8% and 1.4% in Q3 and Q4 respectively.

Social and tax contributions are expected to be up in 2021, with the recovery in economic activity

Social and tax contributions are expected to increase by 3.7% over the year in 2021. In 2020, contributions payable by households and taxes fell back by 2.5% and 3.6% respectively due to the decline in economic activity, the reform of the income tax scale and the last housing tax relief for the first 8 deciles.

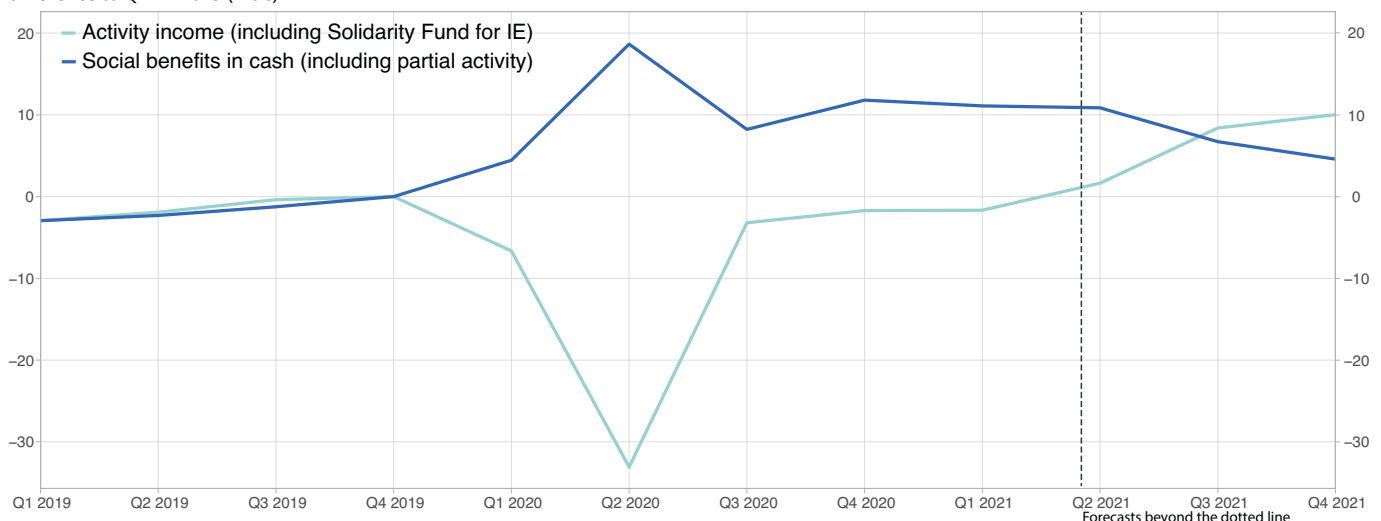
In 2021, these contributions are likely to grow, with the resumption of economic activity (social contributions and the Generalised Social Contribution (CSG)), with net income tax a little higher than in 2020, but also because contributions on wealth (CSG capital and flat tax on capital income (PFU)) are more dynamic than in 2020 because of the increase forecast in property income. Thus social and tax contributions are expected to rise during 2021, except in Q4 because of the first housing tax relief for the 20% most well-off households.

Purchasing power per consumption unit is likely to rise in 2021

Across 2021, household GDI is expected to rise substantially: +3.2% after +1.0% in 2020. In infra-annual terms, GDI would appear to have been on the rise in Q2, and is then likely to slow at the end of the year. However,

► 2. After a year of support, social benefits look set to decrease as earned income picks up

difference to Q4 T4 2019 (Md€)



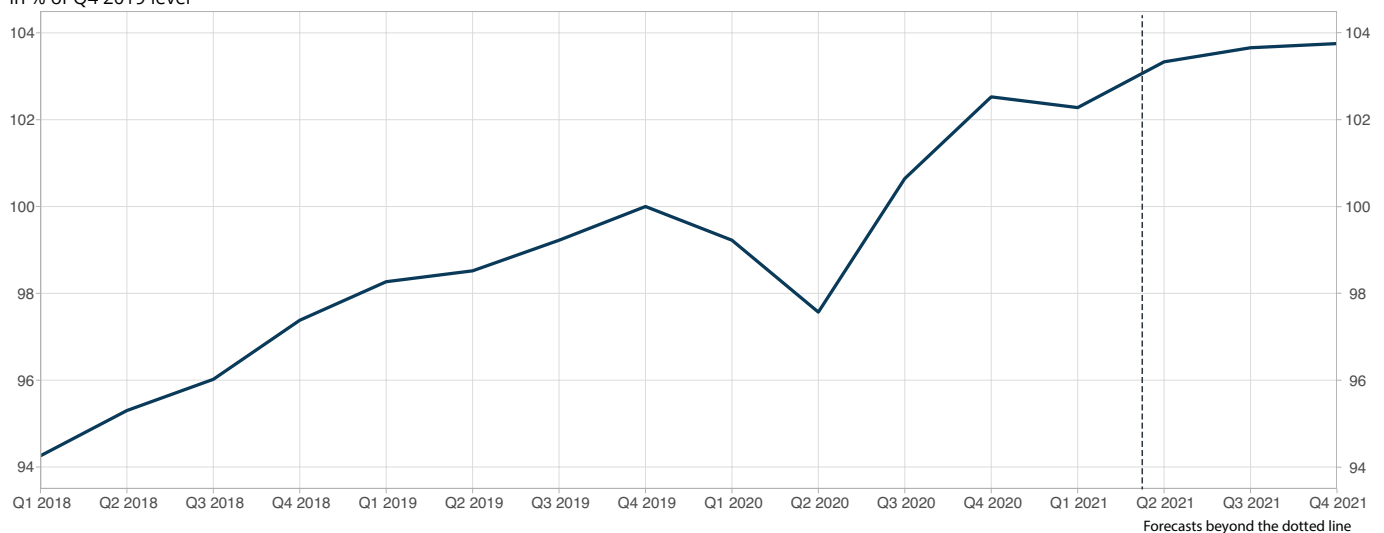
Source: INSEE

it should be noted that it was particularly dynamic at the end of 2020, so started 2021 at a relatively high level, as a result of the various forms of aid (► **Figure 3**). Despite the decline forecast in many measures that benefit households, with a more favourable health context, the improvement in economic activity and the effect of gains at the end of 2020 mean that overall, as an annual average, GDI will accelerate in 2021 compared to 2020.

Due to the acceleration in household consumer prices, purchasing power is likely to be less vigorous than GDI and is expected to increase by 1.8% in 2021, after +0.4% (► **Figure 4**). When compared to a consumption unit to take demographic changes into account, it looks set to increase by +1.4% after being stable in 2020. ●

► 3. Households' gross disposable income is expected to benefit notably from an "acquired effect" in 2021, after strong growth in late 2020

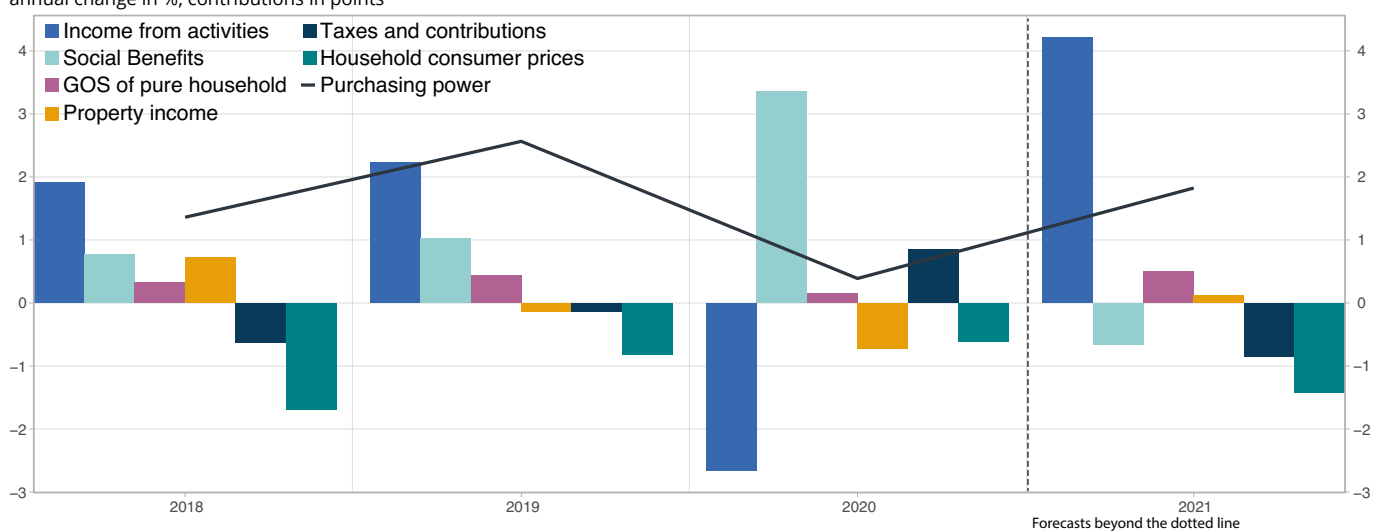
in % of Q4 2019 level



Source: INSEE

► 4. Purchasing power is likely to accelerate in 2021, despite the rise in inflation

annual change in %, contributions in points



Source: INSEE

At the end of 2021, the average wage per capita is expected to return almost to its trend level

In Q1 2021, the average wage per capita (SMPT) in the non-agricultural market branches increased by 0.7% compared to Q4 2020, in a context where restrictions on activity were still maintained in certain sectors. This rise followed on from 2020, a year that was notable for some unprecedented variations of scale: -3.1% as a quarterly variation in Q1 2020, -11.9% in Q2, +17.0% in Q3 then -2.3% in Q4 (► [Table](#)). These fluctuations were mainly due to the uptake of the short-time working scheme, which was adopted on a very large scale during the spring lockdown. The scheme involved substituting compensations, which were not considered as wages, for part of the wage. Its impact brought down the level of the SMPT but this was mitigated by a composition effect: workers and employees were more often on short-time working, whereas managers, who are better paid, tended to be more often teleworking, and the sectors worst affected by the shrinking activity were often the least remunerative. In Q4 2020, the curfew and another lockdown resulted in people turning once again to short-time working, although to a much lesser extent than during the first lockdown. All in all, with many still resorting to short-time working in Q1 2021, the average wage per capita remained below its pre-crisis level (-1.7% compared to its level in Q4 2019).

For the rest of 2021, the SMPT should continue to pick up substantially: +1.4% forecast in Q2, then +2.6% in Q3 and +0.9% in Q4. These increases are likely to be part of the recovery of economic activity which would ensure that the take-up of short-time working could be gradually eased. With the lifting of most restrictions on activity in late spring 2021, the SMPT is likely to increase most markedly in Q3. This increase is also likely to be boosted by the renewal, decided in March 2021, of the extraordinary purchasing power bonus (PEPA). This scheme was put in place in Q1 2019, then renewed and extended once in 2020, because of the health crisis. Finally, in Q4 2021, the SMPT looks set to exceed its Q4 2019 level by 3.2%, almost back to the level it would have reached had it followed its long-term trend observed from the end of the 2000s (+1.8% per year on average between 2009 and 2019).

Changes in SMPT are made up of two components: the most short-term elements, affected first of all by the health crisis (response to the use of short-time working, overtime, bonuses), then the trend movements of wages. The basic monthly wage (SMB) reflects this trend or underlying component more, while the short-term component is much weaker. Fluctuations in SMB were therefore much more moderate in 2020: +0.8% per half-year. These changes are expected to continue at the same pace in 2021, in a context where there is a slight upturn in inflation, stabilisation of unemployment and an increase in the minimum wage on 1st January, which will be smaller than the increases of the last three years (+1.0%, given the low inflation in 2020). ●

► Change in average wage per capita (SMPT) and basic monthly wage (SMB)

nominal wages, evolution in %; CVS data

	Quarterly growth rates								Evolution since Q4 2019								Average annual evolution		
	2020				2021				2020				2021				2019	2020	2021
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
SMPT in the non-agricultural market sector	-3.1%	-11.9%	17.0%	-2.3%	0.7%	1.4%	2.6%	0.9%	-3.1%	-14.6%	0.0%	-2.4%	-1.7%	-0.3%	2.3%	3.2%	2.3%	-4.9%	6.2%
SMB	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.4%	0.5%	0.4%	0.7%	1.1%	1.5%	1.9%	2.3%	2.8%	3.3%	1.7%	1.5%	1.6%

■ Prévisions

Note: the ACEMO quarterly survey by DARES was suspended in Q2 2020 (data covering Q1 2020). The quarterly growth rates of SMB in Q1 and Q2 2020 presented here are the result of estimates, consistent with the half-yearly variation in SMB observed between Q4 2019 and Q2 2020.

Source: DARES, INSEE

Household consumption

Household consumption levelled off between January and March, remaining at 7% below its pre-crisis level of Q4 2019, and with no real growth compared to the previous quarter. In April, it would appear to have deteriorated significantly as a result of the effects of the third lockdown and the closure of “non-essential” businesses being extended across the entire country, standing at 12% below its pre-crisis level (against 15% for the November lockdown). In May, consumption would seem to have returned to a higher level than in March, i.e. -4% compared to pre-crisis. From the beginning of the month, it would seem to have been boosted by the resumption of travel, but especially from 19 May onwards by the reopening of “non-essential” businesses and restaurants. In June, the additional easing of restrictions would appear to have resulted in consumption returning virtually to its pre-crisis level (-1%). It is expected to reach this level during the summer, as was the case a year earlier, and should increase until the end of the year, in a context of bringing consumption and savings behaviour back to normal. All in all, as an annual average and after declining by 7.2% in 2020, household consumption is expected to rebound by 5.2% in 2021.

Since the Economic Outlook of 6 May 2021, the detailed results of the accounts for Q1 2021, published at the end of May, have confirmed the very slight rise in household

consumption that was already estimated at the end of April by the national accounts. Household consumption did indeed increase by 0.1% in Q1, and from January to March stood at 7% below its Q4 2019 pre-crisis level (► **Figure 1**). This “ceiling” is in sharp contrast to the strong performance of consumption in previous months (except November), and is the result of the health context in Q1, when there was a strengthening of restrictive measures (curfew, closure of large shopping centres, local lockdowns, etc.).

For April, household consumption of goods, published at the end of May, suggested a sharp decline, linked to the closure of “non-essential” businesses and a little stronger than forecast in the Economic Outlook of 6 May: spending on industrial goods was 10% below the pre-crisis level (against 9% forecast in the Economic Outlook of 6 May). Spending on “other industrial products” (clothing-footwear, household equipment, etc.) deteriorated more than expected, while spending on electrical and electronic equipment, although remaining above its pre-crisis level, was less vigorous. All in all, household consumption in April would appear to have been 12% below its pre-crisis level: this is a very low level compared to March, although it is still slightly higher than that reached last November during the second lockdown.

► 1. Estimated and forecast level

in difference to Q4, in %



How to read it: in June 2021, household consumption would appear to have been 1% below its pre-crisis level. From July 2021, projections are established on a quarterly basis instead of a monthly basis as previously.

Source: INSEE calculations from various sources

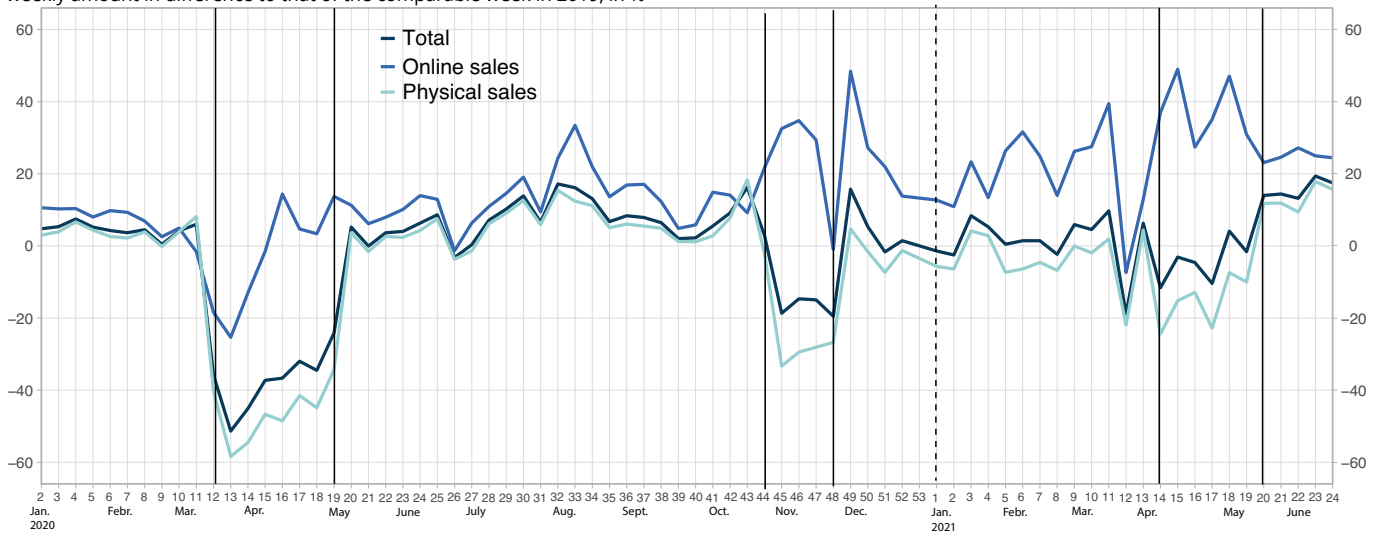
French economic outlook

CB bank card transaction amounts and scanner data from major retail outlets, available up to 20 June, can be used to estimate household consumption for May, characterised by the gradual easing of restrictions. CB transaction amounts, when considered on a year-on-year basis compared to 2019, reveal a rise in consumption from the start of May, then a sharp rebound after shops and restaurants reopened on 19 May (► **Figure 2**, week 20 of 2021). Unsurprisingly,

physical sales were behind this rebound, while online sales also maintained their high levels. More exactly, the rise in bank card transaction amounts in early May was mainly due to purchases of fuel – probably linked to the end of restrictions on movement on 3 May – but also to spending on accommodation, perhaps during the extended weekends in May, but also in anticipation of the summer holidays (► **Figure 3**). The reopening of “non-essential” businesses on 19 May prompted an immediate

► 2. Weekly CB bank card transactions amounts

weekly amount in difference to that of the comparable week in 2019, in %



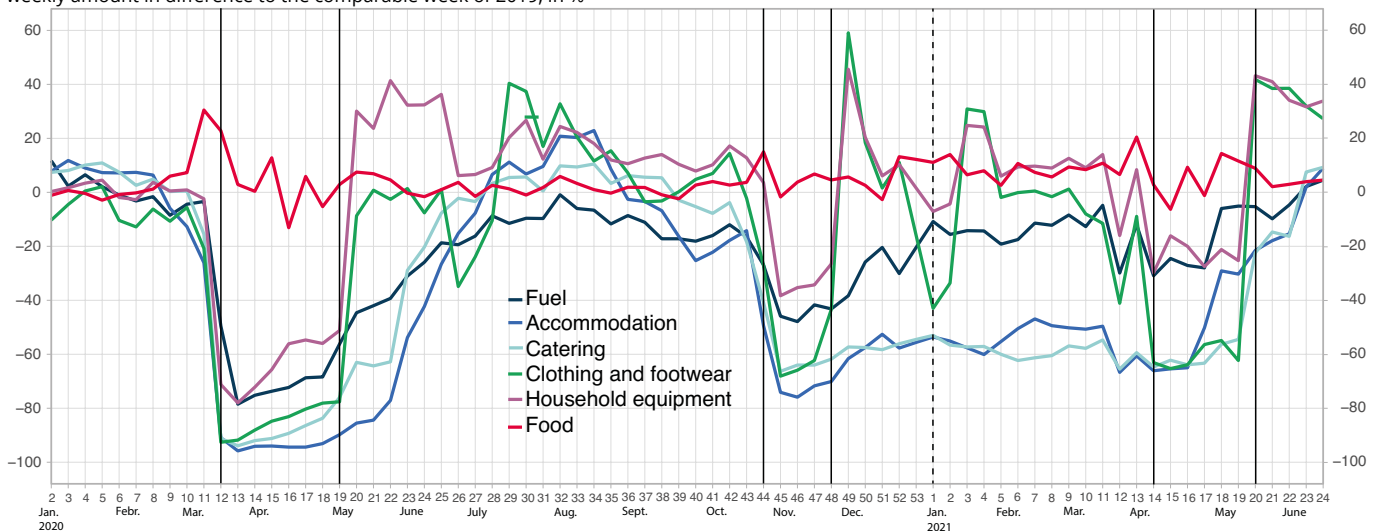
How to read it: in week 23 of 2021 (7–13 June), total CB bank card transaction amounts were 19% up on the amount in week 23 of 2019. The vertical lines show the dates that “non-essential” businesses closed and reopened during the 2020 lockdowns and the national lockdown in spring 2021. As each amount is compared to that of a comparable week in 2019, for the differences shown for the end of 2020 and the start of 2021 there is therefore a break in the reference week (end of 2019 then start of 2019). This break is indicated by the vertical dotted line at week 1 of 2021.

Note: the dynamism of these CB transaction amounts from March 2020 onwards may reflect a higher use of payment by CB bank card. This factor has been taken into account when forecasting losses or increases in consumption compared to the pre-crisis level.

Source: Cartes Bancaires CB, INSEE calculations

► 3. Weekly bank card transaction amounts and sales by major hyper and supermarkets, for various types of goods and services

weekly amount in difference to the comparable week of 2019, in %



How to read it: in week 23 of 2021 (7–13 June), CB bank card transaction amounts related to purchases of fuel were 2% higher than amounts in week 23 of 2019. The vertical lines show the dates that “non-essential” businesses closed and reopened during the 2020 lockdowns and the national lockdown in spring 2021. As each amount is compared to that of a comparable week in 2019, for the differences shown for the end of 2020 and the start of 2021 there is therefore a break in the reference week (end of 2019 then start of 2019). This break is indicated by the vertical dotted line at week 1 of 2021.

Note: the dynamism of these transaction amounts, from March 2020, may reflect a greater use of payments by bank card. This factor is taken into account when estimating losses or increases in consumption compared to the pre-crisis level.

Source: Cartes Bancaires CB, INSEE calculations

rebound in CB transaction amounts in clothing-footwear and household equipment, after very low levels in the previous weeks (► **Focus**). This recovery can also be seen in catering, although CB transaction amounts at the end of May were still lower than their 2019 level, a consequence of the residual measures affecting this sector (opening of terraces only and limits on customer numbers). However, the full opening up of restaurants on 9 June meant that CB transactions in catering could match, or even exceed, their 2019 amounts.

In this context, and given that the month of May was partly affected by the restrictive measures in place since April, consumption would appear to have been around 4% below its pre-crisis level, i.e. above its level for March. In June, however, with the lifting of most restrictions on activity, consumption would seem to have returned to a level close to the pre-crisis level (-1%).

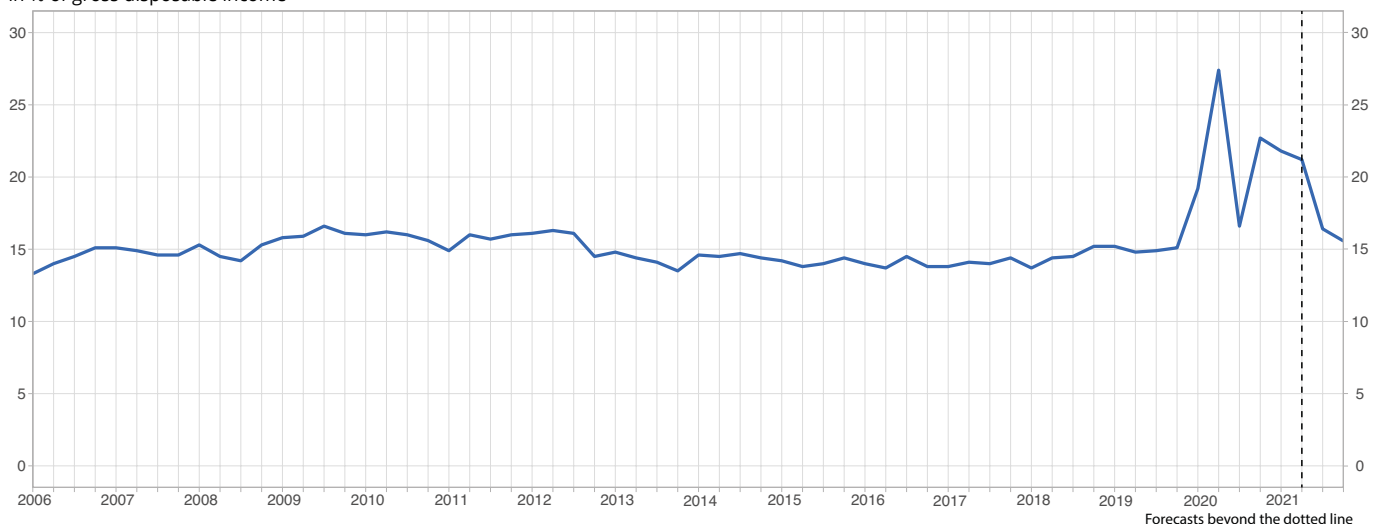
The rebound in consumption in May then in June would appear to have resulted from spending on both goods and services (► **Figure 5**). On the goods side, the reopening of shops from 19 May would appear to have caused consumption of “other industrial products” (mainly clothing-footwear and household equipment) to bounce back strongly and slightly exceed its pre-crisis level in June (+2%). Spending on electronic and computer equipment would appear to have returned to the high level reached before the April lockdown, which was significantly higher than the pre-crisis level. With travel once again possible – movement no longer limited to 10 km and gradual easing of the curfew – spending on fuel would appear to have increased markedly and was close to its pre-crisis level, although it did not return to this level completely due to teleworking, which was still used more than before the crisis.

On the market services side, there would also appear to have been a sharp rebound in consumption in May and June, although the June level still seems to be 6% below the pre-crisis level. This increase is probably due to the upswing in activities that had been subject to restrictions in the previous months: accommodation-catering, transport services and leisure activities. Due to the restrictions still in force in June –in the first days of the month first of all then, to a lesser extent, across the rest of the month– consumption in these sectors would appear to still be in decline, which would account for most of the residual loss of consumption in services for this month. In non-market services, consumption would appear to have returned to its pre-crisis level in June and this is also likely to be the case for building construction.

In Q3, household spending is expected to return to its pre-crisis level (► **Figure 6**). As in June, it is likely that consumption of goods will remain above the level of Q4 2019 (+2%), driven by spending on clothing-footwear and equipment, both household and electronic or computer. Consumption of services looks set to continue to move closer to the pre-crisis level (-3%). Spending on accommodation-catering is expected to increase markedly, reaching its highest level since the start of the health crisis, although still not getting back to its pre-crisis level: if tourist numbers were to be up on last year, then spending on accommodation-catering could exceed its summer 2020 level, but it would not return to its pre-crisis level. Spending on transport services is also expected to increase, although it is still in decline because of the slow recovery in air transport. Consumption of leisure services is also likely to be on the rise, even though residual health restrictions could keep it below its pre-crisis level.

► 4. Household savings ratio

in % of gross disposable income



How to read: in Q2 2021, the household savings ratio would appear to have been 21.2% of their gross disposable income.
Source: INSEE

French economic outlook

Assuming that there is no further tightening of measures to combat the spread of the epidemic, there is likely to be a return to normal of household consumption in Q4, which will probably slightly exceed its pre-crisis level (+1%), driven by changes in consumer spending that are no longer affected by health constraints. In the consumption of goods, the momentum of spending on electronic and computer equipment is likely to settle down and return to more of a trend trajectory. Spending on fuel is expected to remain slightly below the pre-crisis level reflecting greater use of teleworking. In services, it is likely that transport consumption will continue to be penalised with air traffic still below its pre-crisis level. Accommodation and catering, like leisure activities, could remain partially in decline, mainly due to residual health constraints or, in the case of catering, to the use of teleworking.

All in all, consumption would appear to have increased by 1.3% in Q2 (► [Figure 7](#)). It is likely to continue this rebound in Q3 (+5.9% compared to the previous quarter) then Q4 (+1.0% forecast). Thus, after its historic drop from 7.2% in 2020, household consumption is expected to bounce back by 5.2% in 2021.

Given the moderate change in household income over the quarters of 2021, the continuing rebound in their consumption is expected to result in a gradual decline in the savings ratio (► [Figure 4](#)). It certainly hit some remarkably high points in 2020, especially in Q2 and Q4 (27.4% and 22.7% of gross disposable income respectively), due to the collapse of consumption during the lockdowns. In Q1 2021, the decline in disposable household income caused the savings ratio to fall to 21.8% of gross disposable income. It is likely to decrease slightly in Q2 (to 21.2%) then more significantly in the following quarters, down to 15.6% by the end of 2021, i.e. slightly higher than the pre-crisis level (15.1% in Q4 2019). ●

► 5. Estimated and projected monthly household consumption levels

difference to the Q4 of 2019, in %

Products	Share of consumption*	Janv. 2021	Feb. 2021	March. 2021	Apr. 2021	May 2021	June 2021
Agriculture, forestry and fishing	3%	1.3	-1.2	-0.7	-2	-2	-2
Industry	46%	-0.7	-0.9	-1.3	-10	0	2
Manufacture of food products, beverages and tobacco-based products	15%	5.5	2.6	3.4	4	3	3
Coke and refined petroleum	4%	-5.1	-7.2	-5.3	-15	-7	-4
Manufacture of electrical, electronic, computer equipment; manufacture of machinery	3%	12.2	14.0	12.3	5	14	14
Manufacture of transport equipment	6%	-5.7	-7.4	-9.1	-12	-9	-2
Manufacture of other industrial products	13%	-8.2	-3.1	-5.2	-33	-2	2
Extractive industries, energy, water, waste treatment and decontamination	5%	3.9	0.1	1.4	8	7	0
Construction	2%	-0.6	-1.0	-1.7	-2	-2	0
Mainly market services	46%	-14.9	-15.4	-15.2	-17	-11	-6
Trade; repair of automobiles and motorcycles	1%	-2.2	-1.0	-1.8	-4	-2	1
Transport and storage	3%	-49.2	-52.8	-52.4	-59	-43	-37
Accommodation and catering	7%	-58.6	-58.4	-58.3	-63	-40	-17
Information and communication	4%	2.0	1.2	1.1	1	3	4
Financial and insurance activities	6%	0.9	1.0	1.2	1	1	2
Real estate activities	19%	2.0	1.7	2.0	2	2	2
Scientific and technical activities; administrative and support services	2%	-10.6	-9.5	-9.2	-9	-6	-3
Other service activities	4%	-24.0	-26.1	-26.4	-33	-24	-17
Mainly non-market services	5%	0.3	-0.5	-0.2	-1	0	0
<i>Territorial correction</i>	-2%	-47.8	-65.8	-91.8	-92	-92	-61
Total	100%	-6.7	-7.0	-6.7	-12	-4	-1

* weight in final household consumption spending in 2018 (excluding territorial correction)

■ Forecast

How to read it: in June 2021, the level of household consumption of accommodation and catering services would appear to have been 17% lower than in Q4 2019.

Source: INSEE calculations from various sources

► 6. Estimated and projected quarterly household consumption levels

difference to the Q4 of 2019, in %

Products	Part dans la consommation*	2020				2021				2020	2021
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Agriculture, forestry and fishing	3%	3.7	-1.1	-0.3	-1.0	-0.2	-2	-2	-2	0.3	-1
Industry	46%	-6.7	-12.8	2.3	-1.7	-1.0	-3	2	1	-4.7	0
Manufacture of food products, beverages and tobacco-based products	15%	3.6	5.4	2.1	3.3	3.8	3	2	0	3.6	2
Coke and refined petroleum	4%	-5.9	-27.7	-4.3	-13.1	-5.9	-9	-2	-1	-12.7	-4
Manufacture of electrical, electronic, computer equipment; manufacture of machinery	3%	-8.4	-4.7	11.4	15.4	12.8	11	10	5	3.4	10
Manufacture of transport equipment	6%	-22.5	-35.3	2.8	-9.2	-7.4	-8	1	2	-16.0	-3
Manufacture of other industrial products	13%	-12.5	-23.2	3.5	-4.9	-5.5	-11	4	3	-9.3	-2
Extractive industries, energy, water, waste treatment and decontamination	5%	-2.1	-4.4	0.2	1.6	1.8	5	0	0	-1.2	2
Construction	2%	-9.4	-23.5	0.2	0.8	-1.1	-1	0	1	-8.0	0
Mainly market services	46%	-6.1	-21.8	-6.3	-14.2	-15.2	-11	-3	0	-12.1	-7
Trade; repair of automobiles and motorcycles	1%	-12.1	-25.3	1.2	-4.4	-1.7	-1	1	-1	-10.2	-1
Transport and storage	3%	-16.8	-74.1	-30.4	-54.1	-51.5	-46	-28	-11	-43.8	-34
Accommodation and catering	7%	-16.9	-63.3	-15.3	-46.7	-58.4	-40	-8	-3	-35.5	-27
Information and communication	4%	-2.4	-1.6	-0.6	-0.4	1.4	3	4	5	-1.3	3
Financial and insurance activities	6%	-2.6	-6.4	-1.7	-0.3	1.0	1	2	3	-2.7	2
Real estate activities	19%	0.2	0.3	0.7	0.8	1.9	2	3	3	0.5	2
Scientific and technical activities; administrative and support services	2%	-6.6	-19.0	-10.1	-9.1	-9.8	-6	1	3	-11.2	-3
Other service activities	4%	-12.0	-42.3	-13.5	-25.5	-25.5	-25	-11	-5	-23.3	-16
Mainly non-market services	5%	-7.7	-24.0	1.1	-2.3	-0.1	0	0	1	-8.2	0
<i>Territorial correction</i>	<i>-2%</i>	<i>-45.6</i>	<i>-80.4</i>	<i>-41.5</i>	<i>-53.1</i>	<i>-68.5</i>	<i>-82</i>	<i>-38</i>	<i>-18</i>	<i>-55.2</i>	<i>-51</i>
Total	100%	-5.7	-16.7	-1.4	-6.9	-6.8	-6	0	1	-7.7	-3

* weight in final household consumption spending in 2018 (excluding territorial correction)

■ Forecast

How to read it: in the Q2 of 2021, the level of household consumption of accommodation and food services would have been 40% lower than in the Q4 of 2019.

Source: INSEE calculations from various sources

► 7. Household consumption compared to Q4 2019 and as a quarterly variation

in %

	2020				2021				2020	2021
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Difference compared in % to Q4 2019	-5.7	-11.6	18.3	-5.6	0.1	1.3	5.9	1.0	-7.2	5.2
Quarterly growth in %	-5.7	-16.7	-1.4	-6.9	-6.8	-5.6	0.0	1.0		

■ Forecast

Annual variations for the last two columns

Source: INSEE

French economic outlook

The end of lockdown: an immediate rebound in consumption, albeit with considerable variation between products

With many businesses reopening on 19 May, household consumption bounced back immediately. All in all, this rebound appears to be a little less substantial than that witnessed after previous lockdowns, largely because it started from a higher level than on those occasions (consumption in April 2021 is believed to have been 12% below pre-crisis levels, compared with 15% in November 2020 and 31% in April 2020). The reopening of “non-essential” shops saw a marked surge in sales of clothing & shoes and household goods. The lifting of travel restrictions in early May led to an increase in fuel spending, particularly around the May public holidays, reflecting the return of both professional and leisure travel. On account of the progressive reopening of restaurants, the rebound in consumption in this sector has been more gradual, as in the hotel sector, although trade does appear to be brisker since 9 June. Some forms of spending, although increasing, remain relatively subdued. This includes the sums spent with travel agencies, reflecting the slow return of international travel.

An immediate rebound in consumption, from a level which was slightly above that seen during previous periods of lockdown

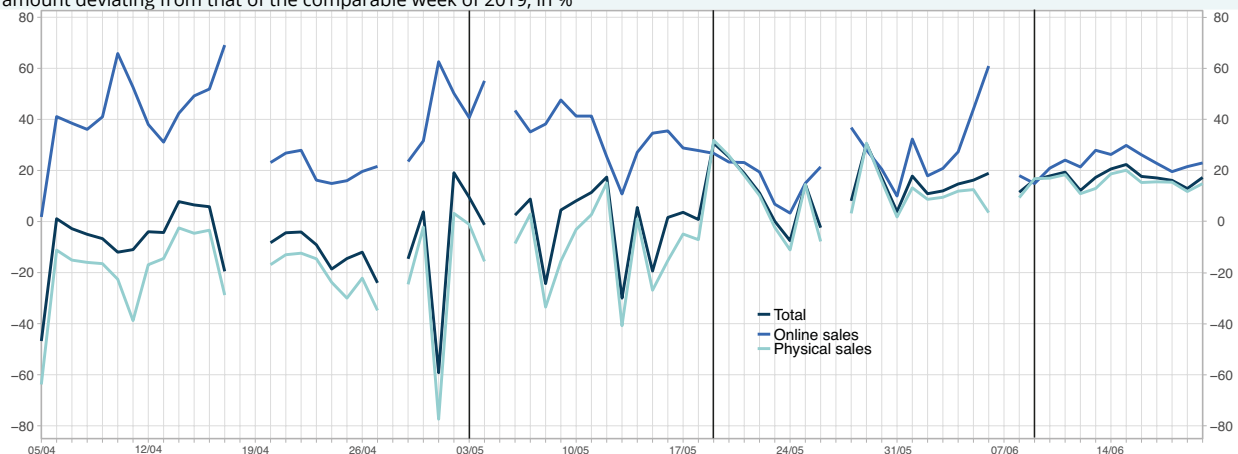
On Wednesday 19 May, the reopening of numerous activities – “non-essential” shops, restaurants with outdoor seating, cinemas and cultural facilities etc. – led to an immediate rebound in consumption. The total value of card transactions jumped noticeably on Wednesday 19 May, clearly exceeding the level recorded in 2019 after several weeks of languishing below that pre-crisis marker (► **figure 1**). This rebound was entirely driven by the return of physical sales, with businesses reopening. Indeed, the reopening does not seem to have had a particular impact on the trajectory of online

sales, which had been in decline for a few days before 19 May, although they remain far superior to their 2019 level. However, the second phase of lockdown easing, on Wednesday 9 June, did not see any noticeable spike in the total value of card transactions.

Much like 19 May, the previous reopenings of 11 May 2020 and 28 November 2020, following the first and second periods of lockdown, had also led to immediate rebounds in consumption. In order to compare the scale of these movements, we measure the variation in transactions involving payment cards (in year-on-year terms compared with 2019) between the seven days preceding the reopening and the seven subsequent days. The rebound in consumption associated with the reopening of 19 May appears to be less substantial than

► 1. Daily sum of card transactions, by type of payment

daily amount deviating from that of the comparable week of 2019, in %



Note: in order to make the data easier to read, the year-on-year comparisons for Sunday 18 April and Monday 19 April, Wednesday 28 April, Wednesday 5 May, Thursday 27 May and Monday 7 June are not shown. Since the corresponding days in 2019 were, respectively Easter Sunday and Monday, May Day, VE Day, Ascension Thursday and Pentecost Monday, the value of card transactions on these days was very low in 2019, making the year-on-year increase very high.

How to read it: on 19 May 2021, the total value of card transactions was up 31% on the equivalent day in 2019.

Source: CB Cartes Bancaires, INSEE calculations

those recorded on 11 May and 28 November 2020 (► **figure 2**). This might be explained by the fact that consumption was less subdued during the lockdown of Spring 2021 than it had been in the lockdowns of 2020: in particular, online sales increasingly compensated for physical sales, leading the former to decrease when stores reopened, to a greater extent than in May 2020. Another explanation may be found in the particular circumstances of the reopening in late November: stores reopened shortly before Black Friday, pushed back to 4 December, which led to a strong, one-off spike in online sales and contributed to the rebound in consumption.

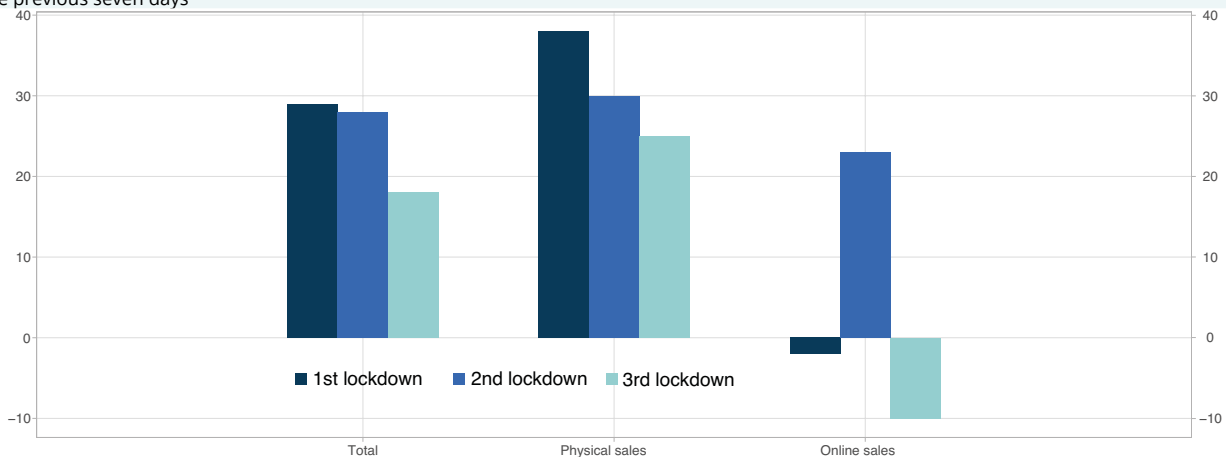
The reopening of “non-essential” shops led to a sizeable rebound in consumption of clothing & shoes

For both clothing & shoes and household goods (excluding electronic goods and computers), the rebound in consumption appears to be particularly strong, since these categories were directly impacted by the closure of “non-essential” retail in April. Card transactions bounced back immediately on 19 May, and the following Saturday, before then subsiding slightly (► **figure 3**).

In the clothing & shoes category, the scale of the rebound appears to be greater than it was in November and similar to that which followed the end of lockdown

► 2. Variation in the value of card transactions between the seven days preceding the reopening and the ensuing seven days, by type of payment

year-on-year comparison with 2019 for the seven days following the reopening, percentage deviation from the 2019 comparison for the previous seven days

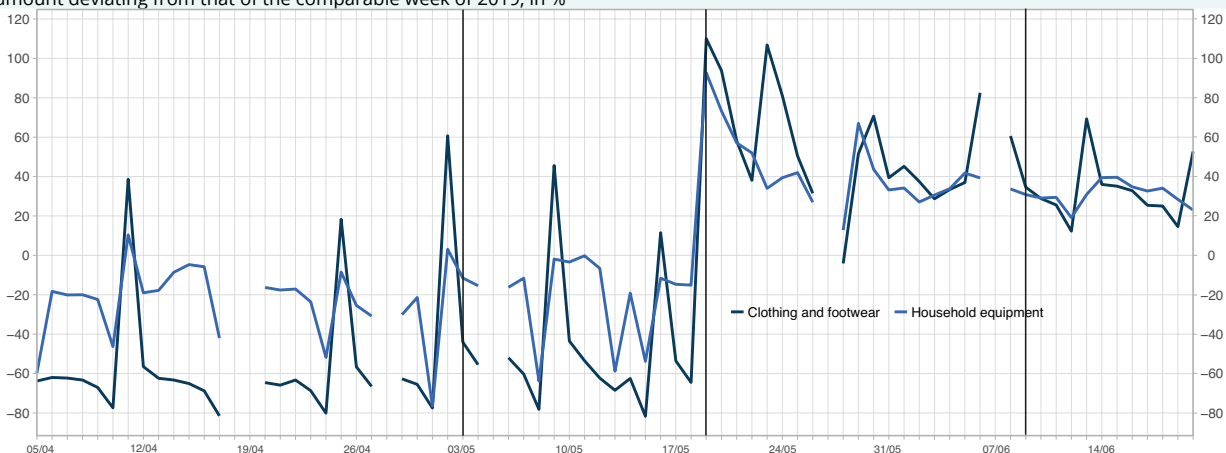


How to read it: after the 3rd period of lockdown, and over the seven days following this reopening (19-25 May 2021), the year-on-year comparison (with 2019) in the total value of card transactions was 29 points greater than the 2019 comparison for total value of card transactions in the preceding 7 days (12-18 May 2021).

Source: CB Cartes Bancaires, INSEE calculations

► 3. Daily value of card transactions for spending on clothing & shoes and household goods

daily amount deviating from that of the comparable week of 2019, in %



Note: in order to make the data easier to read, the year-on-year comparisons for Sunday 18 April and Monday 19 April, Wednesday 28 April, Wednesday 5 May, Thursday 27 May and Monday 7 June are not shown. Since the corresponding days in 2019 were, respectively Easter Sunday and Monday, May Day, VE Day, Ascension Thursday and Pentecost Monday, the value of card transactions on these days was very low in 2019, making the year-on-year increase very high.

How to read it: on 19 May 2021, the value of card transactions for spending on clothing & shoes was 110% greater than the equivalent day in 2019.

Source: CB Cartes Bancaires, INSEE calculations

French economic outlook

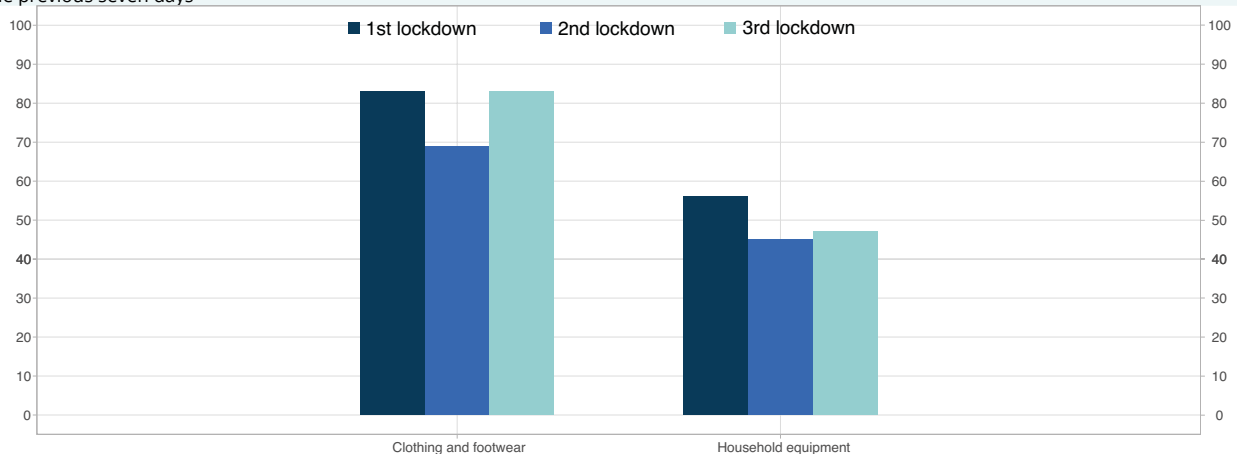
in May 2020 (► [figure 4](#)). The arrival of summer may also partly explain this difference with the reopening of late November 2020, as well as the fact that spending on clothing & shoes had remained at a fairly low level since the start of 2021, with the exception of the winter sales. For household goods, the rebound in bank card transactions was comparable to that seen when shops reopened in November 2020, but slightly below that witnessed a year previously at the end of the first period of lockdown.

Fuel spending picked up from the start of May, with the end of restrictions on movements

Two weeks before the reopening of “non-essential” shops, restrictions on movements within metropolitan France were lifted on 3 May. Fuel spending, which had been very subdued in April, immediately increased to reach a level close to that recorded in 2019, although still slightly below that benchmark (► [figure 5](#)). Card transactions at motorway toll stations reflected the return of travel during the month of May: an immediate

► 4. Variation in the value of card transactions between the seven days preceding reopening and the seven days after reopening, for spending on clothes & shoes and household goods

year-on-year comparison with 2019 for the seven days following the reopening, percentage deviation from the 2019 comparison for the previous seven days

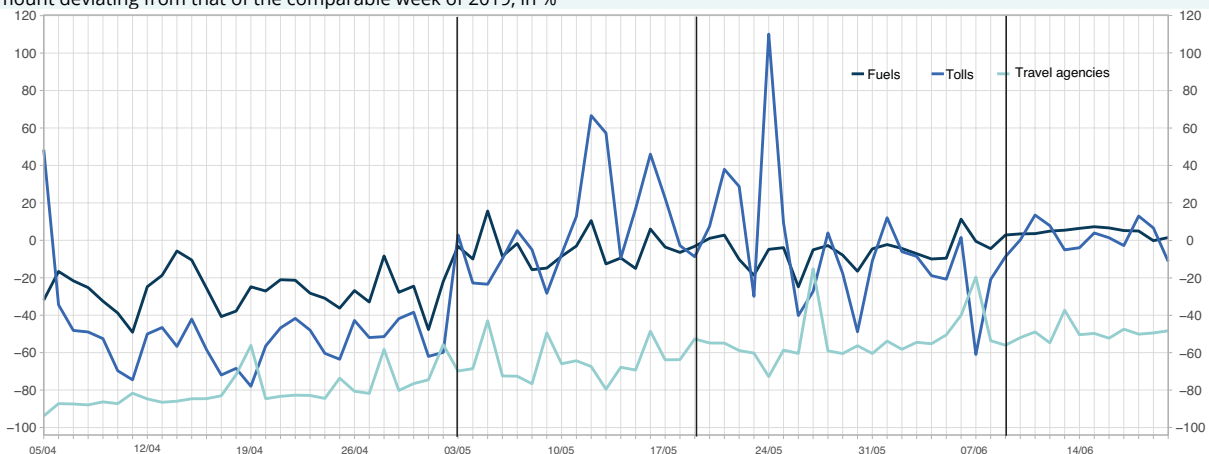


How to read it: preceding the end of the 3rd lockdown, and the seven days following the reopening (19-25 May 2021). The 2019 comparison for card transactions for spending on clothing & shoes was 83 points greater than the 2019 comparison for card transactions on clothing & shoes in the seven days before reopening (12-18 May 2021).

Source: CB Cartes Bancaires, INSEE calculations

► 5. Daily sum of card transactions for fuel purchases and road tolls

daily amount deviating from that of the comparable week of 2019, in %



How to read it: on 19 May 2021, the amount of transactions by CB bank card relating to fuel purchases was 3% lower than on the comparable day of 2019.

Source: CB Cartes Bancaires, INSEE calculations

rebound from the start of the month onwards, reaching very high levels in mid-May with the long weekend around the Ascension Day holiday (13–16 May) and Pentecost weekend (22–24 May, with a peak of card transactions at toll booths on Pentecost Monday). The dynamism of card transactions at toll booths throughout the month of May could thus reflect not only the return of commuting and professional travel, but also of travel for leisure purposes.

However, card payments to travel agencies, which stood at very low levels in April (and the preceding months), have not surged spectacularly since the lifting of restrictions. They have certainly increased, but they still remain far below the levels recorded in 2019 (50% down as of mid-June).

Consumption has returned in instalments in the hotel and restaurant sectors, as well as cinemas

The restaurant sector also saw an immediate rebound in consumption as soon as premises with outdoor seating were allowed to reopen, but did not witness an initial spike comparable to that observed in the consumption of goods (► [figure 6](#)). On 19 May and the subsequent days, card transactions certainly recovered

from the substantially reduced levels seen in April (and the preceding months), but they nonetheless remained well below their 2019 level (with the exception of 24 May, Pentecost Monday). The fact that only outdoor seating was permitted probably accounts for this partial rebound. On 9 June, when restaurants were allowed to reopen completely, card transactions exceeded their 2019 level and have remained dynamic since.

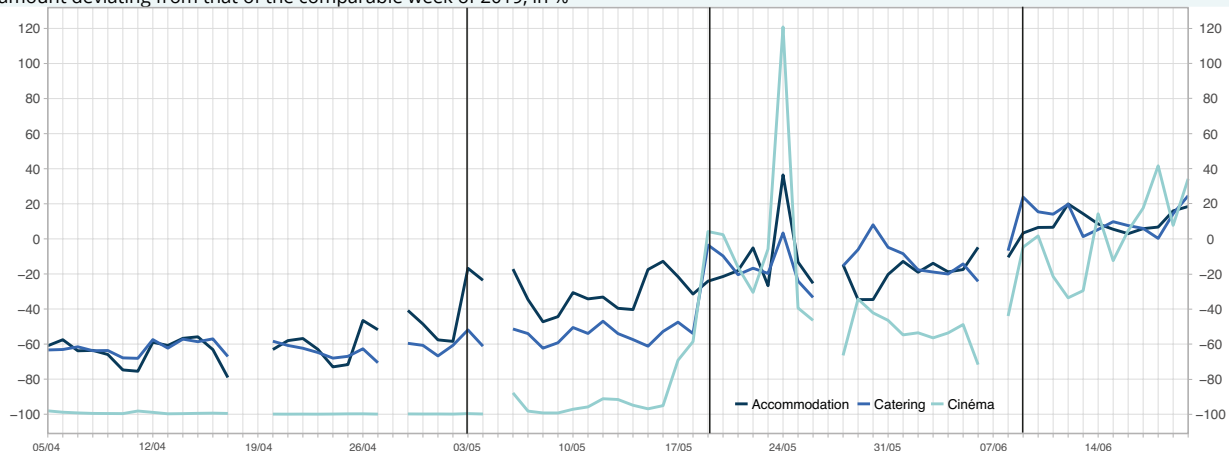
Spending on hotel accommodation seems to be following the same staggered trajectory as the restaurant sector, as well as mirroring the state of travel restrictions. Consumption began to rise in early May, when travel restrictions ended. It nonetheless remained well below its 2019 level, getting very close to that level from 19 May onwards before exceeding it since 9 June.

Like restaurants, cinemas had been closed since the beginning of the lockdown in November 2020: their reopening on 19 May seems to have been accompanied by a rebound in consumption, with card transactions returning to their 2019 level (having been virtually nil over the preceding six months). This rebound subsided in subsequent weeks, but the dynamism of card transactions seems to have returned since mid-June. ●

Olivier Simon

► 6. Daily sum of card transactions for spending on hotels, restaurants and cinemas

daily amount deviating from that of the comparable week of 2019, in %



Note: in order to make the data easier to read, the year-on-year comparisons for Sunday 18 April and Monday 19 April, Wednesday 28 April, Wednesday 5 May, Thursday 27 May and Monday 7 June are not shown. Since the corresponding days in 2019 were, respectively Easter Sunday and Monday, May Day, VE Day, Ascension Thursday and Pentecost Monday, the value of card transactions on these days was very low in 2019, making the year-on-year increase very high.

How to read it: on 19 May 2021, the amount of CB bank card transactions in catering was 4% lower than on the comparable day of 2019.

Source: CB Cartes Bancaires, INSEE calculations

Enterprises' earnings

At the end of 2020, the margin rate of non-financial corporations (NFCs) stood at a particularly high level, at 34.2%: the health restrictions put in place in Q4 2020 maintained their value added at a depressed level compared to pre-crisis, while the short-time working scheme and the reinforced Solidarity Fund supported their gross operating surplus. Q1 2021 was therefore in this respect a continuation of the previous quarter, but the introduction of the reduction in taxes on production resulted in a further rise in the margin rate, which then reached 34.8%.

By the end of 2021, the margin rate is expected to decline slightly, but still remain high. The value added of NFCs looks set to rebound strongly with the easing of restrictions, but the gradual decline in emergency measures is likely to lead to an increase in remunerations paid to employees and a decrease in subsidies received. The margin rate of NFCs is therefore expected to settle at 33.0% in Q4 2021 and 34.0% as an annual average (after 31.7% in 2020).

In 2021, the value added of non-financial corporations in current euros looks set to return to a similar level to that of 2019

Assuming that there will be no further wave of the epidemic, the value added of NFCs (in current euros) is expected to increase by 9.2% in 2021, after -8.5% in 2020 (► [Figure 1](#)). It should therefore be almost back to its 2019 level. Its quarterly profile would then be more dynamic than that of GDP: after slight growth in Q1 2021 (+0.4%), the value added of NFCs looks set to accelerate until Q3 (+1.1% then +4.8%), with the reopening of

sectors that had been forced to close and the greater upswing in tourist activity, before slowing towards the end of the year.

Remunerations paid to employees are expected to rebound, with a similar momentum to that of value added

Companies' gross wages saw major fluctuations in the course of 2020, in line with movements in payroll employment but also in the take-up rate of the short-time working schemes: since part of the wages of an employee on short-time working is recorded as benefits paid to this employee by general government, gross payroll paid by the enterprises decreases as the scheme is used more. Remunerations paid by the NFCs therefore decreased by 6.1% in 2020.

In 2021, remunerations paid to employees should follow the rebound in employment in the non-agricultural market branches (► [Employment Sheet](#)) and also be supported by the gradual decline in the take-up rate of short-time working, with a quarterly profile similar overall to that of value added: remunerations are expected to accelerate in Q2 then in Q3, before slowing at the end of the year. All in all, they should increase by 8.0% in 2021.

Taxes on production are expected to decline significantly in 2021

Since the beginning of the year, NFCs have been helped by a reduction in taxes on production of 10 billion euros per year, voted by the Finance Act of 2021. The effect

► 1. Breakdown of the margin rate of non-financial corporations

quarterly change, in %

	2020				Quarters changes				Annual changes		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2019	2020	2021
Value added	-6.5	-14.8	20.3	-0.2	0.4	1.1	4.8	1.2	4.5	-8.5	9.2
Paid											
Employee remuneration	-3.3	-16.2	21.6	-1.6	0.4	1.6	3.7	1.4	1.0	-6.1	8.0
Production-related taxes	-1.1	-3.7	3.6	-1.3	-11.9	0.5	0.2	0.0	15.8	-1.4	-11.7
Received											
Subsidies	-28.1	23.3	-4.8	76.5	-1.7	-8.2	-14.5	-29.0	9.3	4.9	21.2
Gross operating surplus	-15.6	-10.9	18.6	10.0	2.2	-1.0	5.1	-2.1	10.5	-13.1	17.1
Margin rate (in %)	30.1	31.4	31.0	34.2	34.8	34.1	34.2	33.0	33.4	31.7	34.0

■ Forecast
Source: INSEE

of the introduction of this measure can be seen in the change in taxes on production in Q1 2021 (-11.9%), and it is expected to support the margin rate of non-financial corporations by around ¾ of a point.

In Q2, taxes on production would appear to have increased slightly because of taxes on workforce, linked to payroll employment in the NFCs, but should then be more or less stable. All in all, taxes linked to production are expected to decline by -11.7% in 2021, after -1.4% in 2020.

Subsidies are likely to decrease gradually during the year

The level of subsidies paid to NFCs was very high in Q4 2020, with the strengthening of the Solidarity Fund: the amounts awarded increased substantially with more generous conditions for receiving payments for structures with a high turnover, especially NFCs. At the end of 2020, subsidies received by NFCs increased by 76.5%.

In Q1 2021, subsidies decreased slightly (-1.7%), although they were still high given that health restrictions were in force. Support measures therefore continued to operate at a sustained rate.

By the end of 2021, subsidies are expected to decline

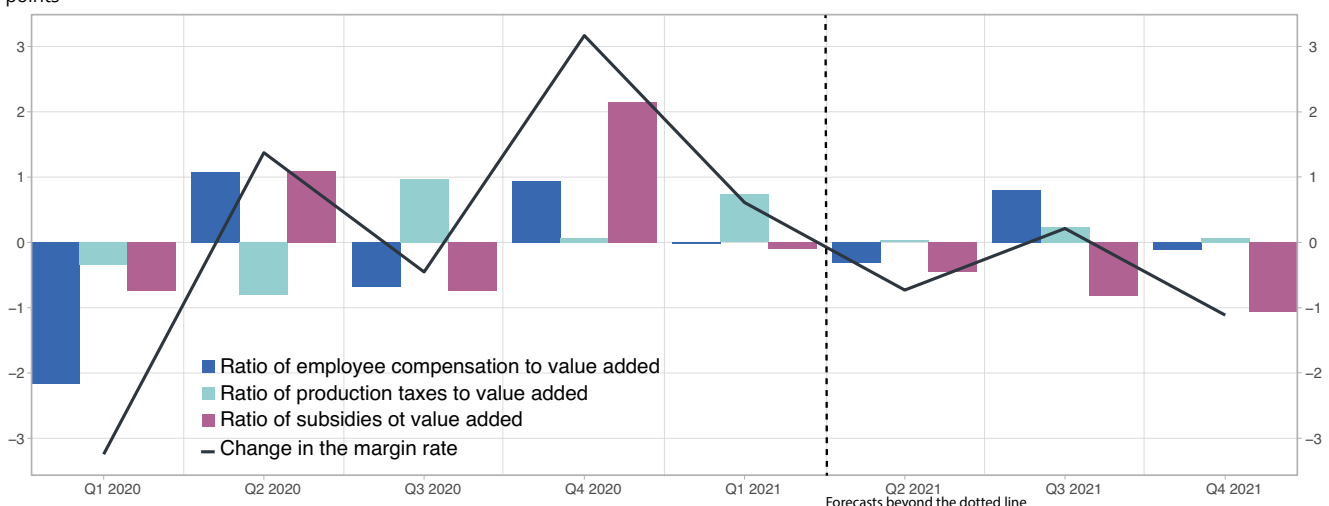
progressively. Q2 was affected by a national lockdown in April, but the scale of the economic consequences would appear to be less than in November, and it was followed from the beginning of May by a gradual lifting of restrictions: amounts paid out under emergency schemes would therefore appear to have been, on average, lower than the previous quarter. Subsidies would therefore appear to have declined by 8.2% in Q2, then should continue to fall during H2. As an annual average, subsidies paid to NFCs are expected to be driven by the Q4 2020 “overhang effect”: despite a continuous decline over the quarters, subsidies should still increase by 21.2% in 2021.

After increasing sharply at the end of 2020 and Q1 2021, the margin rate is expected to decline by the end of the year

As an annual average, the gross operating surplus of NFCs should grow more strongly than their value added in 2021: +17.1% against +9.2%. Thus their margin rate is likely to increase as an annual average over 2021 and should stand at 34.0%, against 31.7% in 2020.

This annual increase is largely the result of an “overhang effect” linked to the high margin rate levels in Q4 2020

► 2. Contributions to the change in margin rate in points



How to read it: in Q1 2021, the margin rate of non-financial corporations is expected to increase by 0.7 points. The contribution of the ratio $\frac{\text{Subsidies}}{\text{Value added}}$ would appear to be 0.4 points.

Note: -contributions are based on the breakdown

$$\begin{aligned} \text{Margin rate} &= \frac{\text{Gross operating surplus}}{\text{added value}} \\ &= 1 - \frac{\text{Employee remuneration}}{\text{added value}} = \frac{\text{Taxes on production}}{\text{added value}} + \frac{\text{Grants}}{\text{added value}} \end{aligned}$$

- in 2019, contributions associated with the ratio of remunerations for employees to value added included the change in the rate of employer contributions associated with the reform of the CICE.

Source: INSEE

French economic outlook

(34.2%) and Q1 2021 (34.8%). Indeed, at the end of 2020, non-financial corporations managed to maintain their value added (-0.2%) despite the second lockdown, while the take-up of short-time working and the strong increase in subsidies contributed positively to the change in margin rate (► **Figure 2**). In Q1 2021, changes in value added, in remunerations paid and subsidies paid made a slightly negative contribution overall to the margin rate

of NFCs. The fall in taxes on production is therefore the only driving force behind this new quarterly rise in the margin rate.

By the end of 2021, the margin rate is expected to decline twice, in Q2 (34.1%) then in Q4 (33.0%), when subsidies look set to fall back more rapidly than the net value added of remunerations paid to employees. ●

Corporate investment

Investment by non-financial enterprises (NFEs) increased at a steady pace in Q4 2020 (+1.2%) and Q1 2021 (+1.0%), driven mainly by investment in services. In Q1 2021, it was only 1% below its Q4 2019 level, before the health crisis.

Available information, including that from the business tendency surveys, suggests that investment by NFEs would appear to have slowed in Q2 2021, held back by investment in manufactured goods, mainly as a result of sourcing difficulties. Then in H2, NFE investment is expected to return to a more sustained growth rate, although slower than that in activity. All in all, investment by NFEs is likely to increase by 9.5% in 2021 compared to 2020.

In Q1 2021, investment was close to its pre-crisis level

In Q1 2021, investment by NFEs increased by 1.0%, following on from Q4 (► [Figure 3](#)). It is therefore getting close to its pre-crisis level (-1% below this level in Q1 2021, after -2% in the previous quarter, ► [Figure 1](#)).

Investment in services, which was already above its pre-crisis level in late 2020, rose by 1.0% in Q1 2021, through investment in information and communication services.

Meanwhile, investment in construction increased by 0.9%, still well down on its pre-crisis level (8% below the Q4 2019 level). Problems with sourcing in some

companies in this sector could partly explain the relative weakness of investment in construction. The share of companies in the building sector who say they are unable to produce more due to insufficient sourcing increased from 1 to 10% between January and May 2021, the highest level since 2001.

Finally, investment in manufactured goods increased by 1.1% after a decline in Q4 2020 (-1.6%). Investment in automobile equipment fell sharply in Q4, probably as a result of the second lockdown; it barely recovered in Q1. The reason is most likely to be the shortage of electronic chips, which has penalised the sector since the end of 2020. 39% of French industrialists in the sector manufacturing transport equipment said in April 2021 that they were experiencing sourcing difficulties (► [Focus](#) in *Economic Outlook* of May 2021).

The opinions expressed by companies suggest that the rise in investment will continue

Business outlook surveys on services suggest an acceleration in Q2 in investments by companies in the sector. The balances of opinion on quarterly change in their investment, both past and expected, increased in May 2021 to their highest level since February 2020. In addition, according to the quarterly outlook survey on industry, production capacity appears to be more and more in demand.

► 1. Difference to Q4 2019 of investment by non-financial enterprise (NFEs)

in %, SA-WDA volume

	Weight in Q1 2021	2020			2021
		T2	T3	T4	T1
Manufactural products	33%	-29	-3	-4	-3
of which equipment goods	12%	-24	-3	-2	-1
of which transport material	10%	-45	-4	-8	-7
of which other industrial products	11%	-19	-2	-3	-1
Construction	22%	-35	-7	-9	-8
Services	45%	-7	-2	3	4
of which Information and communication	25%	-4	-2	4	6
of which corporate services	19%	-10	-2	2	3
All NFEs	100%	-21	-3	-2	-1

Source: INSEE, quarterly national accounts in 2014 base

French economic outlook

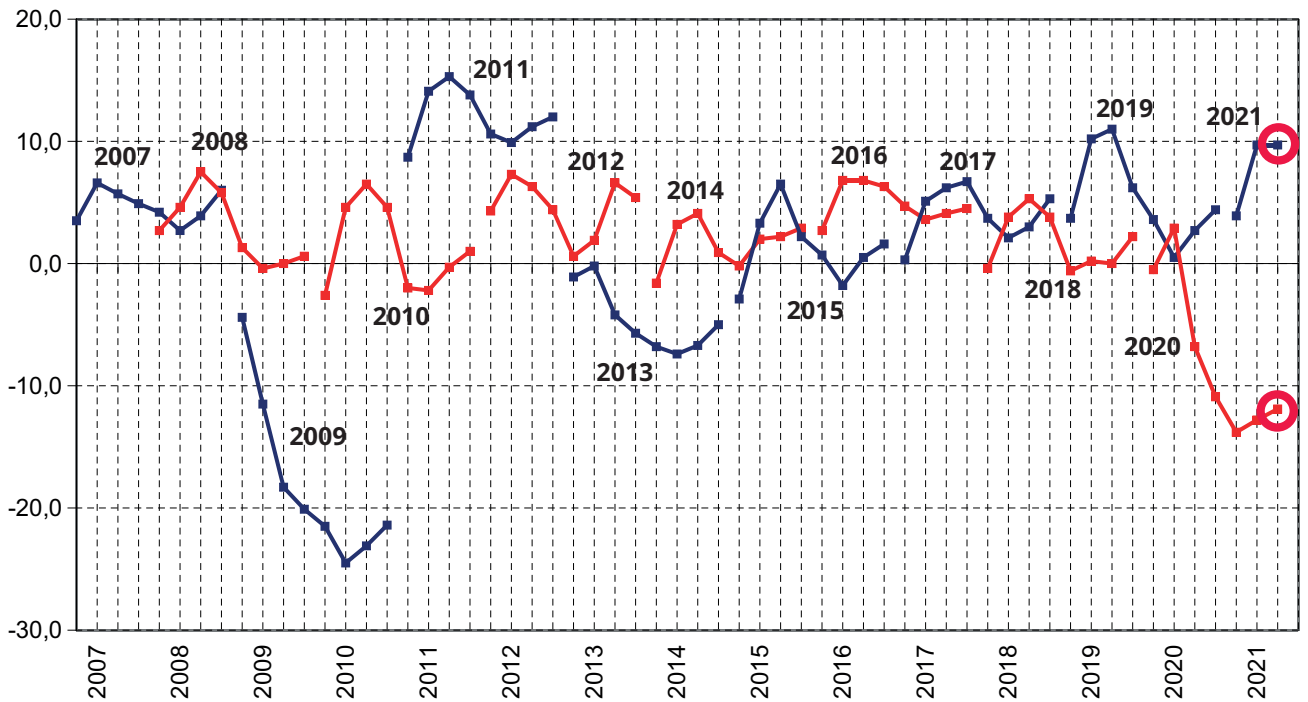
In the April 2021 business outlook survey on investment in industry, industrialists anticipated a 10% rise in value of their tangible investments and software in 2021 (► **Figure 2**). However, in this survey, the April estimates are often higher than the change ultimately observed a year later. In addition, the balance of opinion on the expected change in industrialists' investments for the next half-year exceeded its long-term average in April 2021.

In Q2 2021, corporate investment is expected to slow

Despite these positive signals, several factors suggest that the rise in investment would appear to be limited to Q2 2021.

Firstly, investment in manufactured goods would appear to have fallen back slightly, affected by a further decline in investment in transport equipment. In fact, the shortage of electronic chips would appear to have severely affected automobile production in Q2 and thus limited investment. Investment in capital goods would appear to have increased slightly: despite the balances of opinion of capital goods wholesalers on their expected orders being on the increase, production in the capital goods sector was virtually stable in April. Finally, investment in "other industrial products" would appear to have slowed in Q2, with the balances of opinion on expected sales declining slightly since April in the sectors of metallurgy and the installation and repair of machinery and equipment.

► **2. Successive estimates by industrialists of change in their investments, manufacturing industry**
annual change in value, in %



Note: the quarterly survey of investment in industry estimates investments in a given year eight times, with enterprises revising their investment plans during the year. As can be seen from the regular shape of the curves for successive estimates of change in investments, for any given year, this revision follows a seasonal profile. For example, as a general rule, the second estimate is higher than the first. Estimates therefore cannot be compared unless they were produced in the same month.
How to read it: growth in value of spending on tangible investments and software between 2019 and 2020 was estimated at -1% in October 2019, +3% in January 2020, -7% in April, -11% in July, -14% in October, -13% in January 2021 and -12% in April. Estimates from the April 2021 survey are shown by a red circle.
Source: INSEE, quarterly survey on investment in manufacturing

Investment in construction should also be stable in Q2. Although the building production index declined in April, as it has done since January, construction entrepreneurs have a favourable opinion on future change in their activity. The balances of opinion on expected activity, as expressed in the outlook surveys of companies in building construction and civil engineering, have indeed improved since the beginning of 2021.

To conclude, investment in services would appear to have increased slightly. Investment in services has certainly increased according to trend, but investment in information and communication services and in research and development is already well above its pre-crisis level and should now grow more slowly.

In H2 2021, corporate investment should resume a more sustained level of growth

In H2, investment in manufactured goods is expected to rebound, in line with the gradual recovery of production in the automobile industry and hence with investment in transport equipment. Investment in construction looks set to pick up again, provided that difficulties with sourcing in the sector are dealt with, because industrialists in the building sector report that their order books are unusually full. Finally, investment in services should continue its long-term growth.

The growth forecast in NFE investment in Q3 and Q4 2021 is therefore likely to be less than that in activity. One factor to account for this may be found in the sectoral composition of the current recovery; the sectors that are expected to drive the upswing in activity in H2 2021 – accommodation and catering, services to households, etc. – are not those that structurally invest the most. This composition effect can already explain in part the relatively good performance of corporate investment in 2020, compared to the collapse in value added (► **Focus**). All in all, NFE investment is expected to increase by 9.5% in 2021. ●

► 3. Investment by non-financial enterprises (NFEs)

at previous year's prices, chain-linked, seasonally adjusted, in %

	Quarterly changes												Annual changes		
	2019				2020				2021				2019	2020	2021
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			acquis
Manufactured product (33 %)	1.8	0.9	0.4	-0.6	-14.2	-17.6	37.7	-1.6	1.1	-0.3	1.0	0.9	2.2	-12.6	11.4
Construction (22 %)	-1.0	0.8	0.4	-0.8	-14.8	-23.5	43.1	-2.4	0.9	0.0	1.0	1.0	0.3	-16.5	10.6
Services (45 %)	-0.6	2.0	2.0	0.8	-2.3	-4.4	4.9	5.3	1.0	0.9	1.0	0.5	4.4	0.2	7.6
All NFEs (100 %)	0.1	1.4	1.1	-0.1	-9.2	-12.8	22.1	1.2	1.0	0.3	1.0	0.7	2.7	-8.1	9.5

■ Forecast

Source: INSEE, quarterly national accounts in 2014 base

French economic outlook

How do we account for the robustness of corporate investment in 2020?

Investment, or gross fixed capital formation (GFCF), is generally the most volatile component of GDP. Its cycles are much more pronounced than those of private consumption, and it amplifies variations in GDP. In 2009, for example, when GDP fell by 2.9%, total GFCF fell by 9.1%. In 2020, however, GDP and GFCF declined by similar amounts: -7.9% for GDP and -8.6% for total GFCF. In this article we consider the investment behaviour of non-financial corporations.

Numerous factors may be invoked to explain the surprising and relatively robust performance of GFCF by companies in 2020. The first is a composition effect, since the public health crisis has hit different branches of activity to different degrees, with a greater impact on those branches which usually invest the least. Companies' efforts to adapt to the public health context may also have stimulated investment in the equipment required for remote working (ICT, telecommunications etc.). The early assumption that the crisis would be short-lived may also have encouraged companies to maintain some of their investment projects. Finally, the massive amount of support available for businesses, not least through the short-time working scheme and subsidies from the Solidarity Fund, has considerably limited the damage to their income. As a result, the increase in the financing requirements of companies has been relatively limited.

Over the course of 2020, the investment rate of non-financial corporations increased in spite of the decline in their savings ratio

The resilience of GFCF in 2020 can be illustrated with reference to the variation in the investment rate of non-financial corporations (NFCs), i.e. their investment as a proportion of value added. In 2020, the investment rate of NFCs decreased slightly in the first quarter then increased continuously over the subsequent quarters, surpassing the level recorded at the end of 2019 during the third quarter. This increase in the investment rate indicates that investment by NFCs fell less rapidly in 2020 (-7.2% in value terms, ► **figure 1a**) than their value added (-8.5% in value terms). However, the gross operating surplus of NFCs, and particularly their gross savings, shrank during the first three quarters of 2020.

During the financial crisis of 2008-2009, on the contrary, investment by NFCs followed a similar trajectory to their gross operating surplus, subsiding considerably from Q3 2008 onwards (► **figure 1b**).

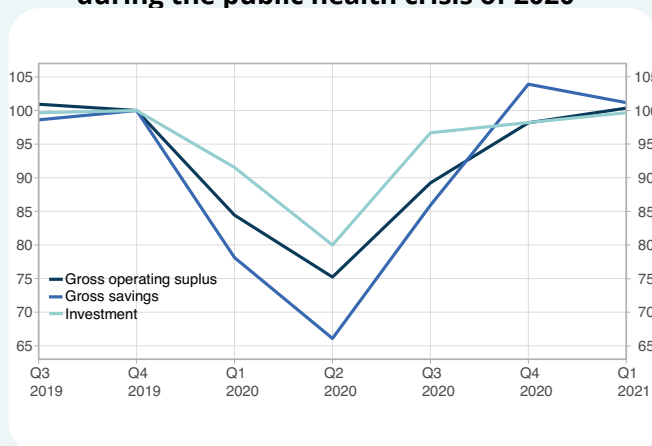
This resilience may be partly attributed to composition effects

The first factor explaining the resilience of investment by NFCs in 2020 is the sector-specific impact of the crisis on businesses. Those branches of activity which witnessed the biggest drop-off in activity in 2020 – particularly hotels, restaurants and transport services – are not the biggest investors in “normal” circumstances. Across the 17 branches of activity, almost 85% of the total decline in activity in 2020 was concentrated in just 8 branches, which in 2019 accounted for just 44% of gross fixed

► 1a. and 1b. Variation in the gross operating surplus, gross savings and investment of NFCs, in Euros at current value

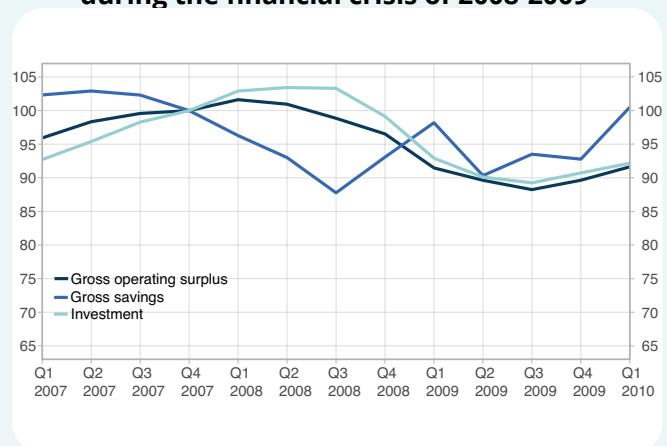
base 100 in Q4 2019

during the public health crisis of 2020



base 100 in Q4 2007

during the financial crisis of 2008-2009



Source: Quarterly accounts, base 2014, INSEE

capital formation (► **figure 2**). On the contrary, some branches such as property services and information and communication, which accounted for a sizeable portion of total investment in 2019, have not seen a major fall in activity. It will be possible to estimate this composition effect once detailed data series for investment in the branches are published in the annual National Accounts, in late summer 2021.

Adapting to remote working has required specific investments

The public health restrictions put in place in March 2020 may also have driven companies to make unplanned purchases of certain products, particularly due to the rise of remote working: computers, software, modernisation and expansion of information systems etc. These acquisitions, which represent gross fixed capital formation¹, may thus have served to attenuate the decline in investment in 2020.

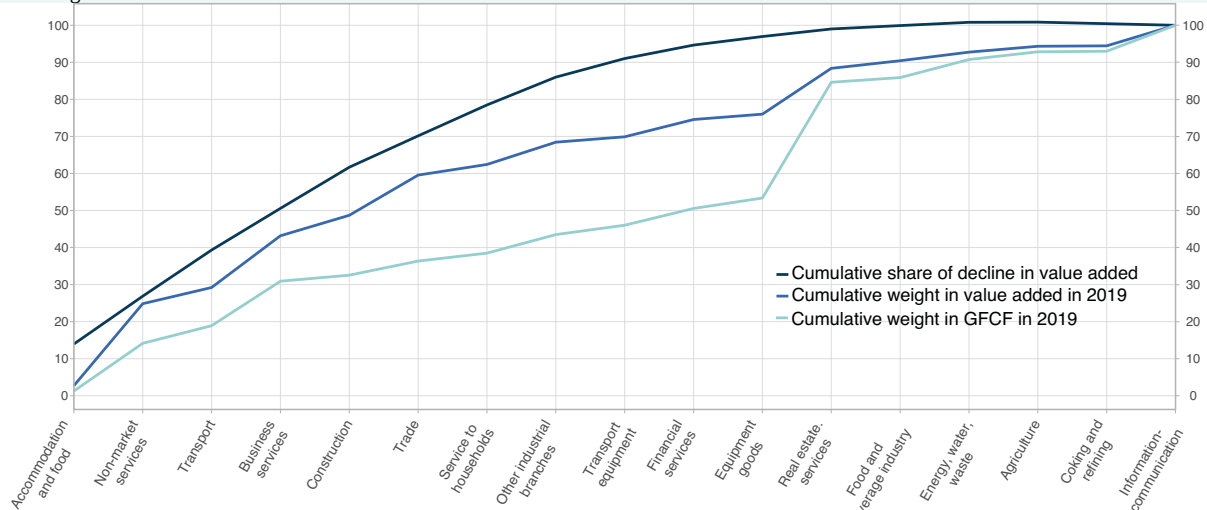
¹ These assets are associated with production processes – not natural assets – and are used repeatedly or continuously in other production processes for a period of at least one year

At time of writing, the available National Accounts data for 2020 cover investment in different products across the economy as a whole, at level A38 of the French classification of activities. These data reveal considerable heterogeneity in the decrease in investment for different products (► **figure 3**). In particular, investment in IT activities and information services, which had been very dynamic in previous years, slowed in 2020 but nonetheless continued to grow (+3.5% after +6.2% in 2019), most likely due to the boom in remote working and the digitalization of certain activities. Other outlook indicators allow us to estimate, indirectly but to a finer level of detail, investment in specific products over the course of the year.

The business tendency survey for the wholesale trade (► **figure 4**) thus allows us to gauge the increase in demand for certain items which are indispensable for remote working, such as “computers, IT hardware and software.” Indeed, the balance of opinion of companies

► 2. Sector-by-sector contributions to the decline in value added in 2020, and cumulative weight of these sectors in value added and gross fixed capital formation in 2019

cumulative weight of sectors in %



How to read it: branches of activity are ranked from left to right by contribution to the loss of activity in 2020. These respective contributions allow us to construct the cumulative contribution of all branches to the decline in value added: hotels and restaurants, non-market services and transport thus accounted for 39% of the value added lost in 2020. However, in 2019 these branches only represented 19% of total gross fixed capital formation, compared with 29% of value added: traditionally, these are not the sectors which invest the greatest share of their income.

Note: These figures and this table cover all of the institutional sectors (households, general government etc.). Nevertheless, the majority of branches comprise only non-financial enterprises (NFEs – this category encompasses both NFCs and sole proprietors). Only financial services and non-market services contain practically no NFCs. In property services, investment is attributed to “pure” households (excluding sole proprietors), NFEs and general government.

Source: Quarterly national accounts, INSEE

French economic outlook

regarding their sales of these products increased substantially from July 2020 onwards, and has since remained at a level well above that seen in 2019. By the same token, the prolonged decline in the balance of opinion regarding sales of “office furniture” reflects the downturn in demand for physical business premises.

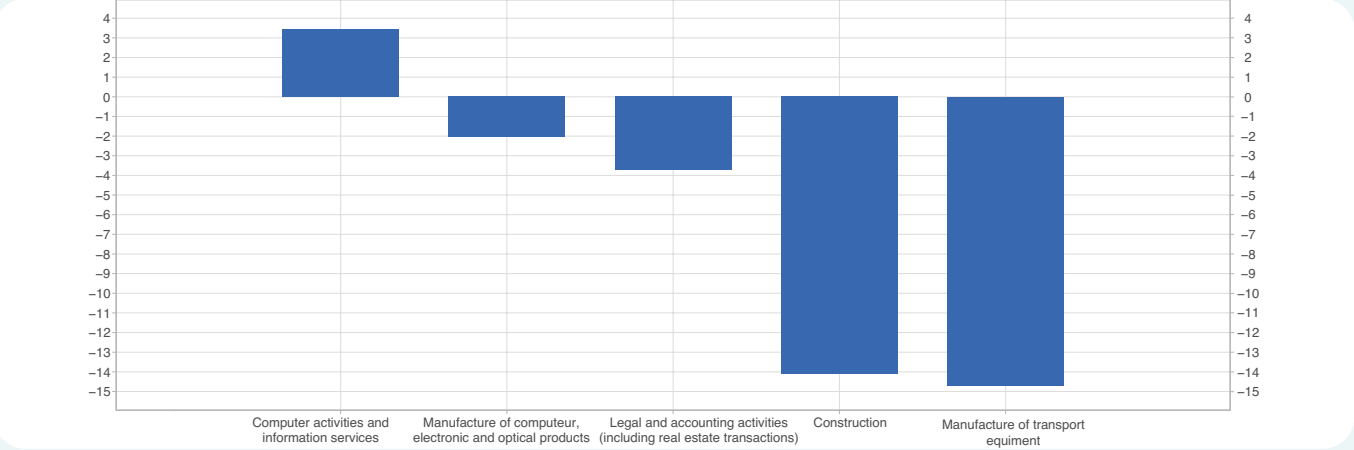
We can also use the services production index (IPS, ► figure 5), a monthly indicator which provides an indication of the volume of production undertaken on behalf of others in the service sector, as per the definitions used in the national accounts. GFCF accounts for a significant amount of the output of “Information and communication” services. Tracking the IPS enables us to monitor monthly investment in services which could potentially be used for remote working, at a highly disaggregated level. The

data reveal that products such as “data processing, hosting and related activities, web portals” and “telecommunications,” saw a significant increase in output in 2020, which began during the first lockdown (data processing) or else during the summer (telecommunications). On the contrary, the output of “legal activities”, including the legal services provided by notaries during property transactions, considered as a form of investment, fell sharply in both the spring and the autumn of 2020.

The belief that the crisis would be short-lived may have prompted companies to stick to their investment programmes

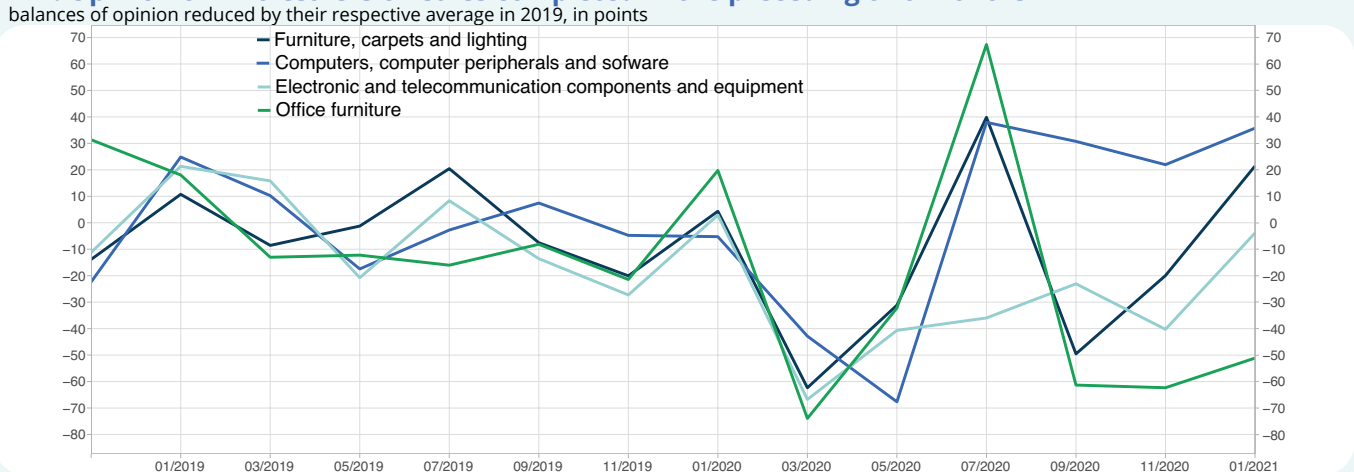
Following the first lockdown, a substantial proportion of businesses were relatively optimistic about the speed

► 3. The decline in GFCF in 2020 was very heterogeneous for different products



Source: Annual national accounts, INSEE

► 4. Opinion of wholesalers on sales completed in the preceding two months



Note: series corrected for seasonal variation. Source: Survey in wholesaling, INSEE

at which the pre-crisis status quo would return. In their responses to the Acemo-Covid survey conducted by DARES and INSEE in July 2020, 43.2% of businesses, across all sectors, reported that their activity levels had already returned to normal or that they expected them to do so within the next 3 months. Only 26.5% declared that this was clearly not the case².

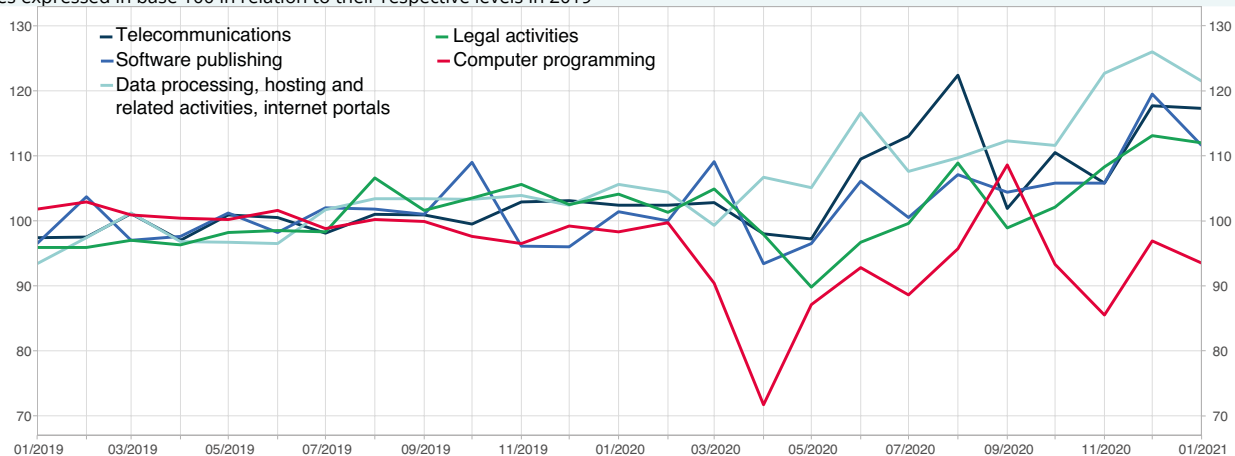
Within the manufacturing industry in particular, the most optimistic branches with regard to the speed of the recovery also reported the smallest decline in their planned investments in the investment survey for the manufacturing industry in July 2020³ (► **figure 6**). It is therefore possible that businesses in these sectors of activity largely went through with the investments they had initially planned, contributing to the resilience of GFCF.

² The remaining companies responded "Don't know." This response is difficult to interpret. In fact, the proportion of "Don't know" varied very little between July and November 2020, in spite of further developments in the public health situation

³ Informations Rapides 2020 No. 210, "Business leaders in the manufacturing industry revise their investment forecasts for 2020 downwards again." 27/08/2020

► 5. Services production index

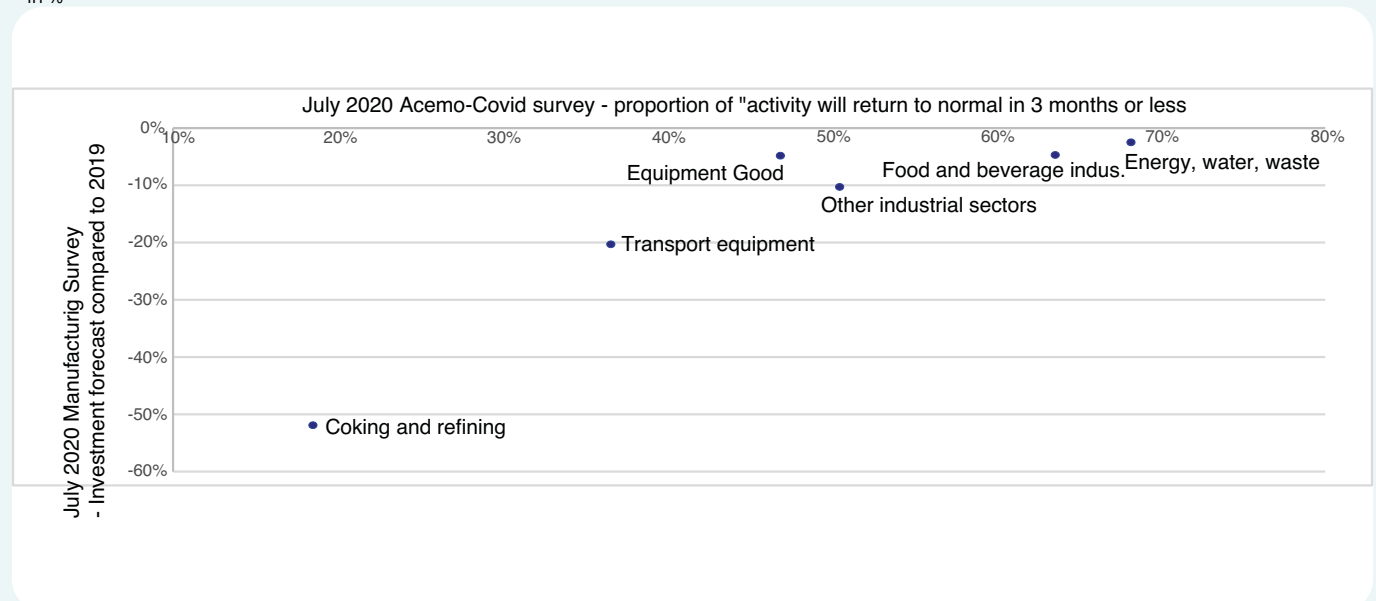
Indices expressed in base 100 in relation to their respective levels in 2019



Note: series corrected for seasonal variation and number of working days.
Source: Index of services production, INSEE

► 6. Responses from the manufacturing sector, in July 2020, regarding the perspective of a return to normal activity levels, and investment forecasts for the year

in %



Source: July 2020 economic survey on investments in manufacturing industry, INSEE. Survey Acemo-Covid, INSEE-DARES.

French economic outlook

Budgetary support has offset a large proportion of the decline in the value added by NFCs

Analysis of the NFCs account suggests that the decline in GFCF in 2020 was also limited by the support measures put in place for businesses, which served to stifle the repercussions of the fall in value added. These measures provided considerable relief to households and businesses: the government covered between 70% and 80% of the total decline in national income in 2020, leaving businesses to shoulder the rest of the loss⁴.

These measures took multiple forms, and their effects have been felt at different levels of the NFCs account. Firstly, while the value added by NFCs shrank by over 100 billion Euros in 2020, their gross operating surplus (GOS) was buoyed by the short-time working scheme (reducing their wage bill) and by subsidies received from the Solidarity Fund⁵ (► **figure 7**). In total, the decline in the value added by NFCs was almost twice as substantial as the decline in their GOS. The decline in the gross savings of NFCs was further limited by

the decrease in property income (dividends, interest payments etc.) and reductions to current taxes.

NFC also accumulated less inventory in 2020 than they did in 2019, which improved their financing capacity, while receiving more capital transfers⁶. In light of the limited reduction in GFCF, the financing requirements of NFCs did not explode in 2020. They nonetheless reached a level 50% above the mean value for the 3 preceding years (2017-2019). This deterioration in financing needs was relatively limited compared with the events of the financial crisis of 2008-2009: in 2009 the financing requirements of NFCs tripled in relation to their mean value for the period 2005-2007.

In the absence of these support measures, NFCs would probably have had to further reduce their investment spending or their payments of property income, or else to bear greater financing requirements. By way of an illustration, if the decline in the value added by NFCs had been passed on entirely to GFCF, the latter would have decreased by 35% instead of 7.2%.

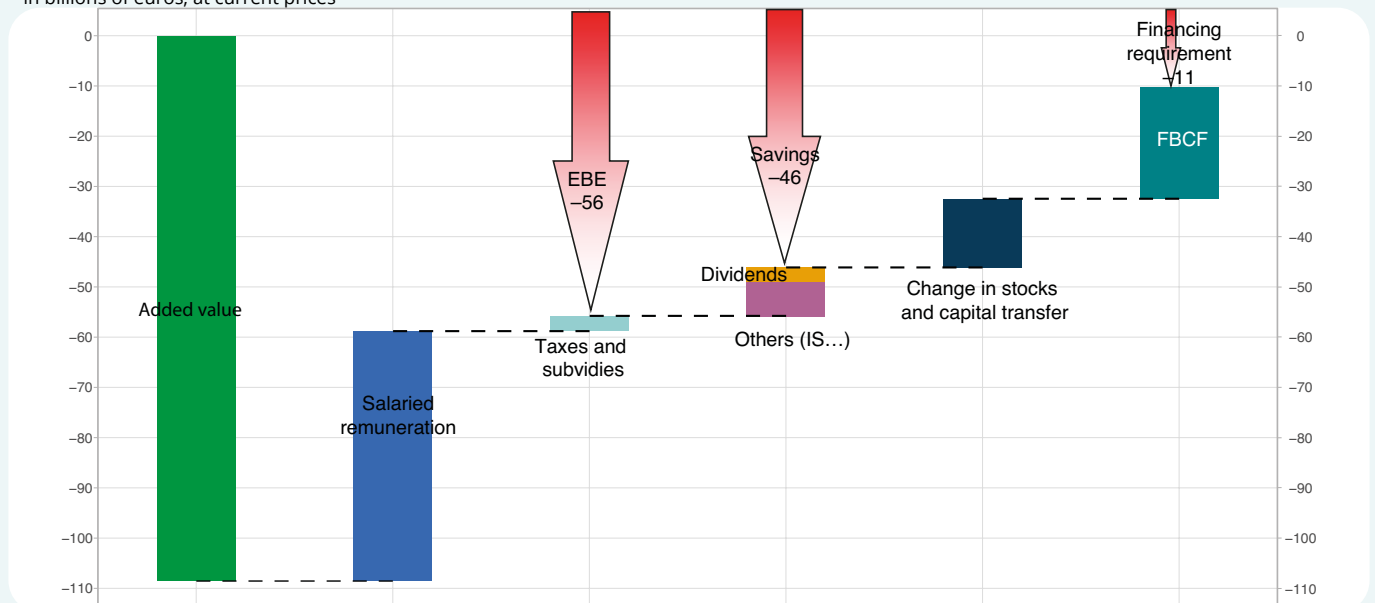
⁴ "How has the macroeconomic cost of the public health crisis been shared?" INSEE, Nicolas Carnot, 28/05/2021.

⁵ Subsidies only increased by 2 billion Euros between 2019 and 2020, which may seem paradoxical given the large sums paid out in 2020 under the emergency measures. These measures actually served to offset the conversion of the CICE tax credit into a reduction in employers' social security contributions (INSEE Première, National Accounts 2020, 28/05/2021).

⁶ The increase in capital transfers accounts is two-thirds the value of the following figure from the national accounts. NFCs were allowed to carry over into 2021 the payment of a large portion of the taxes and social contributions calculated for 2020. Nevertheless, for the purposes of the national accounts, these payments were recorded in 2020. Since some of the money owed by NFC to the government will never be recovered, future unpaid taxes are estimated and entered into the accounts for 2020 as a capital transfer from general government in favour of NFCs (see Box 1 in the Appendix to Informations Rapides No. 082 "National Accounts for general government - initial results - Year 2020," 26 March 2021).

► 7. Summary account for non-financial corporations in 2020 compared with 2019

in billions of euros, at current prices



How to read it: the value added by NFCs fell by 109 billion Euros between 2019 and 2020. The decrease in payroll costs and taxes after subsidies meant that gross operating surplus fell by just 56 billion.

Source: Semi-final annual accounts for 2019 and provisional accounts for 2020, in base 2014, INSEE

Non-financial corporations looked to bank loans, including government-backed loans, to cover their cash flow and financing needs, which could impede future investments

In order to cover their financing needs, NFCs issued a substantial amount of debt securities in 2020, and also took out a large volume of bank loans (2.4 times more debt securities and bank loans than in 2019). In particular, government-backed loans accounted for the majority of bank loans taken out by NFCs: 130 billion Euros were issued to NFCs and sole proprietors in 2020 under this programme.

In 2020, the gross debt of NFCs thus increased by 217 billion Euros, an increase of 12%. Nevertheless, their net debt (gross debt less the value of financial assets, including liquidity) gives a more accurate idea of the degree to which companies are actually indebted: in 2020, net debt grew by “just” 17 billion Euros. But this increase came on top of a level of indebtedness which was already high before the crisis struck.

In 2009 and 2010, NFCs continued to rein in their investments as the cost of servicing their debt decreased, allowing them to pay down some of their debt. More generally, the level of indebtedness of a company may have a negative impact on its investment, and the increase in the debt borne by companies in 2020 could reduce investment by around 2% in relation to its long-term trend (Hadjibeyli et al. 2021).

This effect should not be immediate, or should affect only a minority of companies: according to the October 2020 survey focusing on investment in the manufacturing industry, a small majority of respondents in the industrial sector felt that their level of indebtedness would be conducive rather than prohibitive to investment in 2021. In October 2020, the balance of opinion for the year 2021 regarding the expected influence on debt levels on investment decisions was estimated at +3 (this means that a majority of companies reported that their current level of indebtedness would have a positive, rather than a negative, effect on their investment decisions in 2021). This is far superior to the values estimated in October 2008 for 2009 (-5) and October 2009 for 2010 (-11). ●

Jérémy Marquis, Pierre Poulon

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International economic outlook



International comparisons

After the start of the year was once again affected by the health crisis, especially in Europe, economic activity is expected to pick up in the main European economies and continue its recovery in the United States and China. In April, short-term indicators of activity continued to move towards their pre-crisis level, sometimes even exceeding it, with retail sales especially vigorous in the USA and the UK. The easing of health restrictions that began in the spring in most countries should revive consumption, which is expected to get gradually closer to its pre-crisis level in Europe, and has already reached this level in the United States. On average over 2021, the GDPs of the main European countries look set to rebound: between 3.5% in Germany and 6.0% in France, and even more in the United Kingdom (+6.3%) and the United States (+6.7%). The upswing in activity could be accompanied, however, by inflationary pressures in 2021.

In Q1, activity still depended largely on the health conditions

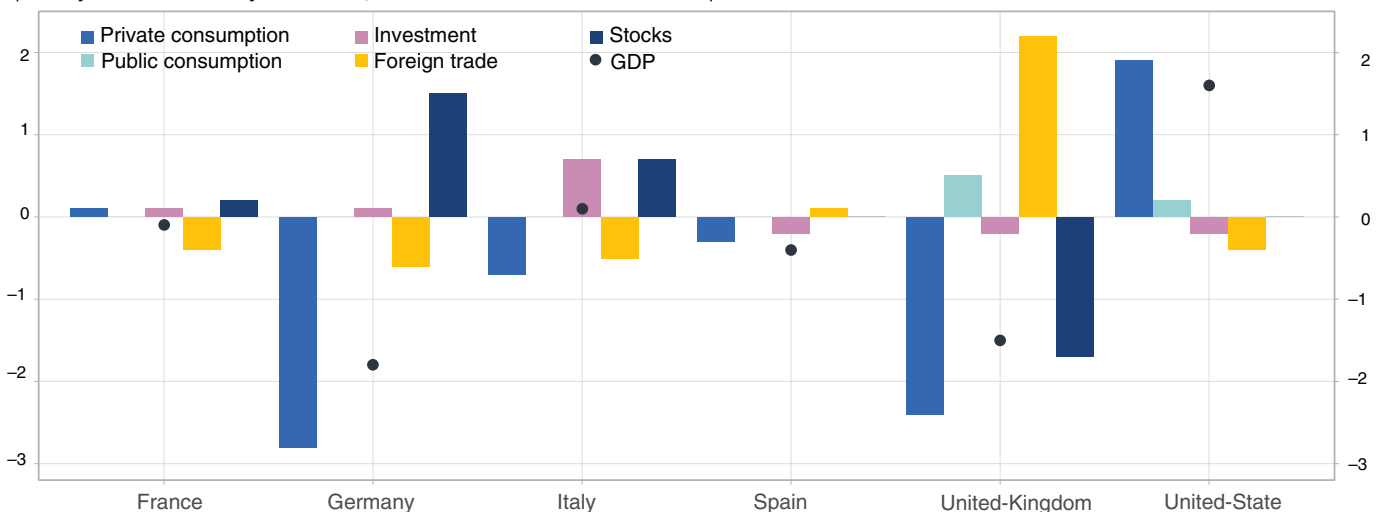
After 2020, a year when economic activity declined significantly in most countries, Q1 2021 was still seriously affected by the epidemic. Activity fell back moderately in France and Spain (-0.1% and -0.4% respectively) and more sharply in Germany (-1.8%) and the United Kingdom (-1.5%). Because of the health restrictions in place, especially regarding the opening of businesses, private consumption had a negative impact (► **Figure 1**),

especially in those countries that were under lockdown throughout Q1 (contribution of -2.8 points in Germany and -2.4 points in the United Kingdom), and in the other European countries to a lesser extent. The upturn in investment in Italy (contribution of +0.7 points) meant that this was the only major European country not to show a decline in activity (+0.1% in Q1 2021). In the United Kingdom, however, foreign trade made a positive contribution to growth (+2.2 points): the implementation of Brexit caused a decline in imports after effects of inventories in 2020 (contribution of inventories was -1.7 points in Q1). In the United States, the easing of restrictions from March and the aid packages paid out to households meant that consumption was able to support growth in activity, which was up by +1.6% in Q1.

Compared to pre-crisis levels (Q4 2019), activity in the main western economies in Q1 2021 was very varied. In the Eurozone, Spain and Italy were still well below their pre-crisis levels (-9.3% and -6.4% respectively), while activity was a little less de-pressed in Germany and France (-5.0% and -4.7% respectively). In Spain, Italy and France, losses of activity in Q1 were mainly the result of sectors directly affected by the restrictive measures (accommodation-catering, transport services, leisure activities, etc.). In Germany, where these sectors are less important, industry made a substantial contribution to the difference in activity compared to pre-crisis (► **Box**).

► 1. In Q1 2021, there were contrasting changes in activity in the main western economies

quarterly variation in GDP by volume in Q1 2021, in %, and its contributions in % points



Source: INSEE, Destatis, Istat, INE, ONS, Bureau of Economic Analysis

In the Eurozone, the trade, transport and accommodation-catering sectors contribute most to the loss of activity compared to pre-crisis

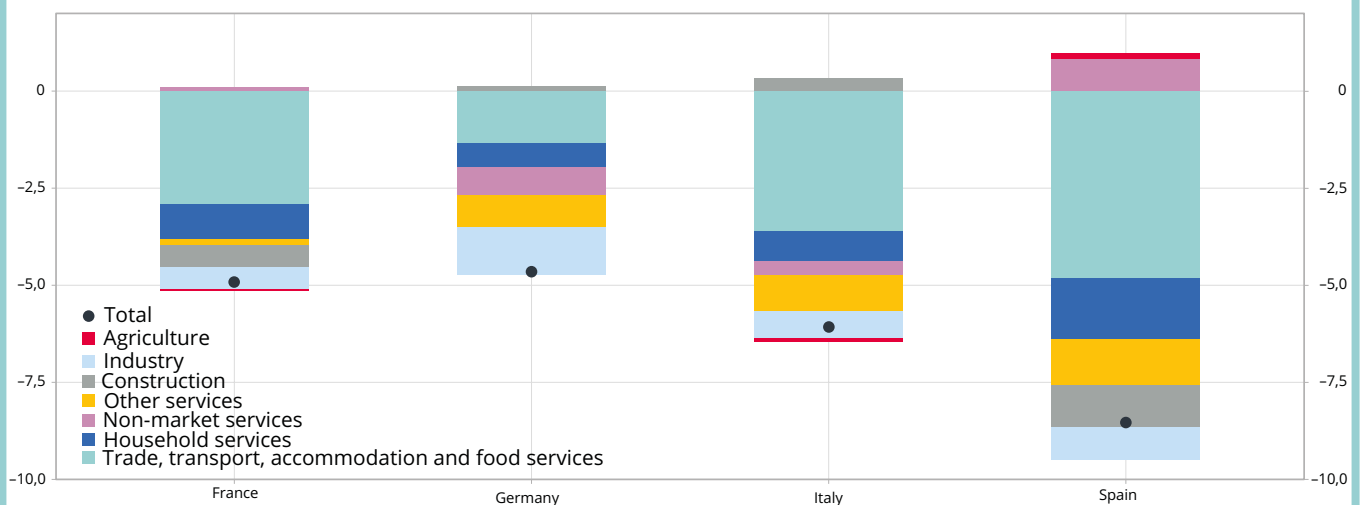
In Q1 2021, the trade, transport services and accommodation and catering sectors continued to have a strong effect on value added in the four main Eurozone economies (► **Figure 2**). This was the case in Spain and Italy (respective contributions of -4.8 points and -3.6 points to variation in total value added between Q4 2019 and Q1 2021) due to major restrictions but also to the significant weighting of these sectors. This contribution was less in France (-2.9 points) and Germany (-1.3 points). In Germany in particular, the trade, transport services and accommodation and catering sectors have been less affected by the restrictions since the beginning of the crisis, which can account in part for a smaller variation from the pre-crisis level than in the other countries in Q1 2021; the weighting of these sectors is also less. Services to households, which include leisure activities, also affect the four main Eurozone economies significantly, especially Spain. Differences between countries are not due to the weighting of this sector, which is similar in all four economies, but to the nature of the restrictions imposed.

Less affected by the health restrictions, industry nevertheless influenced the difference in activity compared to pre-crisis, especially in Germany (-1.3 points) due to its importance in the economy. This sector is responsible for the second largest contribution to the loss of German activity, but only for the third largest contribution in France and Italy and the fourth largest in Spain.

In addition, some sectors contributed positively to the difference in activity compared to the pre-crisis period. This is the case for non-market services (contribution of +0.8 points in Spain, less in France). In Italy, construction also made a positive contribution (+0.3 points), while this sector remained below its pre-crisis level in France and Spain (contribution of -0.6 and -1.1 points respectively). ●

► 2. In Q1 2021, the trade, transport and accommodation-catering sectors contributed most to loss of activity compared to pre-crisis

deviation of total value added compared to the fourth quarter of 2019 in % and contribution of sectors in % points



Note: "other services" include services to businesses, information and communication services, financial services and insurance and real estate services. "Services to households" include in particular leisure activities.
Source: INSEE, Destatis, Istat, INE

In April and May, retail sales followed contrasting trajectories, reflecting the health restrictions

In April, demand evolved differently in each country, continuing to reflect the strength of the health restrictions in force: as a result, retail sales fell dramatically in France and Germany, by 6.0% and 5.5% respectively (► **Figure 3**). In Spain and Italy, where the health situation did not change much in April, retail sales stagnated, still hampered by sporadic restrictions. Conversely, in the United Kingdom, the lifting of lockdown stimulated demand, and retail sales soared in April (+9.1%). They fell back slightly in May, but remained at +8.8% above their pre-crisis level. The indicator of bank card spending produced by the ONS increased by +6.1% in the United Kingdom in May. In the United States, retail

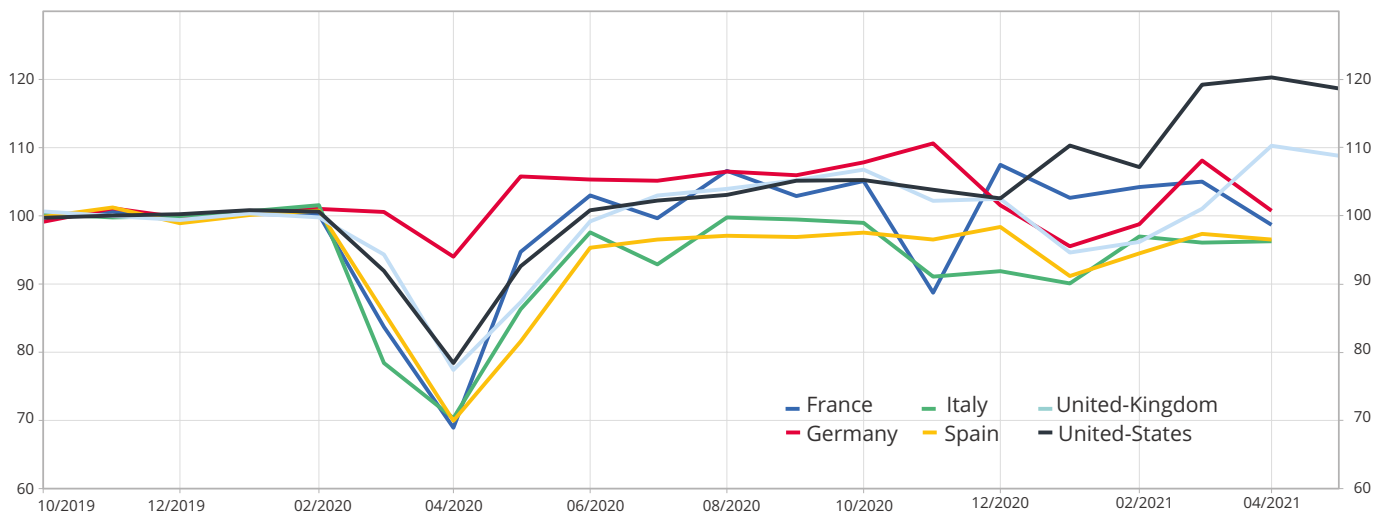
sales increased briskly in January and March, affected both by fewer restrictions and a boost in demand due to the budget stimulus package. They stabilised in April then declined slightly in May (-1.3%), probably as a result of shortages, but still remained at +18.7% compared to their pre-crisis level.

Industrial production continued its slow progress towards its pre-crisis level

On the supply side, industrial production grew at a moderate pace in April and remained below its pre-crisis level in the major western countries (► **Figure 4**). The IPI recovered slightly in Spain and the United States, after difficulties at the beginning of the year. Although industrial production overall was not much affected by health restrictions in the

► 3. In April, retail sales varied differently in different countries, reflecting the health restrictions then in force

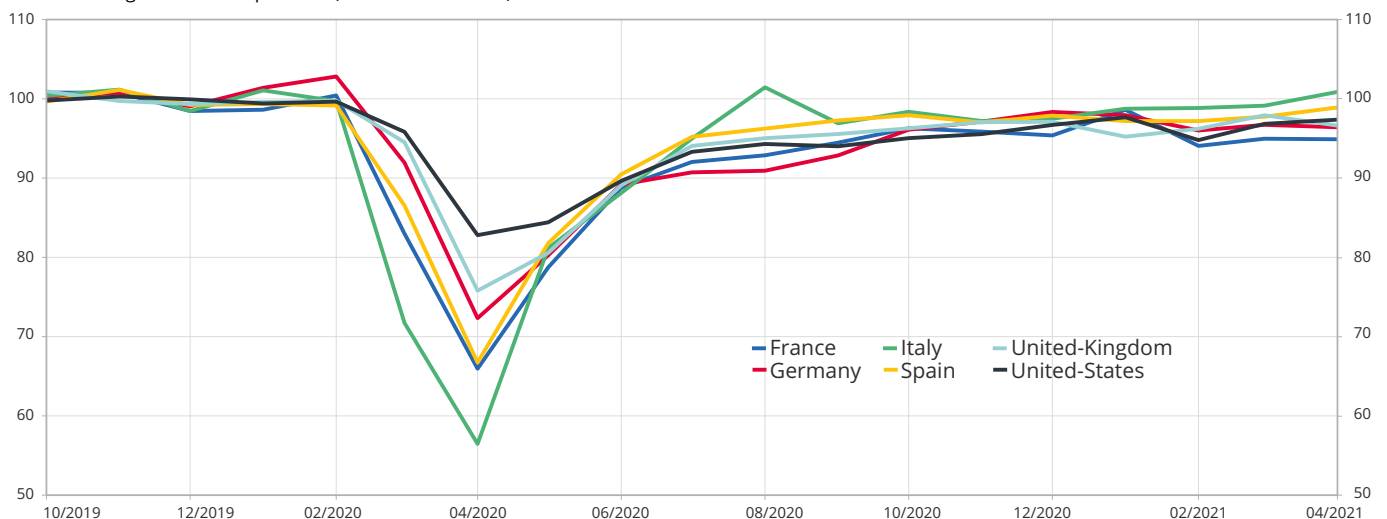
retail sales per level (base 100=T4 2019)



Source: Eurostat, ONS, Census Bureau

► 4. Industrial production is gradually getting closer to its pre-crisis level

GDP excluding construction per level (base 100 = T4 2019)



Source: INSEE, Destatis, Istat, INE, ONS, Federal Reserve Board

International economic outlook

spring, some sectors, like the automotive sector, for example, had to cope with sourcing problems. As a result, production in France and Germany stagnated at below pre-crisis levels in April (-3.6% and -5.5% respectively). In the United Kingdom it fell back a little (-1.3% between March and April), because of maintenance work on oil wells. Meanwhile, Italian production exceeded its pre-crisis level (+0.8% above Q4 2019, as a result of a +1.8% increase in April).

European trade picked up at different rates, between the US stimulus package and Brexit

Regarding foreign trade, trade in goods recovered at varying rates in 2021 (► **Figure 5**). In the United States, the fiscal stimulus plan notably stimulated consumption, thus widening the trade balance: in April, imports of goods exceeded their pre-crisis level by +11%, against +6% for exports of goods. In the Eurozone, imports of goods exceeded their pre-crisis level in April, except for France. In Germany, Italy and Spain, they were between +4% and +6% compared to 2019. Spanish exports were the most dynamic (+11% compared to pre-crisis), and in Italy, exports recovered as much as imports (+6%). However, in Germany, exports of goods lagged further behind: in April they barely exceeded their 2019 level. In France, imports were also more dynamic than exports of goods, but the recovery in trade is more sluggish. The relative diffidence of exports in France and Germany reflects the problems in the transport machinery and equipment sector since the start of the crisis, whereas imports of goods have been able to benefit from companies maintaining production, despite the restrictions.

Finally, in the United Kingdom, the recovery of trade in goods, which was already slower than elsewhere before the end of 2020, was interrupted when Brexit

came into force: both imports and exports of goods plummeted in January 2021, before bouncing back. However, this rebound did not make up for the accumulated backlog: in April flows of goods, both incoming and outgoing, were down -16% compared to their 2019 average.

The easing of health restrictions continued in Europe and the United States over Q2 2021

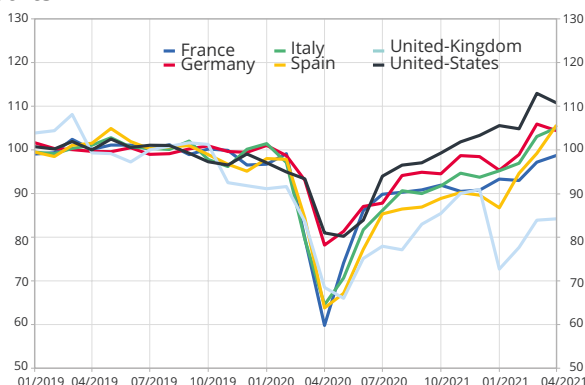
In Europe and the United States, the health situation has improved since April-May. The easing of restrictions began at the end of Q1 in most countries, and they continued mainly with the reopening of “non-essential” businesses, bars and restaurants and recreational and sports facilities; large gatherings, on the other hand, were still restricted.

In England, “non-essential” businesses, the terraces of bars and restaurants and cultural and sports activities reopened from 12 April (► **Figure 8**). Only a few areas of Scotland maintained additional restrictions. However, the last stage of the lifting of lockdown had to be postponed because of fears over the development of a variant. In Italy, the entire country moved into the white zone at the end of April-beginning of May, enabling bars and restaurants to reopen with no time restrictions, both inside and outside. In Spain, the state of emergency was lifted on 9 May in all regions of the country: bars, restaurants and “non-essential” businesses are open apart from some regional curfews and subject to capacity. In France, after the reopening of schools at the end of April/beginning of May, “non-essential” businesses, restaurant terraces and sports and leisure activities reopened on 19 May, then indoor dining rooms in restaurants on 9 June. In Germany, with the decline in the incidence rate, the Länder were no longer constrained by the federal “emergency brake” and

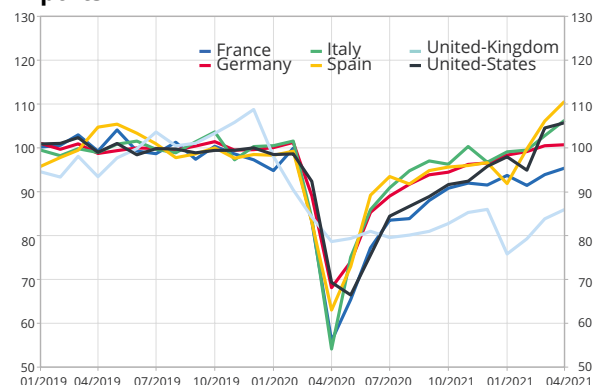
► 5. In the Eurozone, trade in goods rallied more quickly than in the United Kingdom, but less so than in the United States

trade in goods, by value, seasonally adjusted, base 100 = average 2019

Imports



Exports



How to read it: in April 2021, exports of US goods were +11% higher than their average level in 2019.
Source: French Customs, Bundesbank, Istat, Spanish Ministry of Economy, ONS, Bureau of economic analysis

Recovery in certain sectors and certain countries is manifesting signs of overheating, some of which are probably temporary

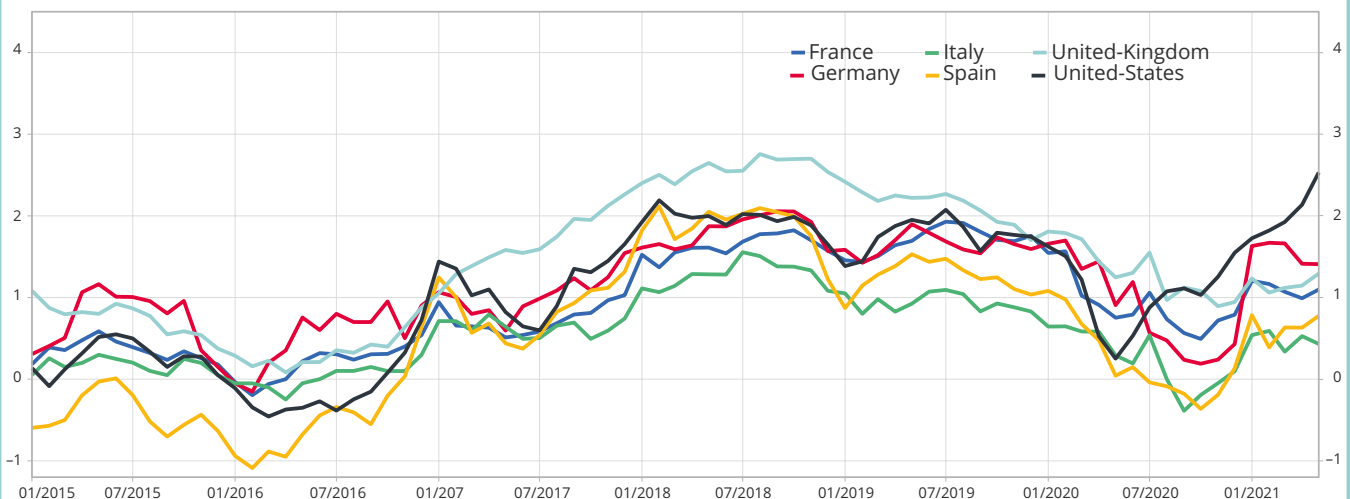
After falling dramatically in 2020 in the main western economies, consumer prices are now on the rise (► **Figure 6**), although at varying rates. In the United States, the rise was most pronounced, inflation in May stood at +5.0% and the Harmonised Index of Consumer Prices (HICP), annualised¹ over two years, was at +2.5%, mainly as a result of the upturn in consumption and the aid paid to households by successive stimulus plans. In Europe, the rise in prices was most significant initially in Germany, especially in Q1 after the end of the temporary reduction in VAT rates, a one-off decision until 31 December 2020 (+1.7% in March), before declining slightly. The increase came later in France and the United Kingdom (HICP annualised over two years to +1.1% and +1.3% in May), and it remained even weaker in the southern European countries (+0.8% in Spain and +0.4% in Italy in May).

There are inflationary pressures, however, especially in the United States (core consumer prices rising sharply driven by used car prices) and to a lesser extent in Germany. The reopening of sectors where prices had depreciated, shortages which were probably temporary, bottlenecks at production level and disruptions in supply chains are all factors that could have affected price levels in spring 2021.

Difficulties with recruitment have also been experienced by companies in some countries, because of the lack of workforce in some sectors. This is the case in the United States where 57% of companies expect to encounter real problems with hiring in the next twelve months in some fields, according to a survey carried out by The Conference Board (against 37% six months earlier). A number of companies have therefore announced wage increases to attract new workers, meanwhile the United States have ended the \$300 per week unemployment benefit granted by the stimulus plan, holding it partly responsible for the labour shortage – this issue is nevertheless open to debate.

► 6. Inflation is increasing in western economies, and especially in the United States

annualised two-year change, in %



Note: inflation is measured here by the HICP rate annualised over two years, so that it is not affected by the fall in prices in 2020, the result of unusual consumer conditions. Eurostat compiles the HICP, an indicator of consumer price indices harmonised between EU countries and the United States, but data for the United Kingdom stops at the end of 2020 with Brexit. For the United Kingdom, the index is the non-harmonised IPC provided by the ONS. How to read it: in April 2021 in the United States, consumer prices were 2.1% higher per year than their April 2019 level.

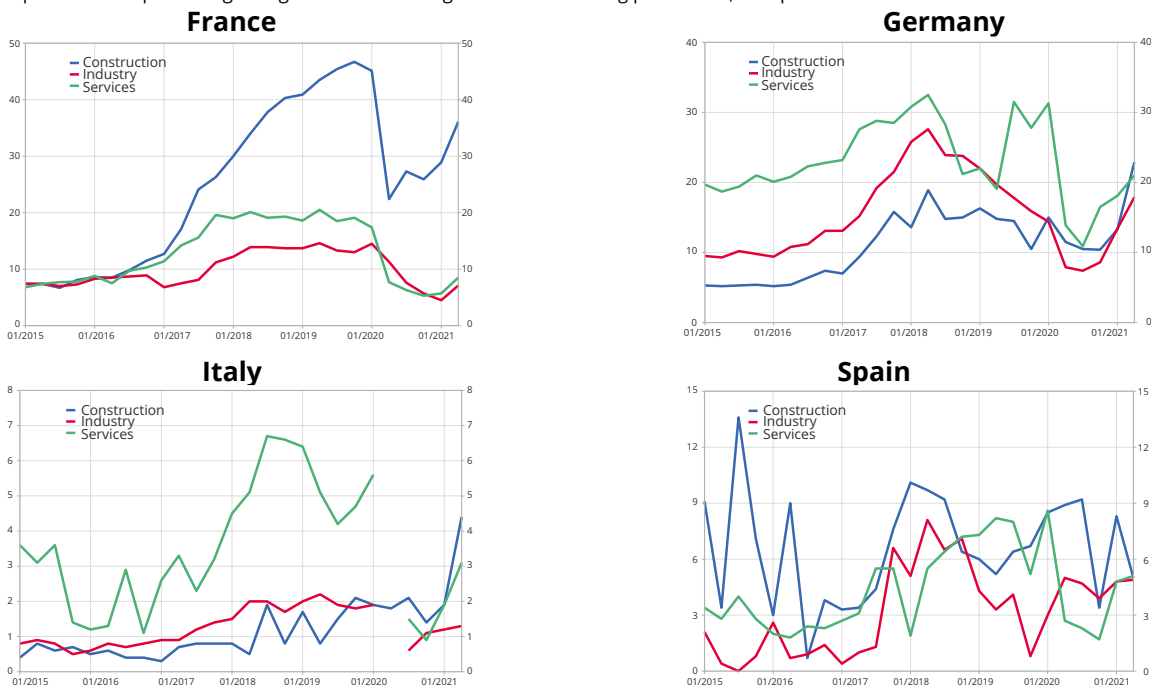
Source: Eurostat, ONS

¹ The difficulties in measuring the HICP in 2020 (especially in the spring) as well as the impossibility of consuming part of goods make it difficult to interpret the year-on-year change in the HICP in 2021. To get around this difficulty, we use a growth rate R over two years, which we annualise by the formula $\sqrt[2]{1+R}-1$, in order to obtain the corresponding rate over one year that would have been applied two years in a row to obtain the same growth as with R in two years.

International economic outlook

In Europe, according to the business tendency surveys, more companies consider that the workforce shortage is likely to limit their production. The associated balance of opinion, which had fallen sharply in spring 2020, is now tending to rebound. In Germany in particular, these difficulties can be seen in industry, construction and services since Q3 2020 (► **Figure 7**). In the other main Eurozone countries, they seem to be less significant at this stage: in Italy and France, it is mainly the building construction sector that is affected, but not as much as in 2019. In Spain, no sector seems to be really concerned. All in all, for the time being at least, these difficulties linked to lack of workforce seem unlikely to maintain a price-wage loop, even if an acceleration in wages in some sectors under pressure should not be excluded. ●

► **7. In 2021, some European businesses are seeing a resurgence of problems with workforce**
 balances of opinion of companies regarding workforce shortage as a factor limiting production, in % points



Note: these data are taken from the business tendency surveys. They are the balance of opinion of companies that have identified workforce shortage as a factor that is limiting production. The balance of opinion is quarterly in the industry and services sectors. It is monthly in the building construction sector and has been made quarterly by taking the point from the mid-quarter month. In April 2020, surveys were not carried out in Italy. These statistics correspond to European surveys centralised and harmonised by the DGECFIN and their values may differ from those disseminated by INSEE from the same source; the trends are similar, nevertheless.

Source: DG ECFIN

a number of restrictions on daily life were lifted. In Bavaria, flexible arrangements were made for indoor catering, private meetings and celebrations. Across the Atlantic, most restrictions had been lifted before May: the Oxford index was at its lowest level since the beginning of the health crisis. In parallel with the easing of health restrictions, vaccination is progressing in Europe and the United States: campaigns are more advanced in the USA and the UK with over 45% of the population fully vaccinated by the end of June; between 25% and 35% of the population of the major Eurozone economies were vaccinated by this date.

“High-frequency” indicators rebounded sharply with the lifting of health restrictions in Europe and the United States

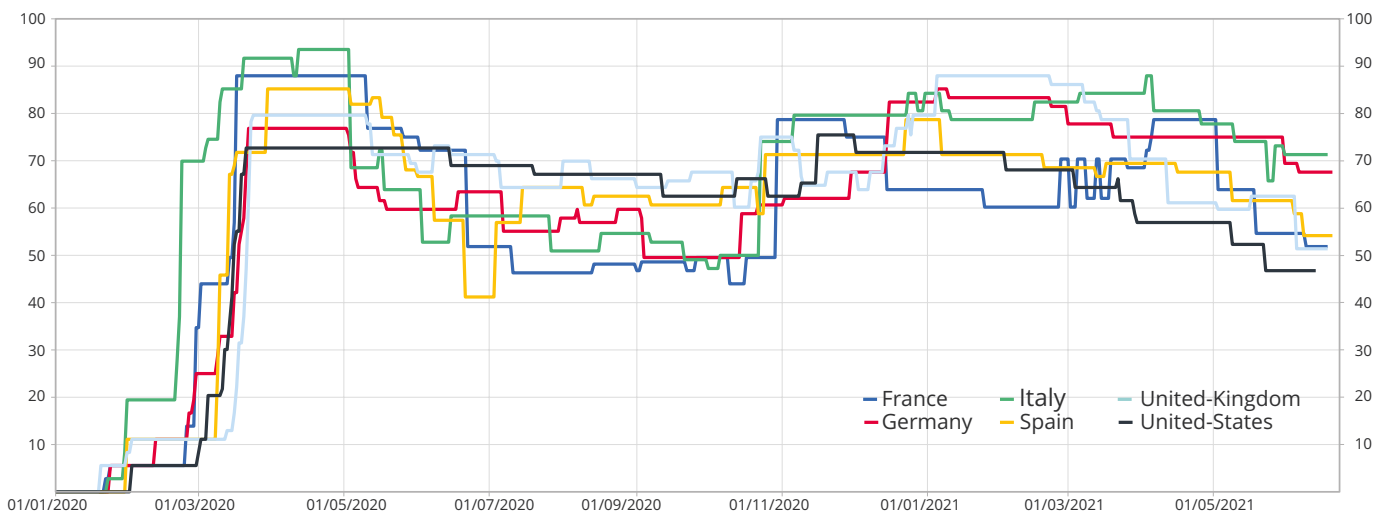
In the main western economies, the number of visitors to non-food retail outlets and recreational facilities rebounded substantially, with numbers in all countries getting back to their summer 2020 level and thus closer to their pre-crisis level (► **Figure 9**). However, by mid-June, numbers were still below pre-crisis level in Europe and the United States: between -15% in Spain and the United Kingdom and -3% in the United States.

Even more markedly, there was a surge in Google searches for the word “restaurant” in Europe with the reopening of bars and restaurants, exceeding the number of searches pre-crisis (► **Figure 10**). By mid-June, the indicator was higher than its pre-crisis level in all European countries: between +8% in Spain and +40% in France. In the United States, the number of these searches has remained above the pre-crisis level since March (between +10% and +20%).

Despite greater mobility of the population in all countries, public transport use remains more affected than numbers visiting shops, especially in the United Kingdom (30% below its pre-crisis level, ► **Figure 11**). These numbers are also below the pre-crisis level in the other countries: between -5% in France and -16% in the United States. It is likely that the use of public transport will continue to be affected because teleworking is still used extensively and individual means of transport are preferred.

► 8. In line with the easing of health restrictions, the Oxford stringency index gets closer to its summer 2020 level in several countries

Oxford University Stringency Index

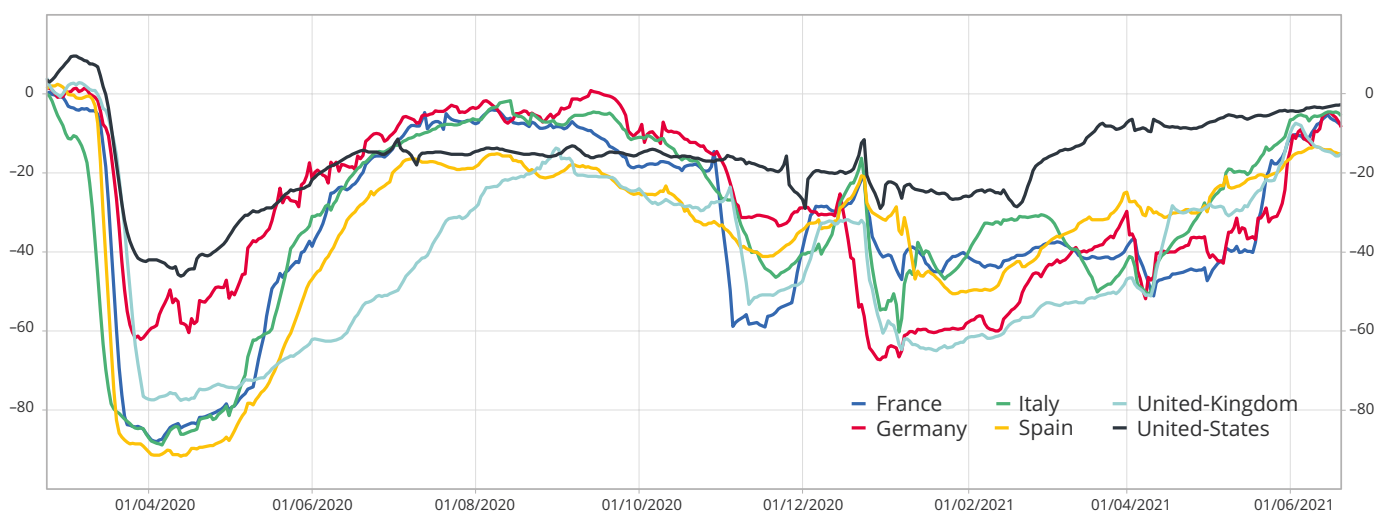


Note: the Oxford index lists and summarises all health containment measures in a single indicator, such as restrictions on personal mobility and closures of businesses, administrations and schools.

Source : Hale, T., Webster, S., Petherick, A., Phillips, T., et Kira, B. (2020). Oxford COVID-19 Government Response Tracker, Blavatnik School of Government

► 9. Visitor numbers to non-food retail outlets and recreational facilities return to their summer 2020 levels

in %



How to read it: on 20 June, visitor numbers to non-food retail outlets and recreational facilities in France were 7.4% lower, as a 7-day moving average, than the median value calculated by Google between 3 January and 6 February 2020.

Note: the date of the last point is June 20, 2021.

Source: Google Mobility Reports

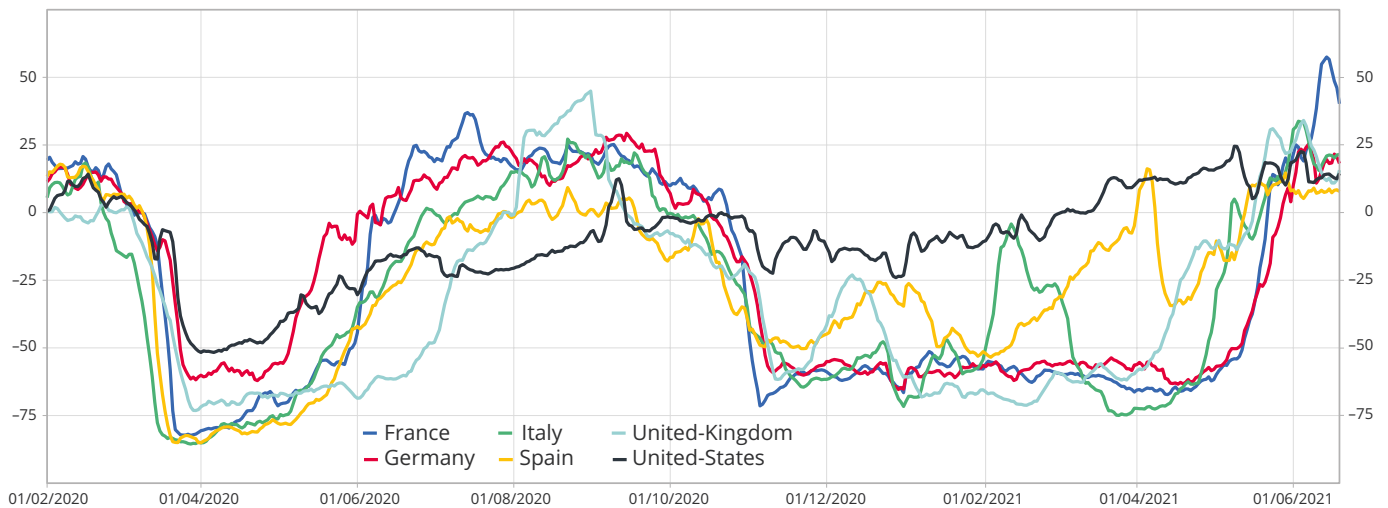
International economic outlook

Annual forecasts: economic activity is expected to rebound significantly in 2021, sustained by household consumption

Although the start of 2021 was still affected by the health crisis in Europe, the easing of restrictions in spring and the progress of vaccination programmes in all countries should ensure a sustained recovery in activity. It should continue to move closer to its pre-crisis level of Q4 2019 until the end of the year, and may even exceed it (► [Figure 12](#)). Household consumption, the GDP component that was particularly affected by the crisis, is expected to be

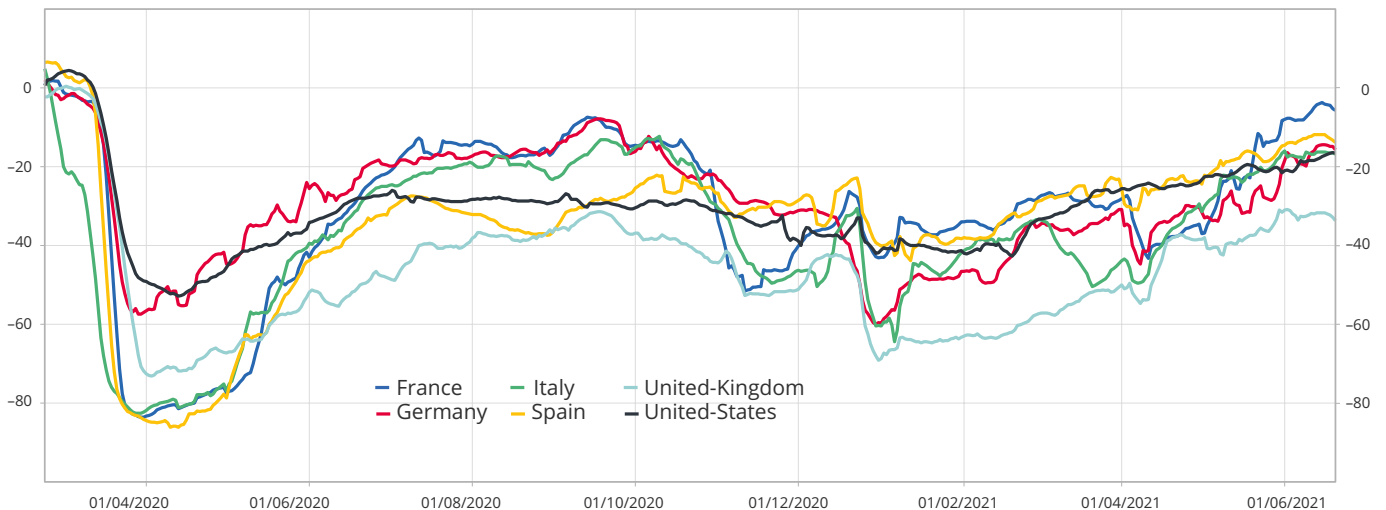
the main contributor to this recovery (► [Figure 13](#)). In the United States in particular, where domestic demand is expected to be stimulated by the massive aid packages paid out to households, activity looks set to exceed its pre-crisis level from mid-year and to continue to increase thereafter. In addition to the recovery in consumption, the different European countries are also expected to benefit from the US stimulus plan and the recovery in Chinese consumption (see below) via foreign trade: this will probably be the case for Germany in particular, where activity is expected to return to its pre-crisis level at

► 10. The reopening of bars and restaurants led to a sharp rebound in the number of internet searches for “restaurant” in all countries



How to read it: on 19 June, the 7-day moving average for the number of *Google* searches for “restaurant” in France was 40% higher than the average of the 7-day moving averages recorded on each 15 January between 2016 and 2019. Note: the date of the last point is June 19, 2021. Source: *Google Trends*

► 11. Public transport use picked up but remains well below its pre-crisis level in Europe and the United States



How to read it: on 20 June, public transport use in France was 5.7% lower, as a 7-day moving average, than the median value calculated by *Google* between 3 January and 6 February 2020. Note: the date of the last point is June 20, 2021. Source: *Google Mobility Reports*

the end of the year. In Spain, activity is still likely to be around 3% below its pre-crisis level at the end of the year (compared to Q4 2019) and around 2% below in Italy and the United Kingdom.

On average over 2021, activity in the main European economies is expected to rebound: +3.5% in Germany, more in Italy (+5.0%), and even more in Spain, France and the United Kingdom (+5.9%, +6.0% and +6.3% respectively, ► **Figure 14**). The re-bounce is also likely to be on a large scale in the United States (+6.7%). Part of this increase in activity is automatic, linked to the significant drop in activity in 2020 and despite any decline in early 2021: in Q1, the growth overhang from 2021 was between 1.5% and 4% for the countries studied, apart from Germany, where it was zero, proof that all growth forecast for 2021 is

likely to be the result of the increase in activity over the year.

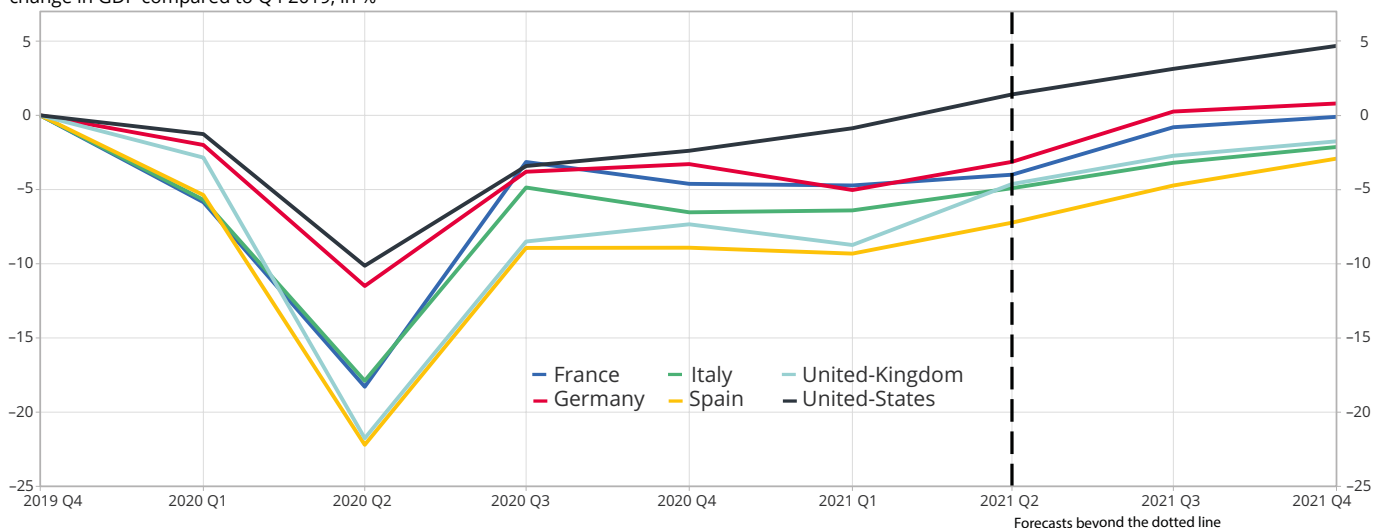
This scenario is based on the gradual disappearance of the epidemic and a strong recovery in household consumption, the extent of which will depend in part on their expectations, especially when dealing with inflation. It also assumes that sourcing problems and bottlenecks in industry will gradually be resolved, and that business bankruptcies will again be limited in 2021.

Foreign demand is still boosting the Chinese economy

In Q1 2021, the Chinese economy slowed (+1.2% after +3.4% at the end of 2020), as it was affected by the introduction of severe measures restricting

► 12. In Europe, activity is expected to gradually return to its pre-crisis level, while in the United States it looks set to exceed it from spring onwards

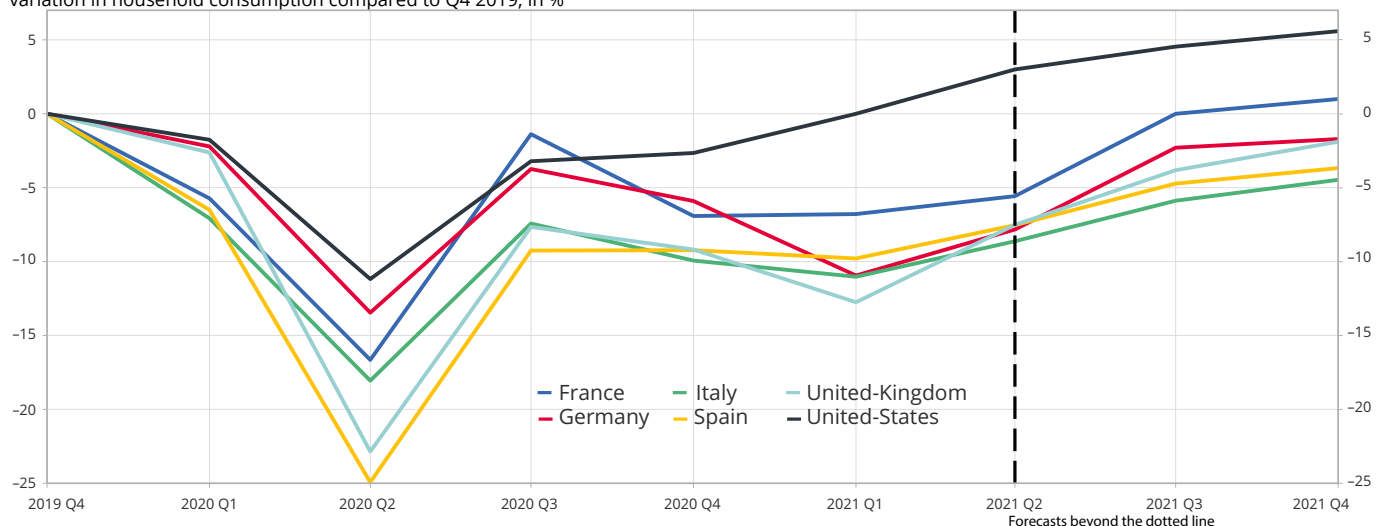
change in GDP compared to Q4 2019, in %



Source: INSEE, Destatis, Istat, INE, ONS, BEA

► 13. With the exception of France, household consumption is likely to remain below its pre-crisis level in Europe

variation in household consumption compared to Q4 2019, in %



Source: Insee, Destatis, Istat, INE, ONS, BEA

International economic outlook

movement, after an increase in the number of Covid-19 cases. However, Chinese activity was well above its pre-crisis level (+7.6% compared to Q4 2019). It is expected to continue this increase for the rest of the year and achieve +9.3% growth in 2021.

Economic recovery is still driven by the momentum of industrial production (+14.2% in May compared to May 2019). It is benefiting from sustained world demand, and especially from the strong recovery in the United States, but it is also able to take advantage of the slowdown in manufacturing output in other countries hit by the pandemic (India, for example). As a result, after bouncing back in Q1 2021 (+18.0% compared to their pre-crisis level after +9.4% at the

end of 2020), Chinese exports look set to remain buoyant in 2021 (► **Figure 15**). They should continue to support corporate investment, especially in the manufacturing sector, despite the tightening monetary policy and the slowdown in credit growth.

In May 2021, retail sales were 9.1% higher than in May 2019, more dynamic than in April (+8.4%), despite accelerating consumer prices (+1.3% year-on-year in May against +0.9% in April). The main reason behind this rise in prices is the increase in petrol and diesel prices and also food prices (which went from -0.7% year-on-year in April to +0.3% in May). In the wake of domestic demand, Chinese imports rose by +12.0% in Q1 2021 compared to Q4 2019. ●

► 14. Annual GDP growth in the main western economies and China in 2020 and INSEE forecasts in 2021

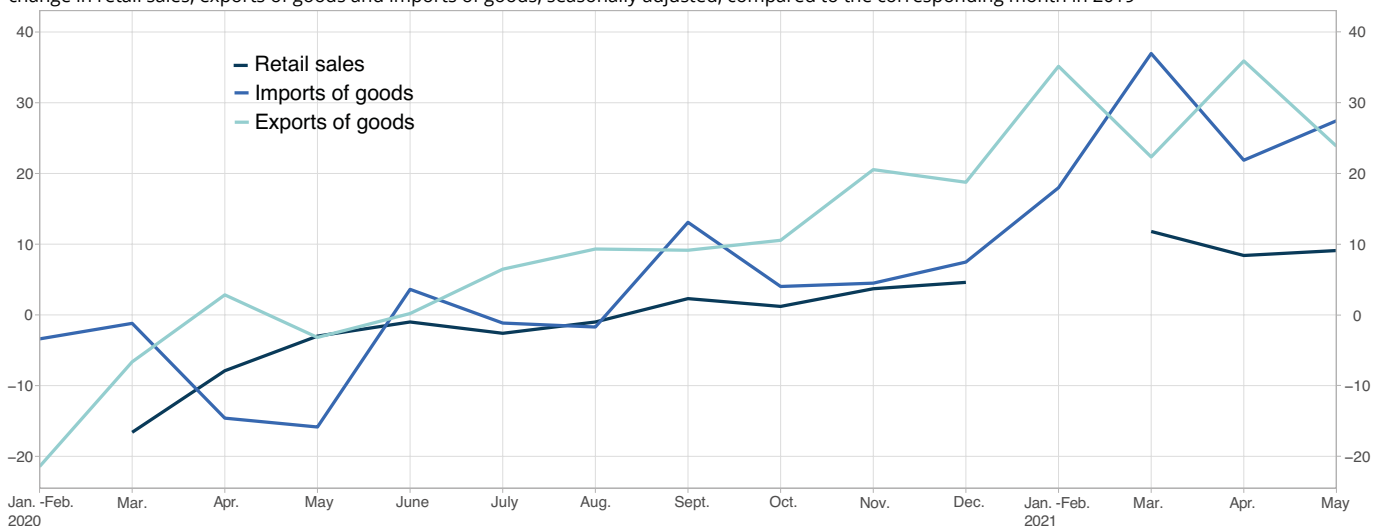
	2020	2021
France	-8.0	6.0
Germany	-5.1	3.5
Italy	-8.9	5.0
Spain	-10.8	5.9
United-Kingdom	-9.8	6.3
United-States	-3.5	6.7
China	2.0	9.3

■ Forecast

Source: INSEE, Destatis, Istat, INE, ONS, BEA, INSEE forecast

► 15. Chinese exports remained dynamic at the start of 2021

change in retail sales, exports of goods and imports of goods, seasonally adjusted, compared to the corresponding month in 2019



Note: January and February have been grouped together to take into account the significant impact of the Chinese New Year which takes place on different dates depending on the year. Data relating to retail sales are not available for January and February.

Source: NBSC, General Administration of Customs of China, INSEE calculations

Savings in the major Western economies in 2020: from evidence of the crisis to hopes of recovery

In Europe and the United States, the health crisis has had a profound effect on household consumption, while household incomes have generally been better protected. As a result, savings rates have reached unprecedented levels. Most of this trend has been towards financial savings, while household investment has declined or remained almost stable, depending on the country. This massive savings surplus is mainly the result of health-crisis-containment measures that have curbed consumption, but also stems from fears and uncertainties about future prospects during the pandemic, as measured by consumer confidence surveys. In the Eurozone, these surveys reflect an improvement in households' opinion of their ability to make major purchases in the spring of 2021. By income bracket, the situation is more contrasting: in Italy, unlike in France, the increase in the balance has been particularly strong among the poorest households. Although the lifting of restrictive measures should cause the savings rate to return to its pre-crisis level, European households are likely to remain cautious: their opinion of the opportunity to save continued to rise at the start of 2021 in France and Italy, for example.

In 2020, the savings rate set a new record in Western economies

In Western economies, the health crisis triggered a sharp rise in the savings rate in 2020 (► **figure 1**), corresponding to the unconsumed share of gross disposable income of households and NPISHs¹. The savings rate rose particularly sharply in H1 2020 (from 14.7% in Q4 2019 to 27.3% in Q2 2020 in France, from 6.2% to 25.6% in Spain, and from 7.3% to 26.0% in the US). In Q3, the savings rate then declined, although it remained higher than the pre-crisis levels (23.1% in Germany, for example, compared to 19.2% in Q4 2019). In Q4 2020, it rose again in the countries most severely affected by the tightening of health restrictions (France, Germany, United Kingdom), while it continued to decline in Spain and the United States.

From a historical perspective, this is an unprecedented increase in the savings rate, which had changed relatively

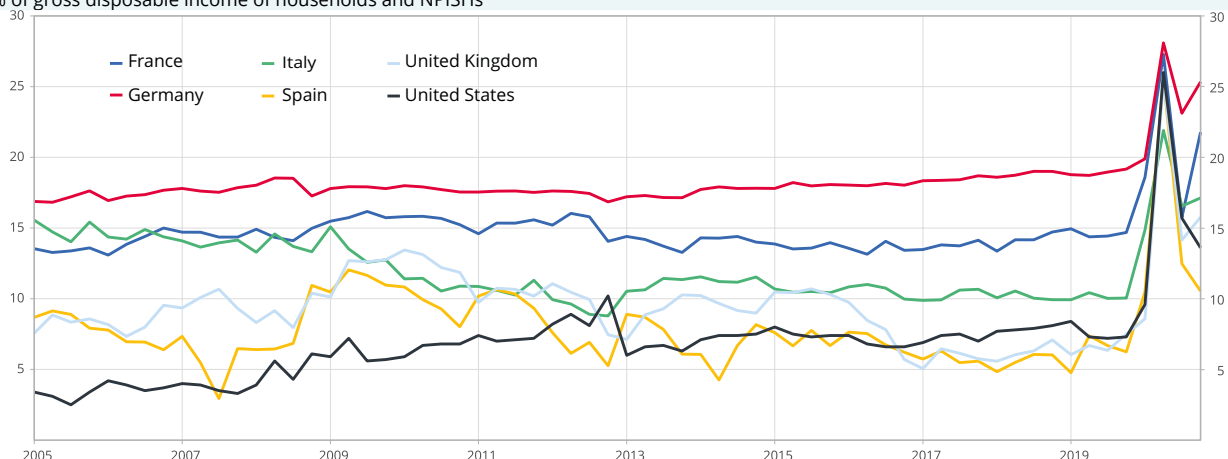
little since 2005, hovering around a globally stable level that varies from country to country (between 13% and 16% in France, for example). No increase of this magnitude had previously been observed, even after the 2008 economic crisis, when the French savings rate had risen by only +2.1 percentage points year on year in Q3 2009. In Spain, it had certainly increased more significantly (+9.1 points between Q3 2007 and Q2 2009), but this rise was less sharp and sudden than in 2020. Another notable fact is that the level reached by the savings rate in Q2 2020 was broadly similar in the countries in question (between 22% and 28%), whereas their pre-crisis levels were very different: since the mid-2010s, the savings rates in Spain, the United Kingdom and the United States were between 5% and 8% of households' gross disposable income, while the Italian rate stood at around 10%, the French rate at slightly below 15%, and the German rate at almost 20%².

¹ In this study, non-profit institutions serving households (NPISHs) are associated with households. The study thus concerns the institutional sectors S14 and S15 in the national accounts of the countries in question. Moreover, the weighting of NPISHs represents a very small share of «household» savings: less than 1% in France in 2019.

² This ranking of savings rates would be unchanged if they were adjusted for institutional differences across countries (see the article in «L'Économie Française» (2017) and the OECD Statistic Brief (2004) in the bibliography).

► 1. In all Western economies, the savings rate surged in 2020

as a % of gross disposable income of households and NPISHs



Source: Eurostat, ONS, BEA

International economic outlook

The sharp decline in household consumption was the main reason for the rise in the savings rate in 2020

In accounting terms, the savings rate corresponds to the share of gross disposable income that is not used by households for final monetary consumption expenditure; it therefore depends on both consumption and household income³.

In 2020, private consumption varied greatly in line with the tightening and easing of health restrictions, while household income was broadly maintained by the support measures put in place in the various countries (► **box**).

In Europe, the increase in the savings rate in 2020 was mainly due to the decline in household consumption (► **figure 2**): on average over 2020, its contribution to the rise in the savings rate ranged from +4.5 points in Germany to +11.6 points in Spain. In the United States, on the other hand, the significant increase in gross disposable income in 2020 (+6.2%) made the greatest contribution to the rise in the savings rate (+8.9 points).

In comparison, after the 2008 crisis, changes in the savings rate in different countries were more

contrasting, with the savings rate increasing in France, Spain, the USA and the UK, but stagnating in Germany, and even declining in Italy. Moreover, the predominance of consumption as an explanatory factor for the variation in the savings rate appears to be a specificity of the 2020 crisis: with the exception of Germany and Spain, gross disposable income had made a greater contribution to the variation in the savings rate between 2008 and 2010 than household consumption.

Additional household savings are not a form of investment

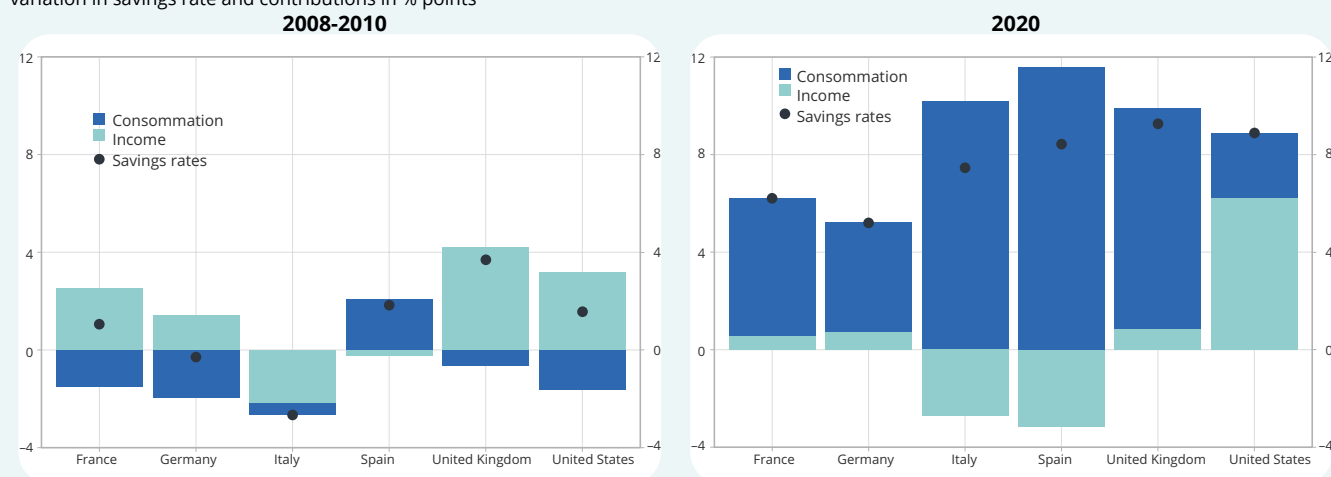
Savings flows can be invested by households, through the purchase of a home or the performance of major maintenance work, or they can be added to households' financial assets (financial savings⁴). In 2019, for example, a significant proportion of savings flows were channelled into housing investment (between 55% and 90% in the Eurozone countries in question, and 70% in the US). In 2020, however, household housing investment fell, especially in Italy, France and the United Kingdom, or remained stable in the other major European countries, in a general context of uncertainty related to the pandemic. At the macroeconomic level, the extra savings

³ For accounting purposes, the change in the savings rate in each quarter will be calculated in the following manner: $e(t) = [R(t) - C(t)] / R(t)$, the savings rate in quarter t, where C(t) is private consumption and R(t) is gross disposable income. The change in the savings rate in quarter t is expressed as: $e(t) - e(t-1) = - [1/R(t)] * [C(t) - C(t-1)] + [C(t-1)/R(t-1)] * [R(t) - R(t-1)] / R(t)$, where the first term of the sum is the contribution of the change in private consumption, and the second term is the contribution of the change in income.

⁴ «Financial savings» refers to gross savings (excluding capital transfers) that are not allocated to gross fixed capital formation.

► 2. In 2020, the decline in private consumption contributed particularly strongly to the rise in the savings rates of the major Western economies, in contrast to the 2008 crisis

variation in savings rate and contributions in % points



Note: in left-hand graph, the variation in the savings rate and contributions are calculated for the 2008 - 2010 period. In the right-hand graph, the variation in the savings rate and the contributions are calculated for the 2019 - 2020 period.

How to read it: in France, gross disposable income contributed +2.3 points to the increase in the savings rate between 2008 and 2010. In contrast, in 2020, French household consumption contributed mainly to the increase in the savings rate (+5.6 points).

Source: Eurostat, ONS, Federal Reserve Board

In Europe, household incomes were broadly maintained with support from general government

In 2020, the overall revenue¹ of the major European economies dropped sharply as a result of the pandemic. On average over the year, it fell by 4.7% in Germany, more sharply in France and the United Kingdom (-6.4% and -6.9% respectively) and even more dramatically in Italy and Spain (-7.8% and -9.8% respectively), ► [figure 3](#).

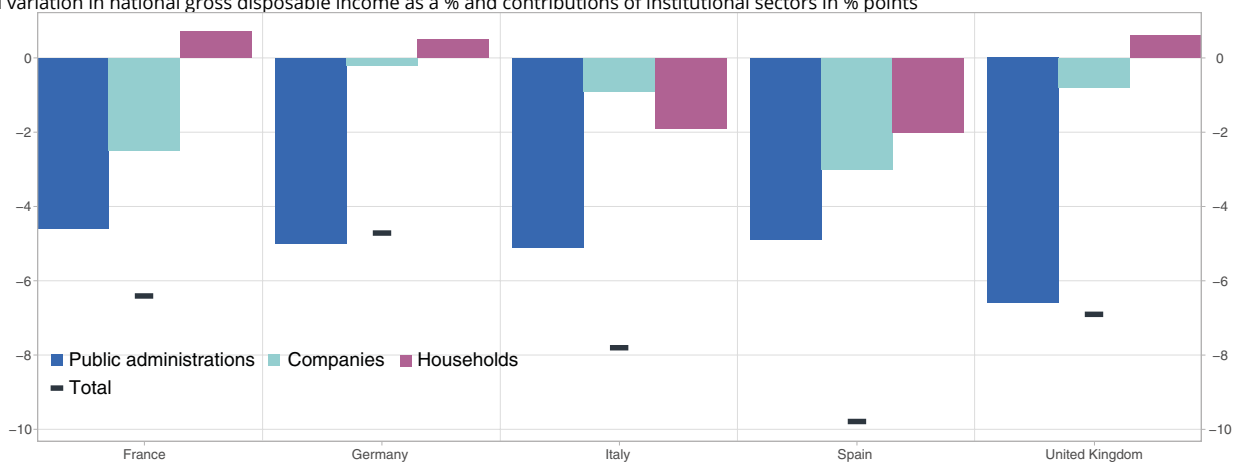
European governments bore the brunt of this decline in incomes in 2020. The deterioration in their revenue stemmed in particular from the increase in social benefits paid to households (in the context of short-time working and specific aid schemes), but also to the subsidies paid to enterprises and the reduction in taxes levied. In the United Kingdom, the contribution of general government to the decline in overall revenue was particularly strong (-6.6 percentage points), while in the Eurozone, it stood at around 5 percentage points in the main countries studied.

On the other hand, European household incomes have been much less severely affected overall. The numerous support measures and aid schemes put in place have limited the decline (annual variation of -2.8% in Italy and -3.3% in Spain), and even ensured a positive variation in gross disposable income in France (+1.0%), Germany (+0.7%) and the United Kingdom (+0.9%).

The changes in corporate income are more contrasting from one country to another: supported by general government, enterprises have nonetheless recorded a sharper decline in income than households. The largest drops in corporate income were recorded in France and Spain (annual variations of -19.0%, -14.9% and -12.9% respectively), and smaller declines were recorded in Germany (-5.6%), Italy (-6.7%) and the UK (-7.6%). ●

► 3. In 2020, the decline in incomes was borne mainly by general government

annual variation in national gross disposable income as a % and contributions of institutional sectors in % points



Note: households include NPISHs.

How to read it: on average over 2020, the overall income of French economic agents (households, enterprises and general government) fell by 6.4%. General government and enterprises contributed to the decline in overall income (-4.6 and -2.5 percentage points, respectively), while households contributed +0.7 percentage points to the rise in overall income.

Source: INSEE, Destatis, Istat, INE, ONS

International economic outlook

accumulated in 2020 were therefore mainly financial savings (► **figure 4**). With the exception of Germany and the United States, financial savings grew more strongly than total household savings, with the increase being offset by a negative contribution by investment (between -0.6 points for Italy and -1.1 points for France).

Consumer confidence surveys reflect changes in health restrictions

In most European countries, the household business surveys coordinated by the European Commission provide qualitative information about changes in consumption and savings behaviour. Available on a monthly basis, they provide relatively advanced information about current and future developments. From the questions asked in the surveys, balances of opinion are produced, including the opportunity to make major purchases and the opportunity to save⁵.

In 2020, the balance of opinion on the opportunity to make major purchases reflected the severity of the restrictions on consumption (► **figure 5**): it fell sharply in all countries in April: by 22 points in Spain, 25 points in Germany, 38 points in France and 38 points in the United Kingdom (in Italy, the surveys were not conducted

in April 2020). Households' opinions on major purchases deteriorated again in Germany at the time of the lockdown in late 2020-early 2021, but had nevertheless been on an upward trend since January, as in France, Spain and to a lesser extent Italy.

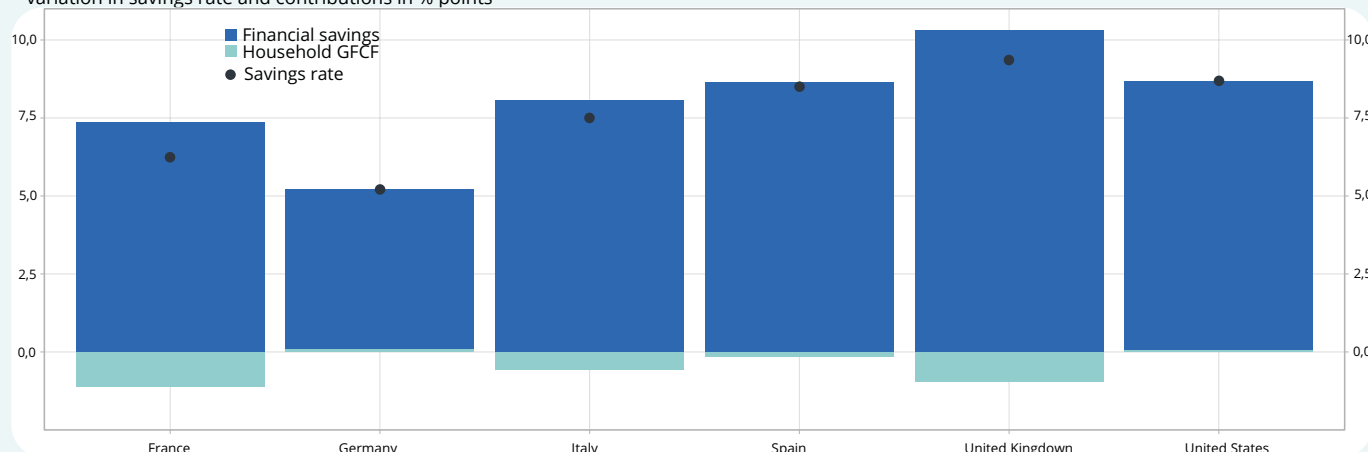
For its part, the trend concerning changes in the balance relating to the opportunity to save point towards a certain heterogeneity of opinions within European countries since the beginning of the health crisis. Germany is the only country to show a sudden improvement in household opinions, with a rise of 19 points in April 2020. In France, the increase in this balance was more gradual (+20 points over 2020 as a whole). In Spain, Italy and the UK, it remained stable in 2020. These figures should be analysed with caution, as balances of opinion from surveys are qualitative in nature. They may convey contradictory messages and are not necessarily confirmed by other consolidated indicators.

The trend concerning these balances of opinion in 2021 seems to suggest an upturn in consumption. Between January and May, the balances of opinion on major purchases improved in the Eurozone (gaining between 10 points in Germany and 15 points in Italy), but remained

⁵ The following questions relating to these balances of opinion are posed: «Is the economic outlook conducive to making major purchases?», «Is the economic climate conducive to saving?».

► 4. The extra savings accumulated in 2020 were added to household financial savings

variation in savings rate and contributions in % points



How to read it: in France, financial savings contributed +7.3 points to the increase in the savings rate. On the other hand, GFCF adversely affected the savings rate (-1.1 points).

Source: Eurostat, ONS, Federal Reserve Board

below their pre-crisis levels in most countries, and even deteriorated slightly in France and Germany in May. The details of these surveys allow us to observe these changes in opinion between households in the same country per income bracket. In France, the increase in the balance of opinion concerning major purchases was

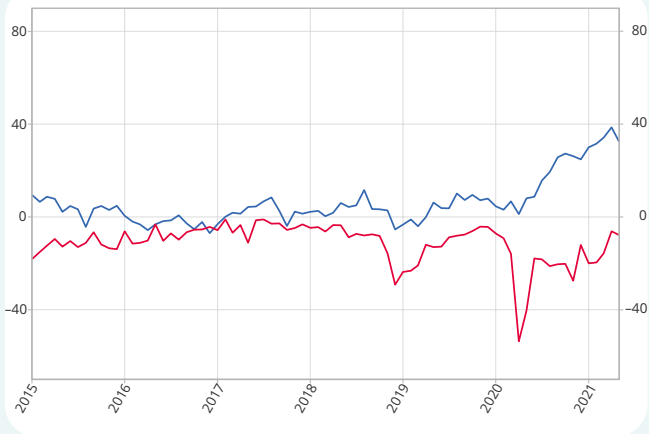
smaller for the lowest-income households (► [figure 6](#)), while in Italy, the increase in the balance of opinion was greatest for households in the top quartile. In Germany and Spain, the increase was relatively even across income brackets.

► **5. After plummeting in 2020, the balances of opinion on the opportunity to make major purchases in Europe rose in the spring of 2021**
balance in % points

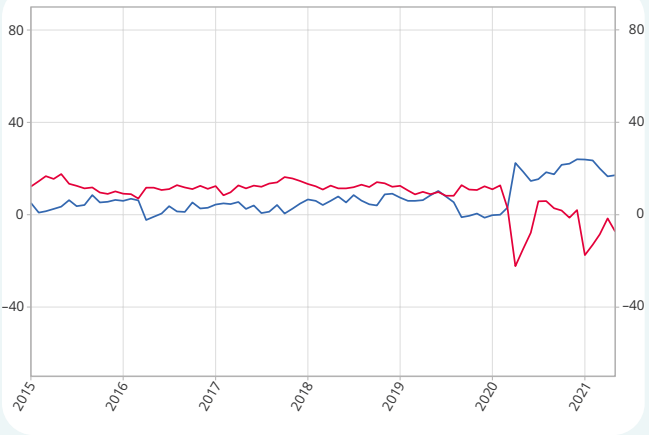
Common legend:

- The economic outlook is right for savings
- The economic outlook is right for major purchases

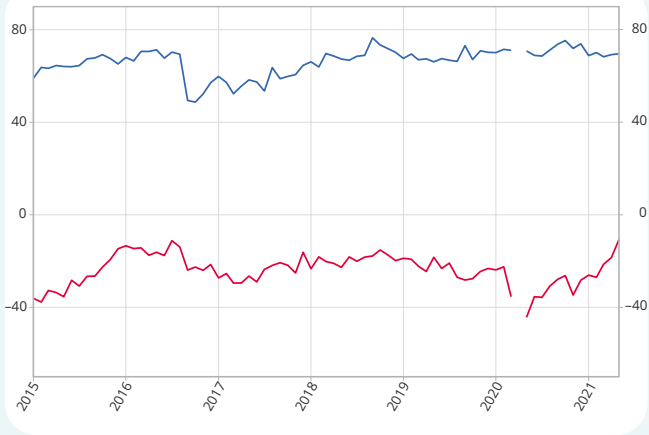
France



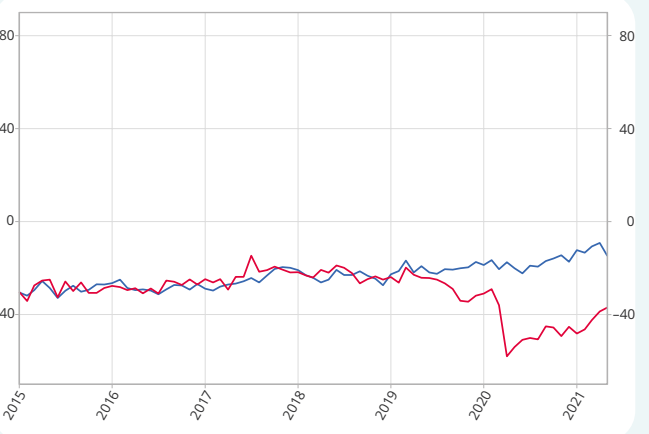
Germany



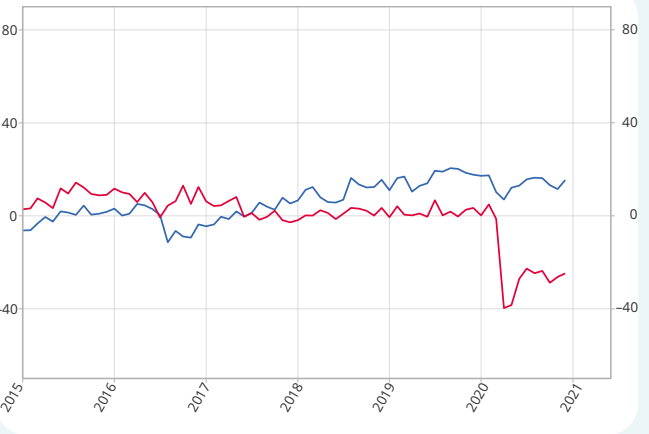
Italy



Spain



United Kingdom



Note: surveys were not conducted in Italy in April 2020. In addition, they have not been conducted in the United Kingdom since January 2021. For the Eurozone countries, the last update was in May 2021.

Source: DGEFCIN

International economic outlook

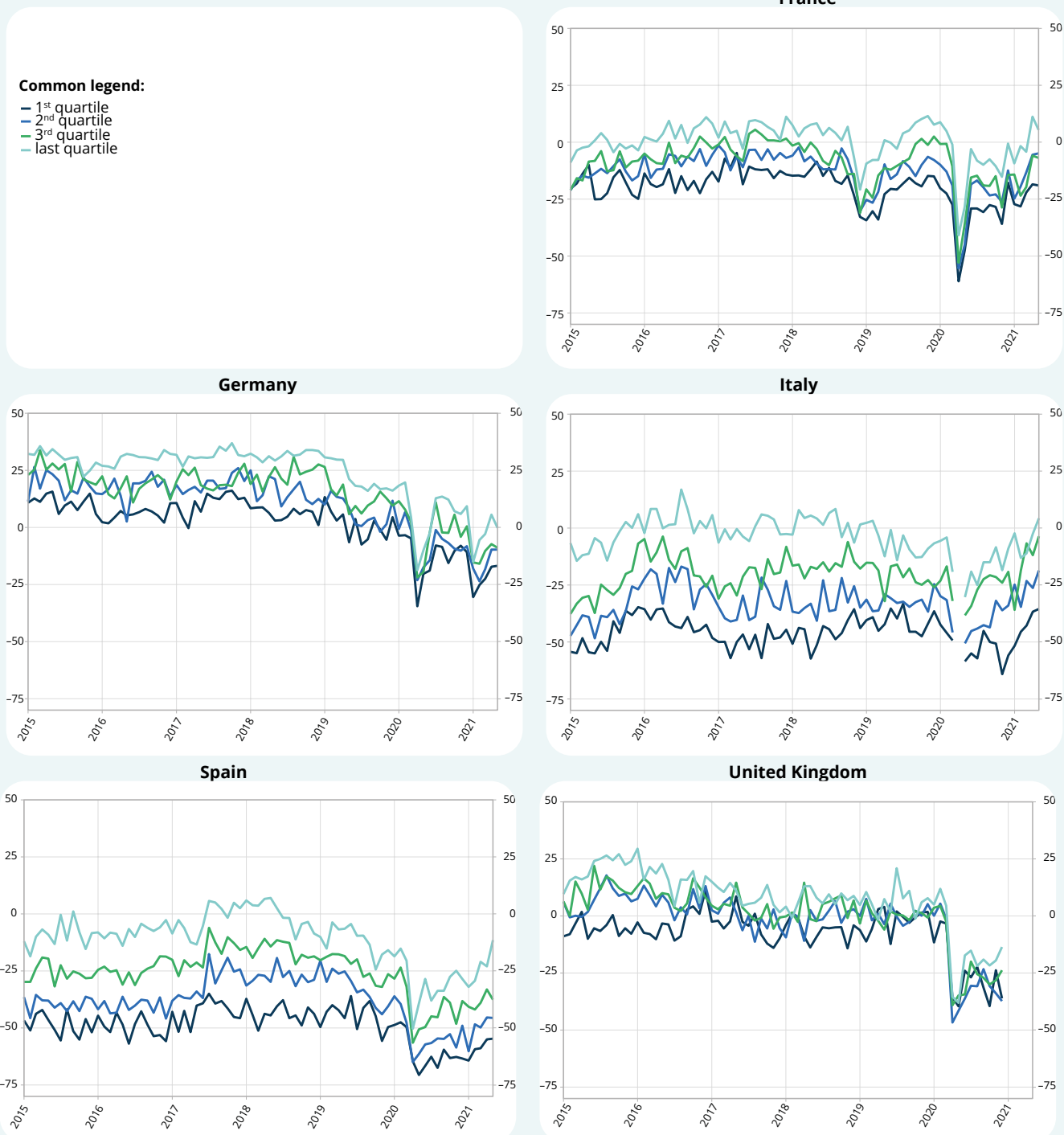
Regarding households' opinion of their opportunity to save in 2021, the balance of opinion declined in Germany and Spain (-7 points and -2 points respectively between January and May 2021), while continuing to increase in France and rise more slowly in Italy. In

greater detail, the decline in the opportunity to save in Germany and Spain was mainly driven by households in the top two income quartiles (► **figure 7**). Finally, in France, all households, regardless of their income bracket, reported greater opportunities to save. ●

Jules Baleyte, Éliette Castelain, David Fath, Robin Navarro

► 6. In Italy, contrary to other European countries, the opinion of the poorest households concerning major purchases has picked up particularly strongly

balance in % points



Note: surveys were not conducted in Italy in April 2020. In addition, they have not been conducted in the United Kingdom since January 2021. For the Eurozone countries, the last update was in May 2021.

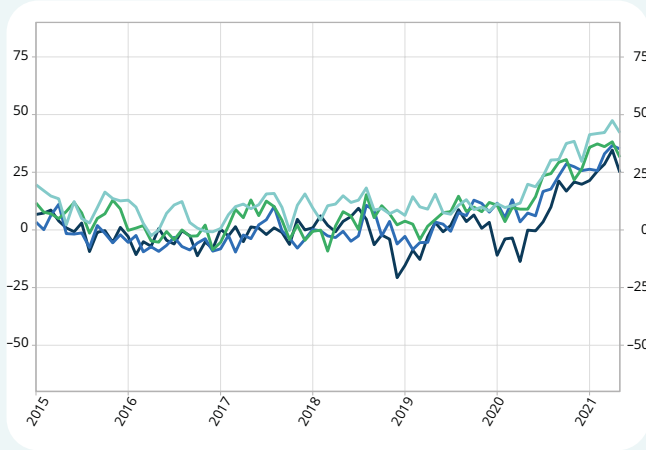
Source: DGE/CFIN

► **7. In France, the opinion of the poorest households on the opportunity to save rose more sharply than in other countries**
balance in % points

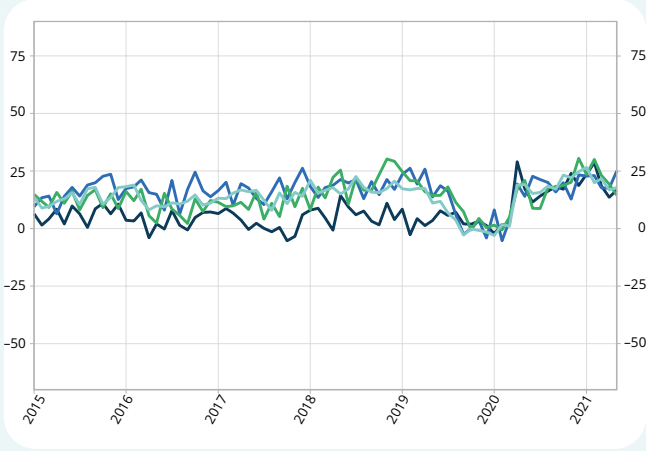
Common legend:

- 1st quartile
- 2nd quartile
- 3rd quartile
- last quartile

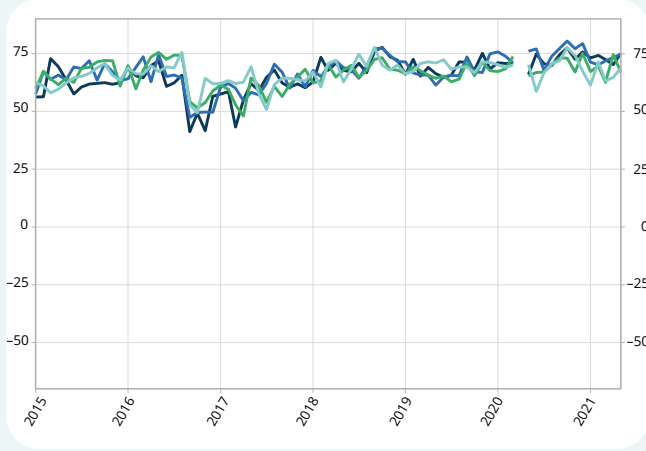
France



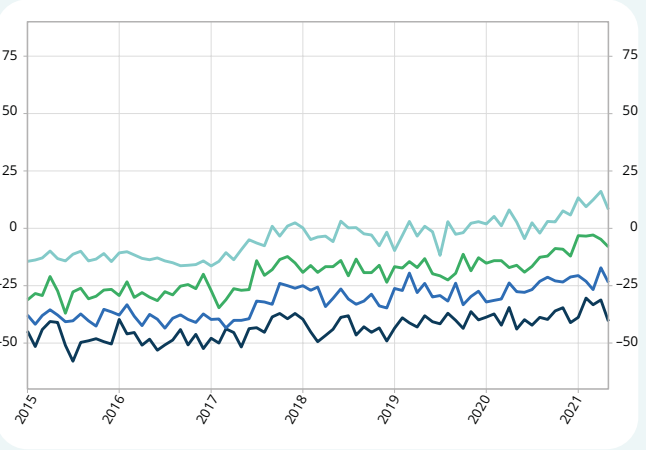
Germany



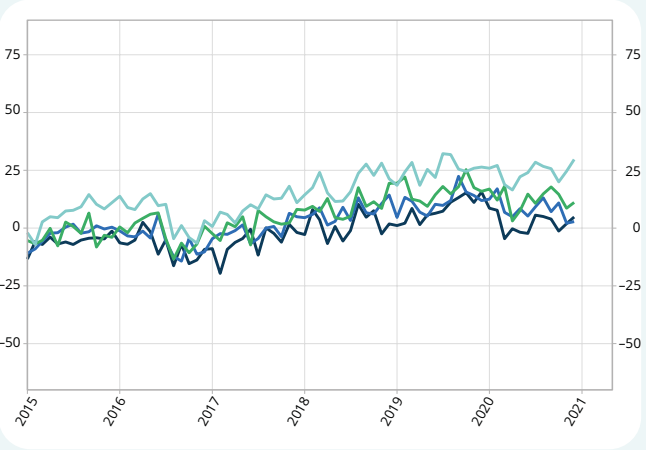
Italy



Spain



United Kingdom



Note: surveys were not conducted in Italy in April 2020. In addition, they have not been conducted in the United Kingdom since January 2021. For the Eurozone countries, the last update was in May 2021.
Source: DGE/CFIN

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Oil and commodities

In Q1 2021, the price of Brent stood at \$61 a barrel, on average, up 38% compared to Q4 2020.

After an increase in Q4 2020, demand for oil was lower than anticipated in Q1 2021, due to the virulence of the Covid-19 epidemic. However, supply also adjusted, with world production slowing in Q1. In Q2 2021, the demand for oil would appear to still be greater than supply, according to the IEA (International Energy Agency). For this forecasting exercise, the conventional assumption is that the price of a barrel of Brent will stabilise at around \$70 until December 2021.

This scenario is beset by several uncertainties. On the supply side, there are uncertainties about whether OPEC countries will respect the new production quotas, and on the scale of production in the exempted countries. The possible worsening of geopolitical tensions in the Middle East could also trigger a rise in prices; however, the return of the United States to the Iranian nuclear agreement could drive prices down. There are also uncertainties on the demand side, especially concerning developments in the epidemic, but also, in the medium term, the effects of the US stimulus plan.

In addition, commodity prices rose by almost 6% in Q1 2021, with a significant rise in the price of mineral commodities, also in cereals.

The price of Brent increased significantly in Q1

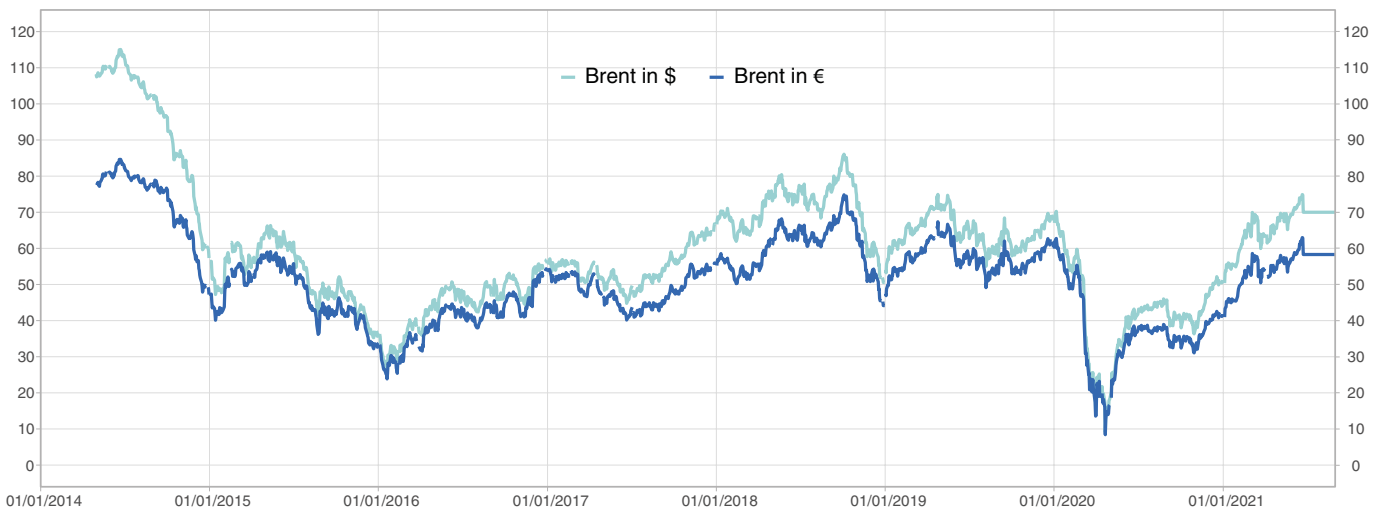
In Q1 2021, oil prices settled at \$61 on average (► **Figure 1**), up 38% compared to Q4 2020 (\$44). In early March, prices occasionally exceeded \$70, following the attacks on Saudi oil facilities. After this they gradually declined, and now they have been above \$70 since the start of June. Over the forecasting period, the price of oil is conventionally set at \$70.

Global oil demand remains well below pre-crisis levels, however

After rebounding in Q3 2020, worldwide demand slowed in Q4, although remained dynamic. However, in Q1 2021, demand remained almost lifeless, due to declining Chinese demand –the restrictive health measures put in place largely curtailing the traditional Chinese New Year festivities– and despite European and American demand being stimulated by particularly cold winter temperatures. From Q2 2021 and until the end of the year, global demand for oil should accelerate, but still remain below its pre-crisis level. This acceleration is probably due to the upswing in global activity, made possible by the ramping up of vaccination campaigns, and also to the gradual rebound in home-work travel, despite some remaining concerns over Indian and Brazilian demand, which could be very much affected by the virulence of the epidemic.

► 1. Price of a barrel of Brent in dollars and euros

currency of the barrel



Source: Commodity Research Bureau

International economic outlook

After a historic decline in the first three quarters of 2020, oil supply rebounded moderately at the end of the year then remained at a low level in Q1 2021

In Q1 2021, global oil supply was still on the rise, but had slowed as a result of OPEC's decision on 5 January to increase production only moderately and gradually. Production by the OPEC countries remained below the thresholds set by OPEC on 5 January, mainly due to Saudi Arabia's producing 8.46Mbd (million barrels per day) or 0.66Mbd below the threshold. Nigeria also produced 0.14Mbd below the threshold. However, Iranian production, which was exempt from any limitation, increased by 0.20Mbd, stimulated by the prospect of the United States returning to the Vienna agreement on the Iranian nuclear programme, and by an increase in purchases by China. In Libya, production rose by 0.26Mbd, to 1.15Mbd, with the cease-fire in force since September. In the United States, production declined in Q1, especially in February, as a result of the cold snap that led to interruptions at some production sites, as well as delivery difficulties.

On 27 April 2021, OPEC decided to continue increasing production gradually from May, in line with the signs of some improvement in the market and global activity. As a result of this decision and the rebound in production in the United States after the decline in Q1, global oil supply would appear to have accelerated in Q2 2021. Saudi Arabia would appear to have kept its production below its quotas until April, then gradually increased production, followed by all the OPEC countries concerned by the agreement. However, attacks on an oil field in Kirkuk in early May could have affected Iraqi production.

In April, a state of force majeure was declared by Libya's NOC due to a disagreement over the budget allocated to the oil industry. Production and exports were halted completely for a week, and so production in Q2 would appear to have been affected. In Iran, uncertainties persist over the possible return of the US to the Iran nuclear deal, which would enable Iran to substantially increase its production and put on the market the 70 or so million barrels currently stored at sea. In the US, production would appear to have rebounded in Q2, boosted by rising prices.

In H2 2021, if prices remain high, global supply is likely to continue to increase, while still remaining under control. It is expected that production by OPEC will still be regulated in order to monitor demand as closely as possible, while in the United States, the number of drilling rigs in activity, which has plummeted since the health crisis, should limit the possibilities of any sudden increase in production.

All in all, world output looks set to rise in H2 2021, driven mainly by the upturn in production in the United States and the increase in production forecast by the OPEC countries. Demand should remain well below its pre-crisis level, but is still likely to be on the rise. All in all, the market is expected to remain in deficit in 2021, with supply remaining below demand (► **Figure 2**).

Stock levels remain high

Crude oil stocks in the United States fell to 492 million barrels in Q1 2021 but levels still remained very high, well above (+45%) the 2011-2014 average. Upward pressure on prices would therefore be dampened by this level of trade reserves remaining high.

► 2. World oil market

in millions of barrels per day, data adjusted for seasonal variations



Source: AIE, INSEE

Commodity prices driven by the economic recovery

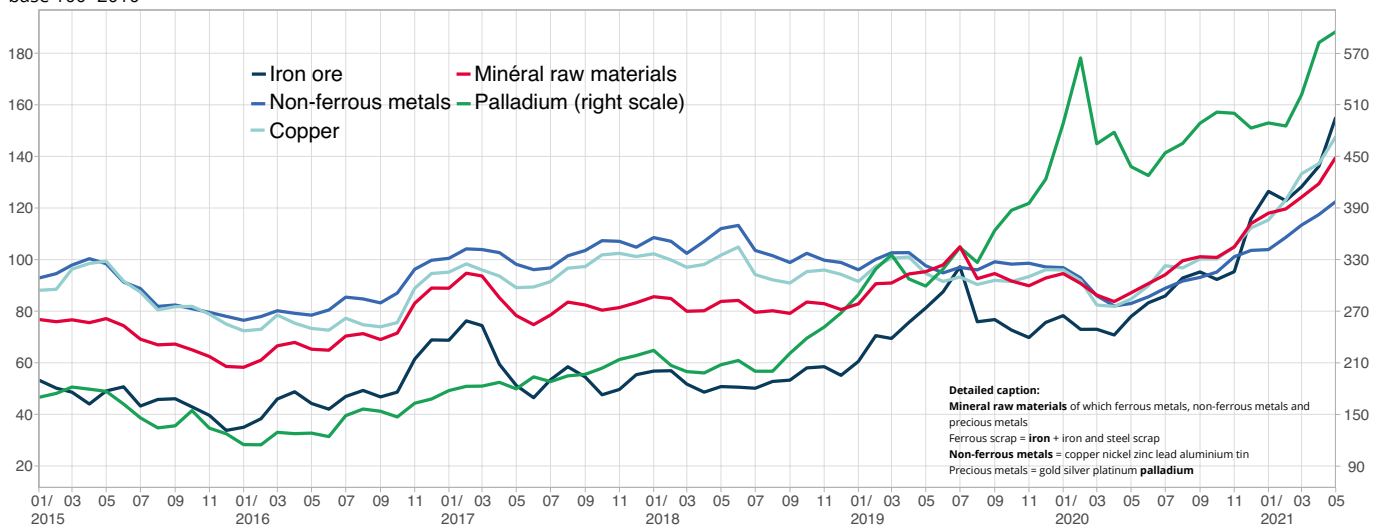
After rebounding in Q4 2020 (+5.4%) and exceeding its pre-crisis level, the price of all commodities continued to accelerate in Q1 2021 (+5.8%). This profile stems from the price of both industrial commodities (+8.3%; ► **Figure 3**) and food commodities (+5.7%; ► **Figure 4**).

Mineral commodity prices were driven by the price of ferrous metals (+24.8% in Q1 2021, after 10.7%). The price of iron ore rose again by 24.2% in Q1 2021, after +20.2% in Q3 and +4.5% in Q4 2020. Overall, the price of iron ore increased by 68% in one year. Prices have been driven up by the recovery of Chinese industrial activity, adverse weather conditions in Australia, the main producer, and market expectations of an economic boost and investment in infrastructure.

The price of copper increased once again, hitting historic levels (+17.1% in Q1 2021, +37.6% since Q1 2020). In fact, the recovery in Chinese demand and the weakness of the dollar have fuelled this rise. The demand for copper, a major ingredient in the energy transition (electric cars, wind turbines, etc.), is rising constantly with the return of the United States to the Paris agreement and the associated objective of reducing greenhouse gas emissions, but it is also due to the various stimulus plans which encourage growth in infrastructure and real estate construction. The three main producers (Chile, Peru and China) are struggling with logistical difficulties associated with the pandemic, and social movements in Chile are pushing the markets to anticipate a deficit in supply. Concerning precious metals, the price of palladium is also benefiting from the economic recovery and the energy transition (+8% in Q1 2021). The rebound

► 3. Mineral commodity prices

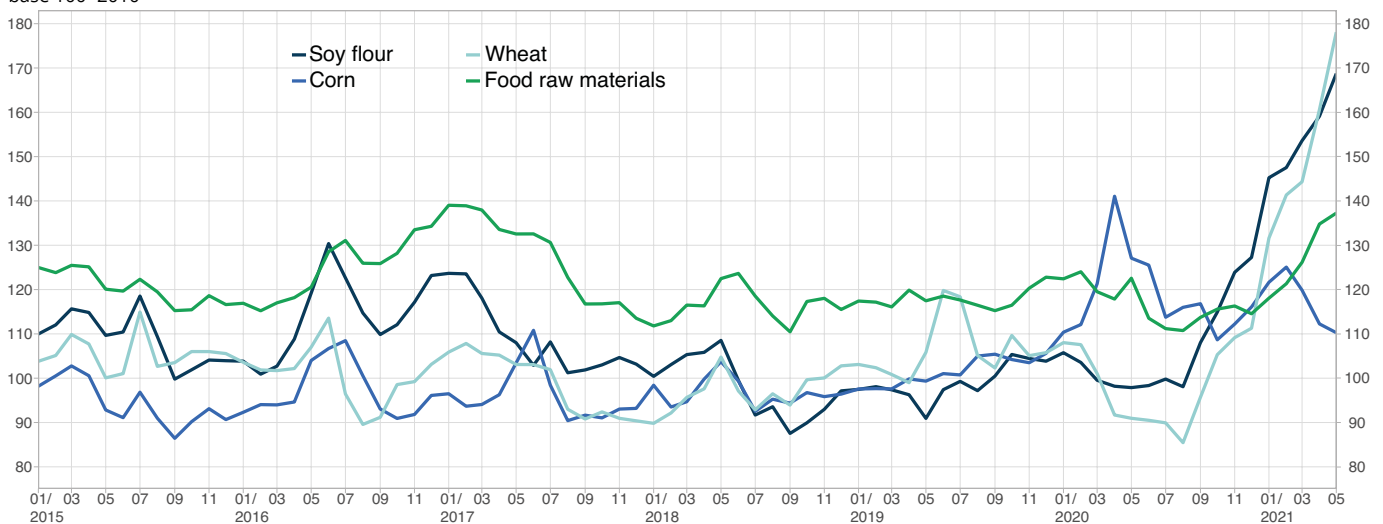
base 100=2010



Source: INSEE

► 4. Food commodity prices

base 100=2010



Source: INSEE

International economic outlook

in vehicle sales and the strengthening of antipollution standards have caused demand for palladium to soar as it is needed in the manufacture of catalytic converters and hybrid vehicles. Supply is struggling to keep up with growing demand, and the palladium market has been in deficit for 10 years.

All food commodity prices also rose in Q1 and recovered their pre-crisis level (► **Figure 3**). In cereals, especially corn, soybean and wheat, prices again rose sharply in Q1 (+16.4%). This is related to the end of swine flu in China which led to strong demand in order to feed the reconstituted herds. The gradual recovery of road traffic in the United States is also stimulating demand for bioethanol, produced from cereals. The election of Joe Biden, who is mobilised to fight climate change, has encouraged speculation on the rise in agricultural commodity prices. At the same time, supply has been weakened by climate disturbances: drought in the United States and Canada, lack of rain and cold snap in Europe, heavy rains in Argentina, etc. As a result, the price of

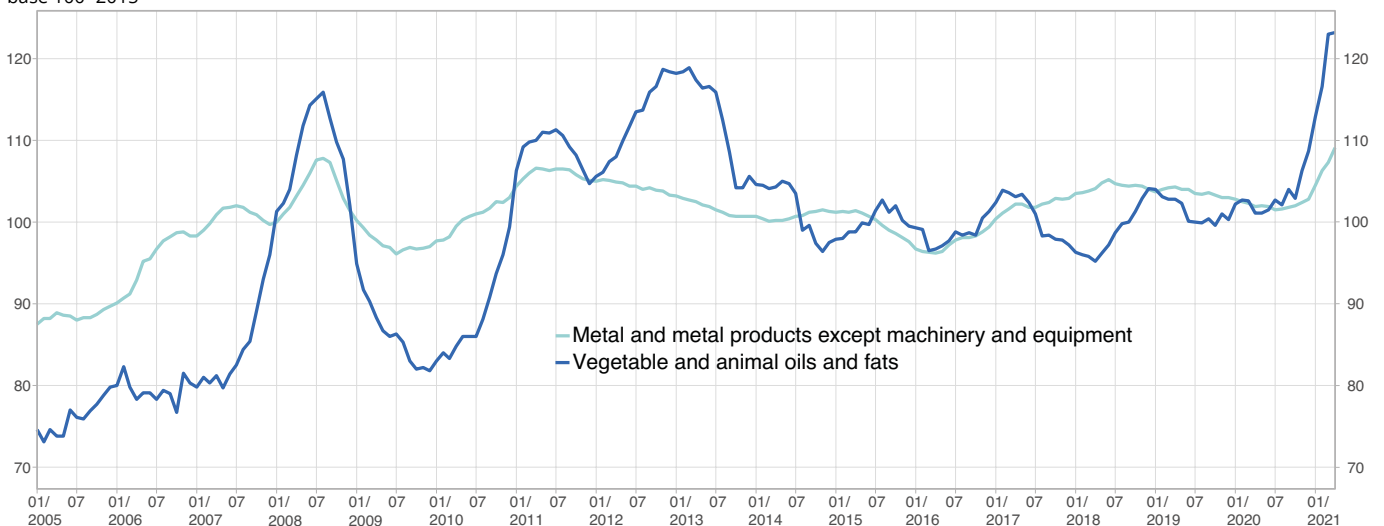
wheat increased by 28% in Q1 2021, soybean by 22% and corn by 8.8%.

Regarding agro-industrial commodities, the price of rubber increased further (+6.6% after +18.4% in Q4). The leading producer country, Thailand, is facing unfavourable climatic conditions (droughts, floods, disease, etc.). It takes about 7 years for a rubber tree to start producing, which means that no rapid adjustment in production can be made to match demand; demand has exploded, however, especially for the manufacture of gloves required in the pandemic, and massive Chinese purchases for tyre manufacture.

Soaring commodity prices result in higher production costs in user sectors (► **Figure 5**). For example, in metallurgy, the production price has risen sharply since the end of the year, and currently stands at a higher level than in previous years. This is even more the case in the agri-food industries, especially the production of vegetable oils and fats, where production prices have shown a marked increase since Q2 2020. ●

► 5. French producer price indices in industry for all markets

base 100=2015



Source: INSEE

Central banks facing an unprecedented crisis

The rapid and large-scale intervention by central banks illustrates the unprecedented nature of the crisis since March 2020. In particular, the measures implemented have ensured the provision of low-cost financing for enterprises and governments during a period of plummeting economic activity. Since the beginning of the year, European sovereign bond yields have risen slightly, driven by higher prospects of growth and inflation. The changes in these prospects will influence future monetary policy choices.

The US and European central banks have reacted very strongly in response to the health crisis

In 2020, in response to the crisis, the US Federal Reserve (Fed) initially lowered its base interest rates (► **Figure 1**), while the European Central Bank (ECB), whose rates were already close to zero, left them unchanged. These two institutions then revived a «non-standard» measure

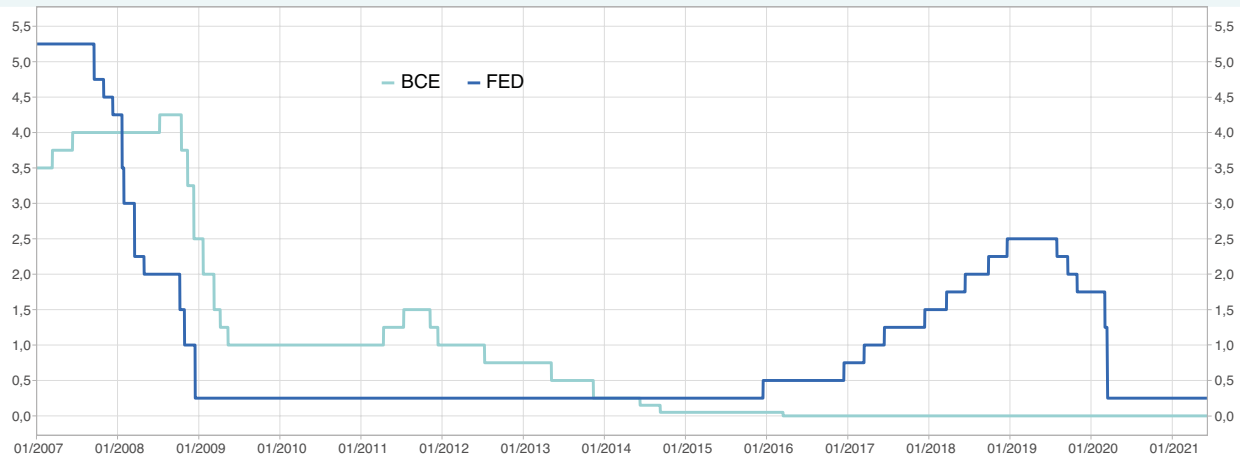
by significantly increasing their asset purchases on the financial markets to ensure financial stability¹ (► **Box**).

This policy has led to an unprecedented increase in the balance sheets of the US and European central banks. The Fed has increased the size of its balance sheet by 90% since the end of February 2020, to \$3,740 billion (► **Figure 2**). In comparison, the Fed's balance sheet

¹ By way of illustration, the European Central Bank defines financial stability as «a condition in which the financial system – which comprises financial intermediaries, markets and market infrastructures – is capable of withstanding shocks and the unravelling of financial imbalances». Ensuring financial stability therefore consists in mitigating «the prospect of disruptions in the financial intermediation process that are severe enough to adversely impact real economic activity».

► 1. Key rates of the US Federal Reserve and the European Central Bank

in %

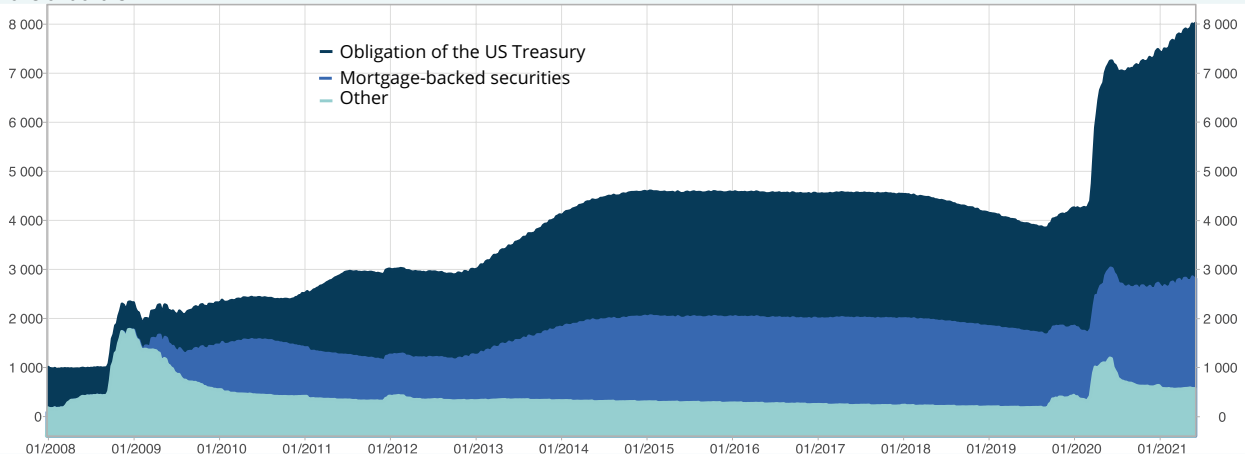


How to read it: since mid-March 2020, the Fed has wanted the US interbank rate to remain below 0.25%. Since mid-March 2016, the ECB has conducted its bank refinancing operations at a fixed rate of 0% (main refinancing rate).

Source: Fed, BCE

► 2. U.S. Federal Reserve Balance Sheet Assets

in billions of dollars



How to read it: the Fed's assets amounted to nearly \$7.9 trillion on 26 May 2021.

Source: Fed

Reminder of monetary policy decisions since March 2020

Since the beginning of the health crisis, central banks have used the mechanisms at their disposal to ensure financial stability and prevent an even greater deterioration in the economic situation. On 3 March 2020, the US Federal Reserve (Fed) announced a drop of 50 basis points in its base interest rate¹ (from 1.75% to 1.25%, ► **Figure 1**) followed on 15 March by a further 100-basis-point cut (from 1.25% to 0.25%): the base interest rate has therefore returned to a similar level to that reached during the 2008 financial crisis, which had been maintained until 2015. In parallel with these key rate cuts, unconventional policies were also implemented, with an initial announcement of at least \$700 billion in asset purchases (US Treasury bonds and mortgage-backed securities). These purchases have continued at levels that support «smooth market functioning and effective transmission of monetary policy»².

Starting in December 2020, the Fed set the level of these purchases at \$120 billion per month. On 16 June 2021, the Fed decided to leave its monetary policy unchanged, including the overall amounts of asset purchases. After the publication of more optimistic macroeconomic projections in terms of growth and inflation, a growing number of members of the Fed's Board of Governors are anticipating a rate hike in 2023.

For its part, the ECB did not cut its base interest rate, which was already at a very low level (deposit facility rate³ of -0.5%, main refinancing rate⁴ of 0% and marginal lending facility rate⁵ of 0.25%), and the ECB's response was therefore based on other types of measures. On 12 March 2020, it announced an increase in long-term loans to banks, a temporary cut in bank financing rates over the very long term, and the ramping up of its Asset Purchase Programme (APP).

In addition, a €750 billion Pandemic Emergency Purchase Programme (PEPP) was launched, covering both private debt securities and sovereign bonds on the secondary market. This programme was subsequently reinforced twice (on 4 June 2020 and 10 December 2020), amounting to a total budget of €1,850 billion through to the end of March 2022. As this budget is intended to be spent in a flexible manner in order to ensure favourable financing conditions, its use is not defined in advance. It may not be fully used by the end of the programme if it is not required, but this budget can be adjusted if necessary. In total, from March 2020 to March 2021, net purchases of sovereign bonds under the PEPP plan, amounting to almost €900 billion (95% of the total purchases under the PEPP programme), were allocated in the following manner: 24.5% for Germany, 17.6% for France, 17.4% for Italy and 11.6% for Spain.⁶ On 10 June 2021, the ECB decided that its monetary policy would remain unchanged. ●

¹ Specifically, the Fed has announced a range within which it wants the interbank rate (which banks use among themselves) to remain. If the interbank rate falls outside this range, the Fed will intervene via market operations. The base interest rate referred to here corresponds to the upper bound of this interval.

² Statement by the *Federal Open Market Committee* of the US Federal Reserve on 23 March 2020.

³ The deposit facility rate is the rate of return on banks' deposits with the ECB. Reducing it gives banks an incentive to increase their lending to economic actors.

⁴ The main refinancing rate is the rate at which banks borrow from the ECB for one week against collateral. It is the ECB's main base interest rate.

⁵ The marginal lending facility rate is the rate at which banks borrow from the ECB at very short notice (24 hours).

⁶ Source: ECB, calculations: INSEE

now corresponds to 36% of US GDP in 2019. Meanwhile, the ECB's balance sheet increased by €2,800 billion between mid-March 2020 and the end of April 2021, amounting to an increase of 60% (► **Figure 3**). The ECB's total assets currently correspond to more than 60% of Eurozone GDP in 2019. The speed and magnitude of Fed and ECB balance-sheet growth since March 2020 illustrates the unprecedented nature of the period.

The measures taken have enabled enterprises to keep obtaining financing, despite the sharp decline in activity

The reactions of the Fed and the ECB have enabled the maintenance of favourable bank lending conditions for economic agents. By way of illustration in the Eurozone, outstanding corporate loans² increased by 5.5% overall in 2020 (compared to 1.8% in 2018 and 1.6% in 2019). This increase – the largest in the last ten years – was concentrated in the first two quarters of the year (€264 billion in total). This contrasts with the corporate loan trends during the recessions of 2009 and 2012 in the Eurozone,³ when corporate loans had declined.

This increase in outstanding corporate loans is due to both supply-and-demand-based factors. On the demand side, the cash-flow needs of enterprises suddenly became significant given the sharp decline in their revenues and the maintenance of some of their expenditure, notably rents and a proportion of wages. In Q2 2020, for example, the ECB Bank Lending Survey⁴ revealed that 93% of French enterprises believed that the main factor driving borrowing was the need to cover their working capital requirement. On the supply side, banks – encouraged by the ECB but also by specific national measures (e.g. guaranteed loans) – were able to continue lending to enterprises, given that they still represented a solvent demand during a crisis whose origin was exogenous to the economic situation.

The sectoral allocation of lending also illustrates the novel nature of the 2020 crisis. In 2009, the decline in outstanding loans in the Eurozone appears to have been relatively balanced across sectors, although the greatest debt reduction occurred in industry (► **Figure 4**). The 2012 recession was marked by significant deleveraging by enterprises in the construction sector, which reflected

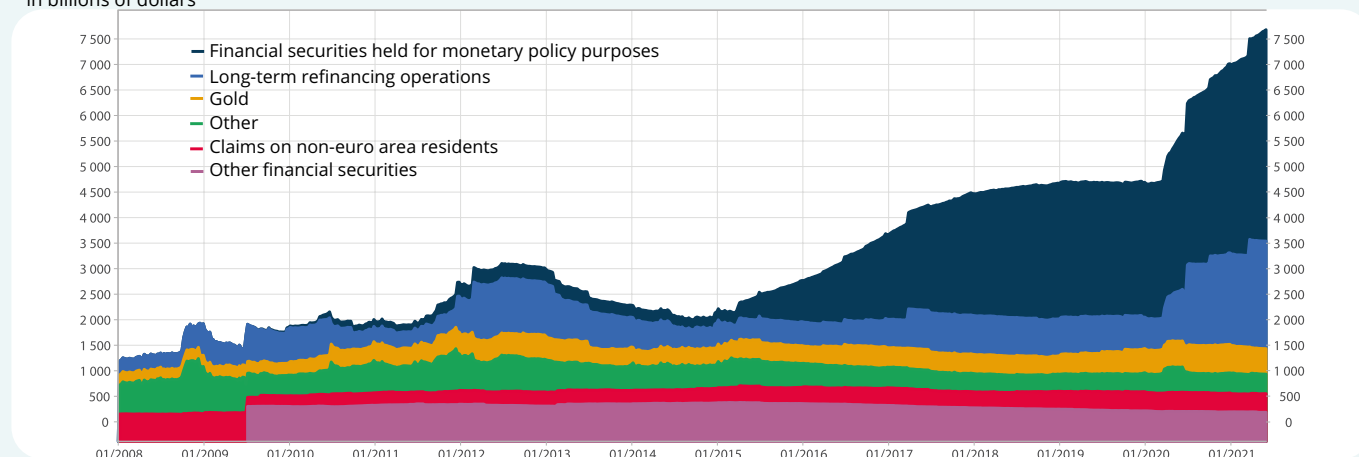
² These are net outstanding loans: new loans are added to old loans which are still outstanding, from which repaid loans are deducted.

³ Eurozone GDP decreased by 4.4% in 2009 and by 0.9% in 2012.

⁴ Bank Lending Survey

► 3. Balance sheet assets of the European Central Bank – Eurosystem

in billions of dollars



Note: long-term financing operations correspond to loans taken out by banks from the ECB with a maturity of more than three months.

How to read it: on 10 May 2021, the total value of all the ECB's assets amounted to almost €7.6 trillion.

Source: BCE

International economic outlook

the real estate crisis in Spain in particular. In 2020, all sectors increased their debt significantly, especially the service sectors impacted by the crisis. In this way, debt increased by 21% in the accommodation and food services sector in 2020, and by 12% in the transport and communications sector, while debt in the manufacturing industry and in real estate and business-support services increased by nearly 6%.

Steps taken by central banks have also facilitated government borrowing

Governments have borrowed heavily to finance economic and income-support schemes, but also to make up for lost revenue. As a result, the government debt-to-GDP ratio increased sharply between the end of 2019 and the end of 2020 in the main Eurozone countries (► Figure 5), and in the United States. However, the debt service of European countries, which represents the interest paid by states, has remained very moderate, thanks to low interest rates.

Since the end of 2020, European sovereign rates have risen slightly (► Figure 6). The French 10-year rate has been slightly above 0% since mid-May 2021, after dropping to a low of -0.45% in December 2020. A similar profile also applies to the German, Italian and Spanish

rates. In the United States, the rise in sovereign rates began earlier – in the summer of 2020 – and appears to be stronger: in the summer of 2020, the US rate dropped to a low of 0.5%, but has risen steadily since then to exceed 1.6% at the end of May 2021.

This recent rise in sovereign rates reflects a recovery in growth and inflation prospects. Higher growth encourages investors to hold higher-yielding assets than bonds. If the economy picks up, corporate profits and the attendant expected returns are likely to increase. This will prompt investors to sell their bonds in order to buy shares. As regards inflation, its role in the evolution of sovereign rates stems from the fact that investors are interested in real returns, i.e. minus inflation, rather than nominal returns.⁵ Therefore, if investors anticipate higher inflation, they will tend to demand higher returns in order to preserve their expected real returns.

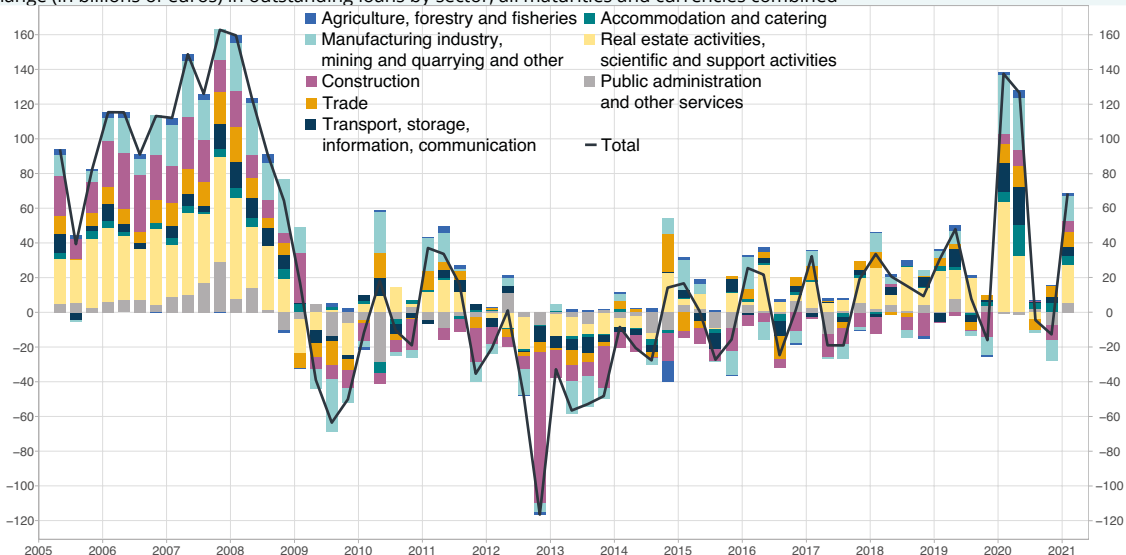
Several signals point toward an upturn in inflation expectations, after reaching a low in 2020, particularly in the United States

Several signals suggest that economic agents expect inflation to rise in 2021: this is reflected by the bond yields observed on the financial markets, consumer confidence surveys and forecasters' opinions.

⁵ In other words, if they receive 5% interest on their capital but at all prices simultaneously rise by 10%, then the real return on their investment will be -5%.

► 4. Loans to non-financial institutions in the Eurozone

quarterly change (in billions of euros) in outstanding loans by sector, all maturities and currencies combined



How to read it: outstanding loans to non-financial institutions in the Eurozone increased by almost €140 billion in Q1 2020.

Source: BCE, INSEE calculations

Several types of bonds are traded on the bond markets, including some whose interest rate depends on the observed rate of inflation. In this way, by distinguishing between the interest rate observed on the market for standard bonds and the interest rate for inflation-indexed bonds, we obtain the «break-even inflation rate», which is a measure of inflation expectations.⁶ On the French bond market, the break-even inflation rate fell sharply at the height of the health crisis, reflecting expectations that were close to zero, before rising gradually, particularly since the beginning of 2021 (► **figure 7**), and pushing the break-even point close to 1.3% at the end of May 2021.

In consumer confidence surveys between May and August 2020 (University of Michigan surveys), US households expected inflation to be close to 3% in 2021. Since January 2021, expectations for the following year have again been above 3%. However, the balances of opinion show that European households were expecting prices to rise at the height of the crisis in the spring of 2020, but they do not seem to reflect high expectations in 2021.

⁶ In fact, the break-even inflation rate is not an accurate measure of expectations, and may include other generally small effects such as the liquidity premium. Break-even inflation = nominal yield - inflation-linked yield. Assuming that the inflation rate corresponds to break-even inflation, the expected real yield on an inflation-linked bond is equal to that of a standard bond.

Finally, the ECB conducts a survey of around 100 institutions in order to gather their economic forecasts at different forecasting horizons. Between Q1 and Q2 2021, forecasters' inflation expectations for 2021 were revised upwards; at the beginning of the year they were close to 1%, but then rebounded to 1.6% at the beginning of Q2.

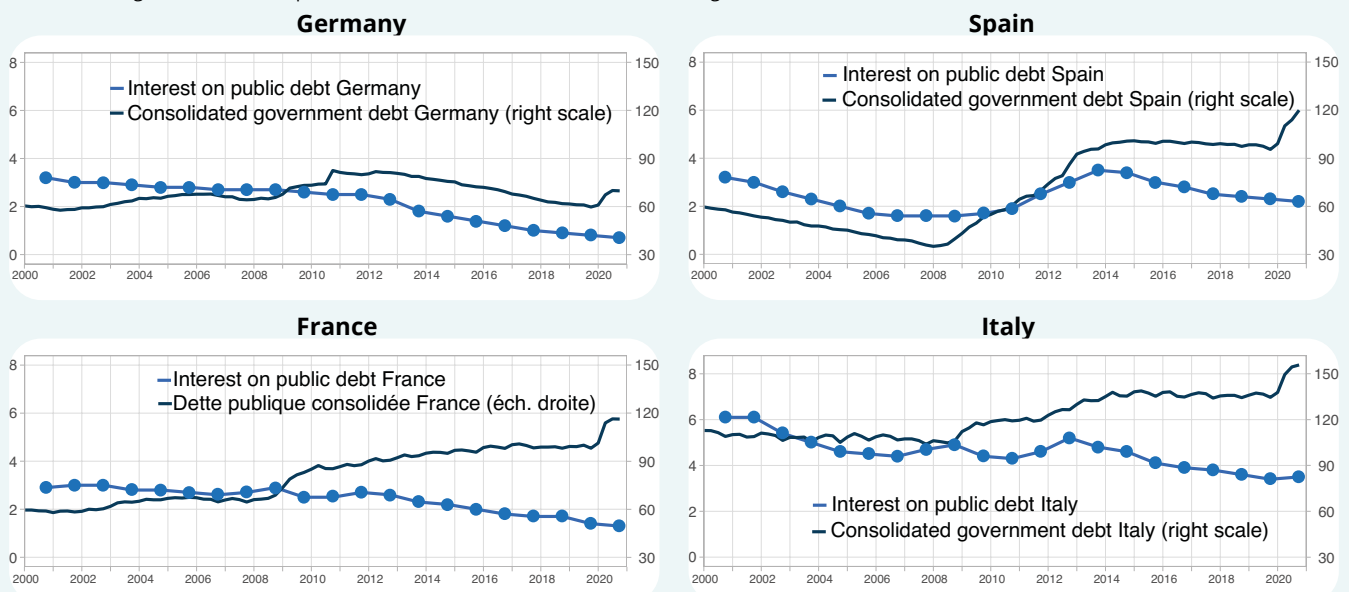
The conduct of monetary policy in response to rising inflation in 2021

Since the spring of 2021, and in line with the expectations mentioned above, inflation has been rising on both sides of the Atlantic (► **Figure 8**). US inflation in May stood at 4.9% year on year, with core inflation (excluding energy) at 3.8% year on year. In the Eurozone, inflation was also more dynamic, rising to 2.0% year on year in May, with core inflation standing at 0.9%.

Several factors explain this rise in inflation, some of which appear to be temporary: firstly, a base effect, linked to the fact that prices in 2021 are compared with the particularly low level recorded in 2020 at the height

► 5. Government debt and debt-servicing burden

in % of GDP (right-hand scale for public debt and left-hand scale for debt-servicing burden)



How to read it: French public debt amounted to 116% of GDP in Q4 2020.
Source: Eurostat

International economic outlook

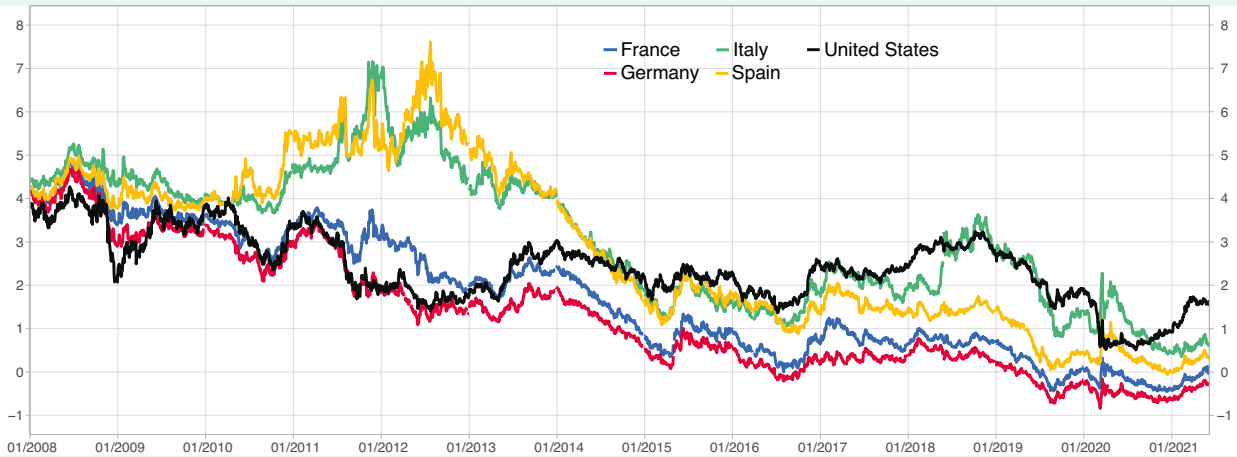
of the health crisis (see the Focus in the Inflation Sheet); secondly, the context of rising energy and commodity prices, linked to the global recovery, and thirdly, supply problems in certain sectors (shortage of semi-conductors, and higher container prices). Other factors probably come into play as well, such as the effects of massive fiscal stimuli in the United States, for example.

These inflation developments, like those affecting growth, play a key role in the conduct of monetary policy. In this regard, the interpretation of the Fed's mandate, combining price stability and full employment, changed in 2020. With regard to price stability, since September 2020, the 2% inflation target has been considered as a long-term target.⁷ This means that if inflation has been

⁷ Until September 2020, the Fed defined its inflation target as symmetrically around 2%, meaning that inflation could be either slightly above or slightly below 2%.

6. US and European 10-year sovereign rates

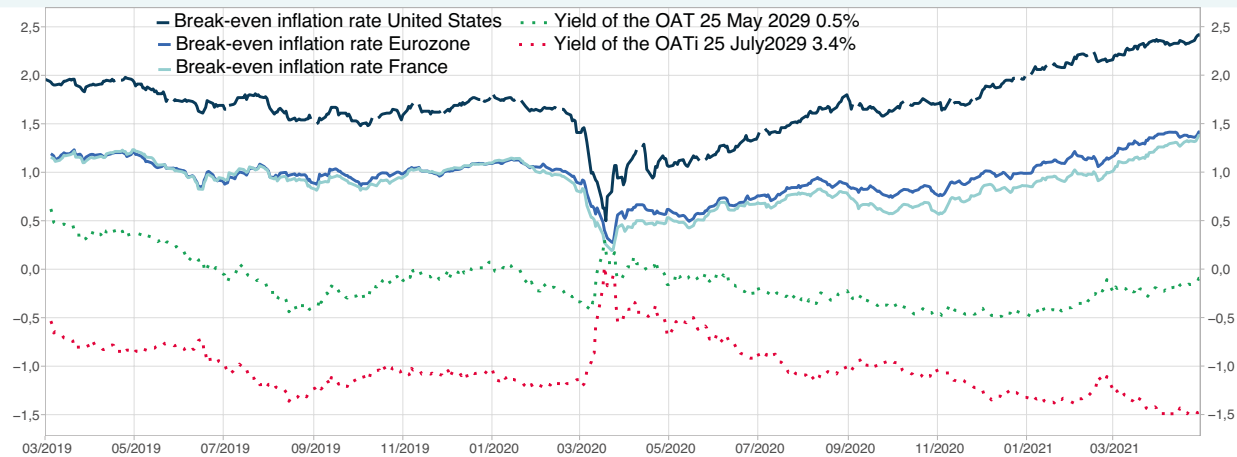
in %



How to read it: Interpretation: on 24 May 2021, the French government could borrow at 0.04% on the financial markets for repayment in 10 years. Source: DataInsight

7. Bond yields and break-even inflation

in %



Note : Agence France Trésor has created two types of inflation-indexed OATs (fungible Treasury bonds): OATi indexed on French inflation and OAT€i indexed on Eurozone inflation. Subtracting the nominal yield of a standard OAT from the yield of the inflation-indexed OAT gives the break-even inflation rate for France and the Eurozone, which is a measure of the inflation expectations of financial markets. These indexed bonds also exist in the United States, and the same calculation is therefore carried out.

Source : Agence France Trésor, Fed

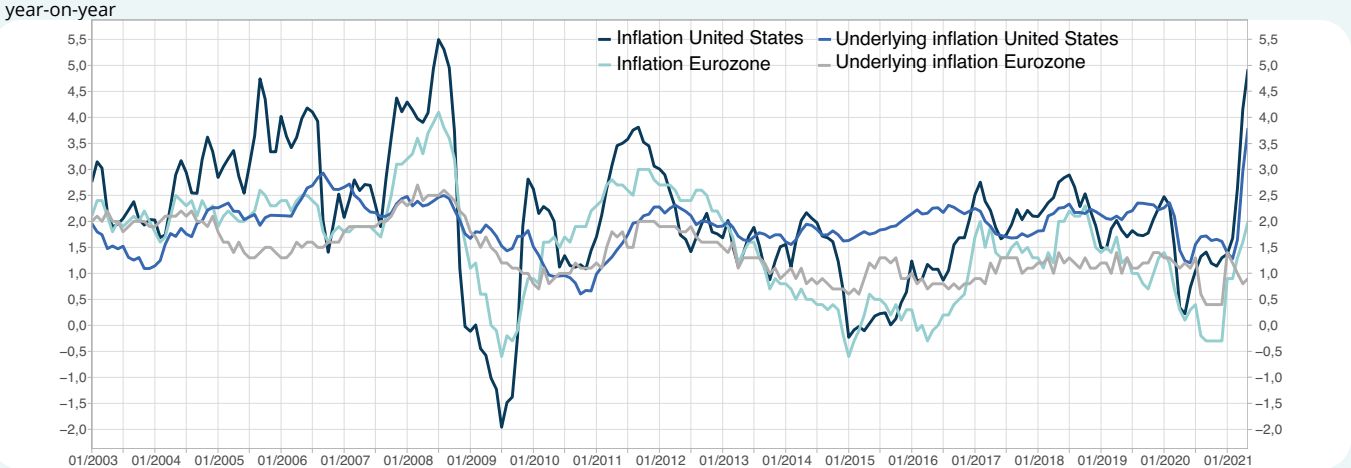
below 2% for a while, the institution can authorise an inflation rate of above 2% to ensure a long-term average of 2%. Full employment, however, is now ranked as its primary objective, with a «broad and inclusive» dimension. Therefore, the Fed's maintenance of its current monetary policy (low rates and asset purchases) could mean that, given its new guidelines, the higher inflation of 2021 would have offset that of 2020 to some extent, in a context in which the employment rate remains below its maximum level (unemployment of 5.8% in May 2021 compared with 3.5% in February 2020).

For the ECB, the issue is less important because inflation is lower, and the economic recovery has been

less vigorous in the Eurozone than in the United States. Historically, the mandate given to the ECB by European Union Member States makes price stability the institution's primary objective (no quantitative target, even if the Board of Governors specified compliance with an inflation rate of «below 2%» in 1998). Like the Fed, the ECB is also conducting a strategic review, which is due to be completed in the autumn of 2021. This could include various issues related to monetary policy: price stability, climate change, employment, digitalisation, etc. The institution nevertheless states that the debate on the reduction of asset purchases is «premature» since these programmes are scheduled to last until March 2022. ●

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► 8. . Inflation and core inflation in the US and the Eurozone



Source: Eurostat, Bureau of Labor Statistics

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