

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

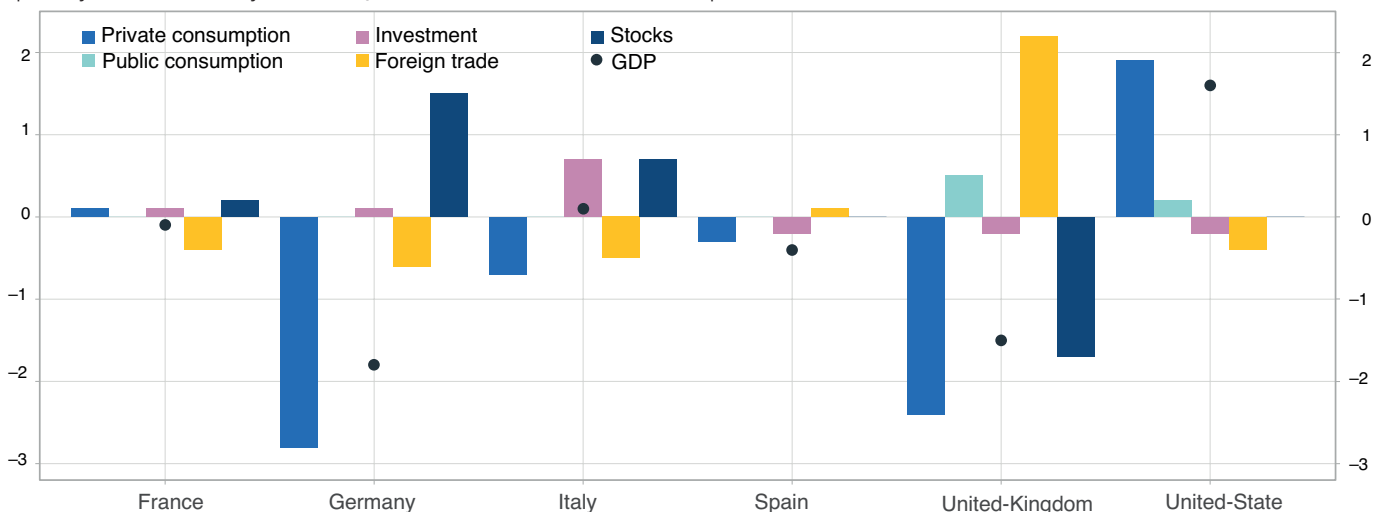
After 2020, a year when economic activity declined significantly in most countries, Q1 2021 was still seriously affected by the epidemic. Activity fell back moderately in France and Spain (-0.1% and -0.4% respectively) and more sharply in Germany (-1.8%) and the United Kingdom (-1.5%). Because of the 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

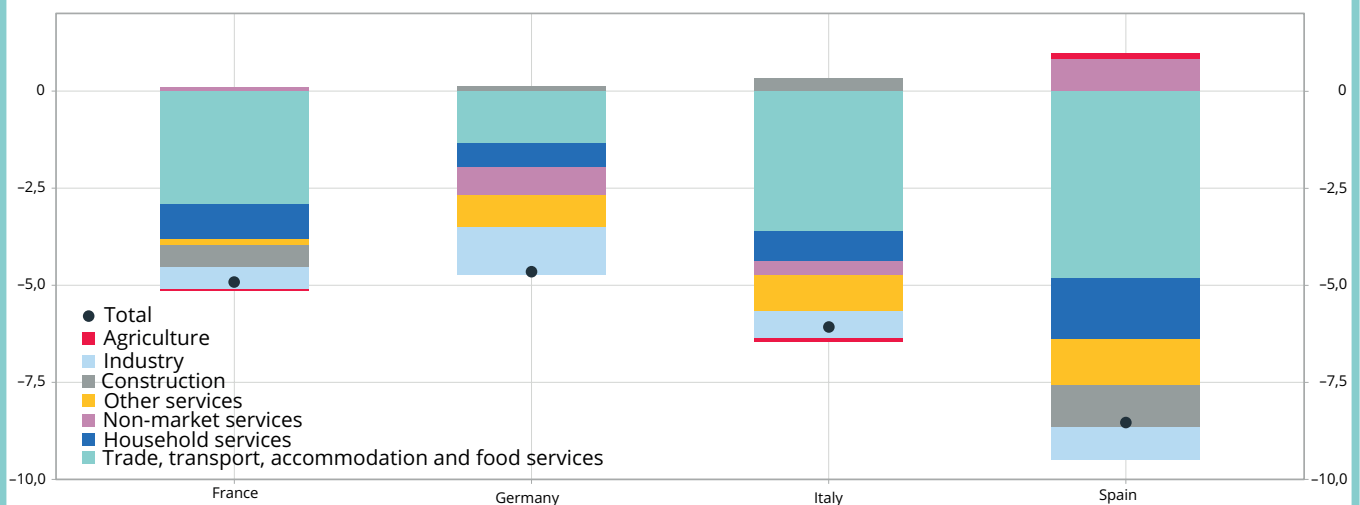
In Q1 2021, the trade, transport services and accommodation and catering sectors continued to have a strong effect on value added in the four main Eurozone economies (► **Figure 2**). This was the case in Spain and Italy (respective contributions of -4.8 points and -3.6 points to variation in total value 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

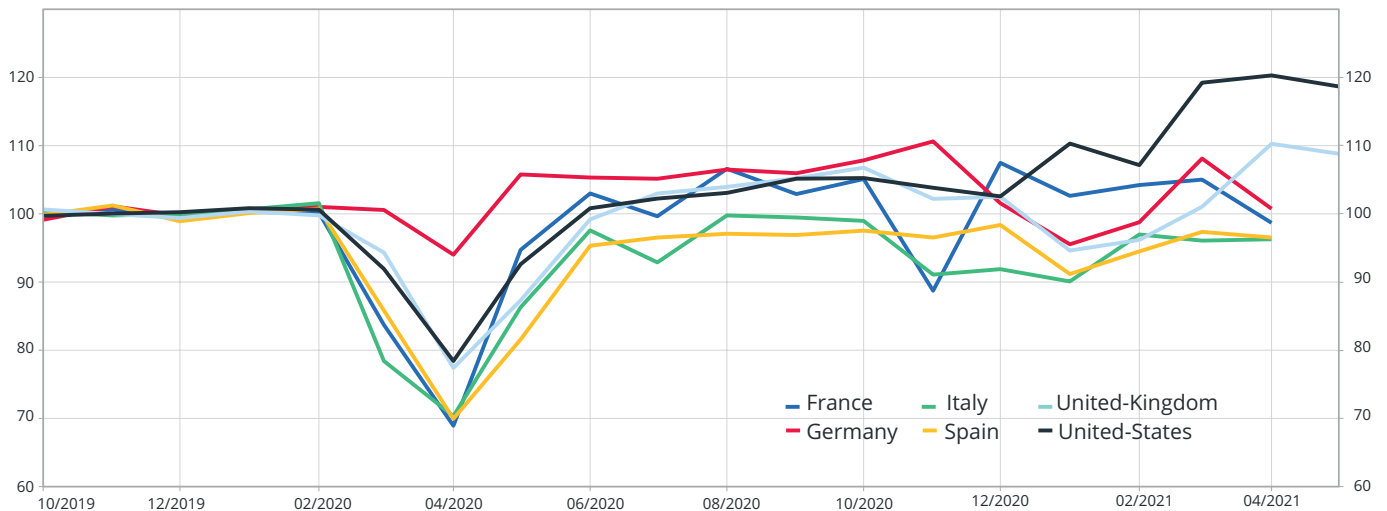
sales increased briskly in January and March, affected both by fewer restrictions and a boost in demand due to the budget stimulus package. They stabilised in April then declined slightly in May (-1.3%), probably as a result of shortages, but still remained at +18.7% compared to their pre-crisis level.

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

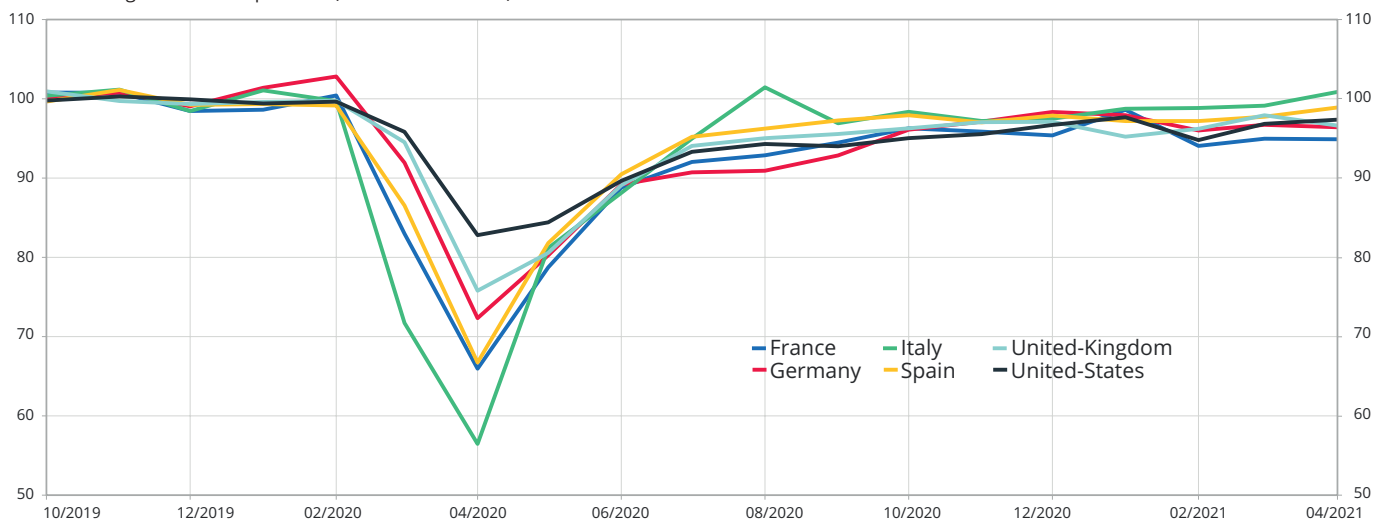
retail sales per level (base 100=T4 2019))



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

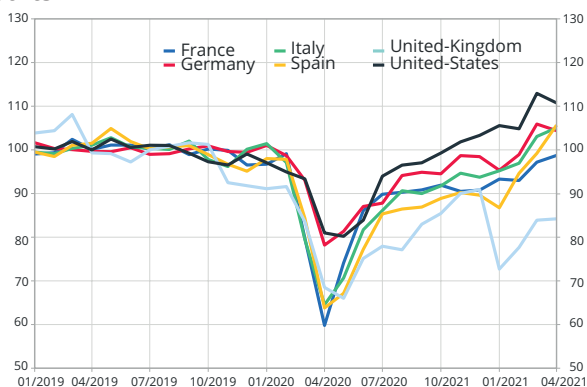
In Europe and the United States, the health situation has improved since April-May. The easing of restrictions began at the end of Q1 in most countries, and they continued mainly with the reopening of “non-essential” businesses, bars and restaurants and recreational and sports facilities; large gatherings,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

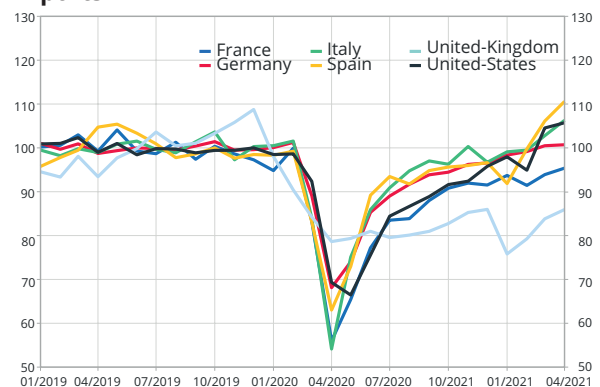
► 5. In the Eurozone, trade in goods rallied more quickly than in the United Kingdom, but less so than in the United States

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

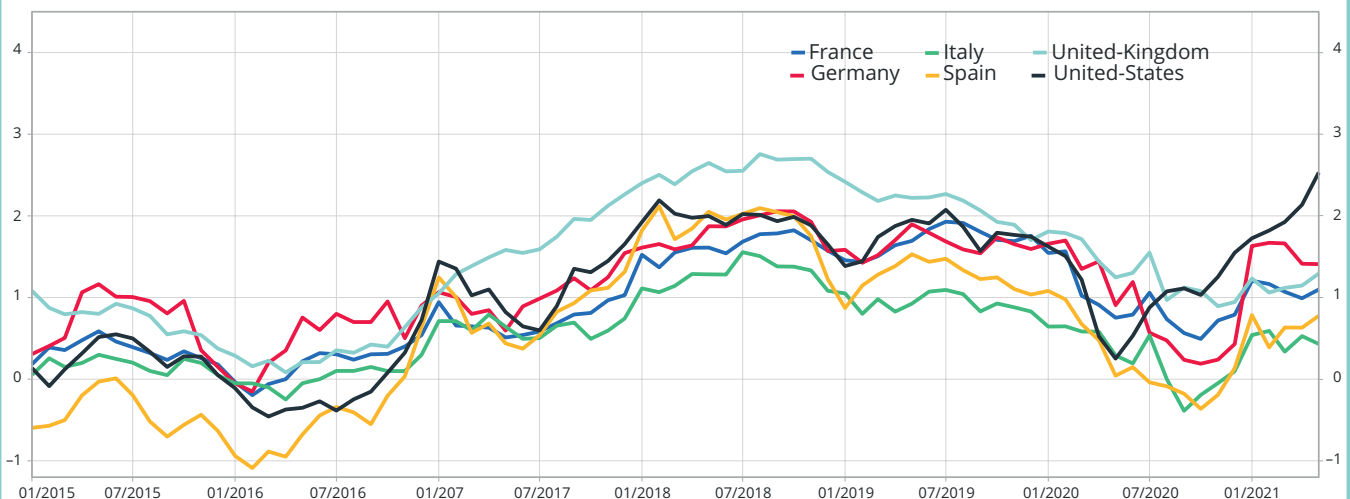
After falling dramatically in 2020 in the main western economies, consumer prices are now on the rise (► **Figure 6**), although at varying rates. In the United States, the rise was most pronounced, inflation in May stood at +5.0% and the Harmonised Index of Consumer Prices (HICP), annualised¹ over two 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.

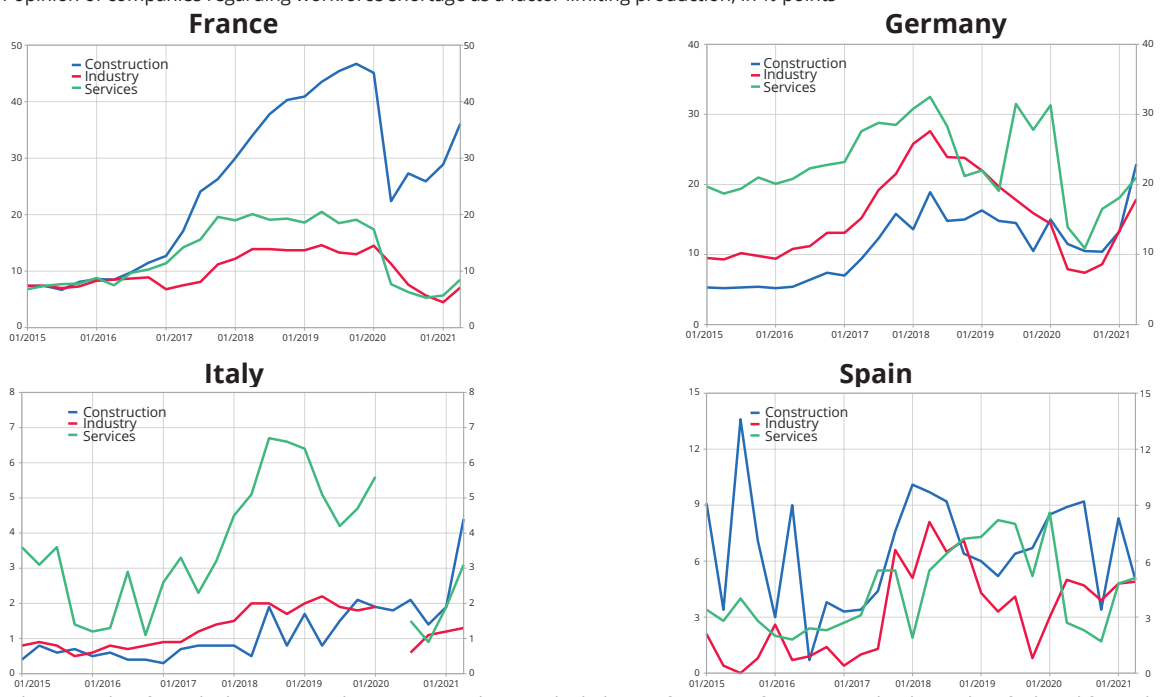
Source: Eurostat, ONS

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.

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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

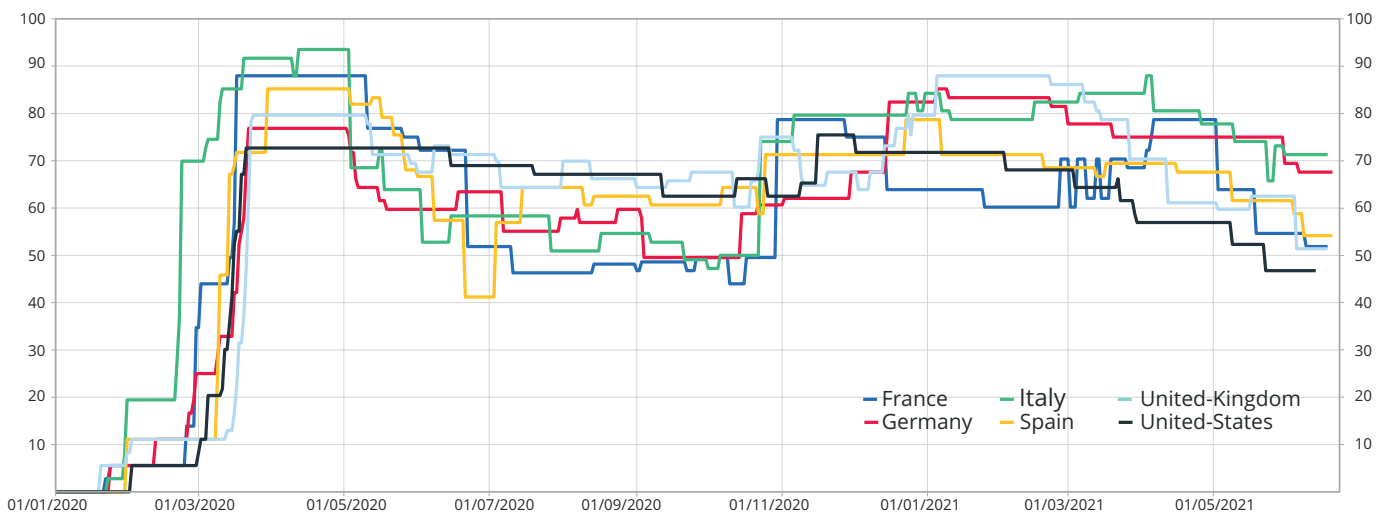
In the main western economies, the number of visitors to non-food retail outlets and recreational facilities rebounded substantially, with numbers in all countries getting back to their summer 2020 level and thus closer to their pre-crisis level (► **Figure 9**). However, by mid-June, numbers were still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

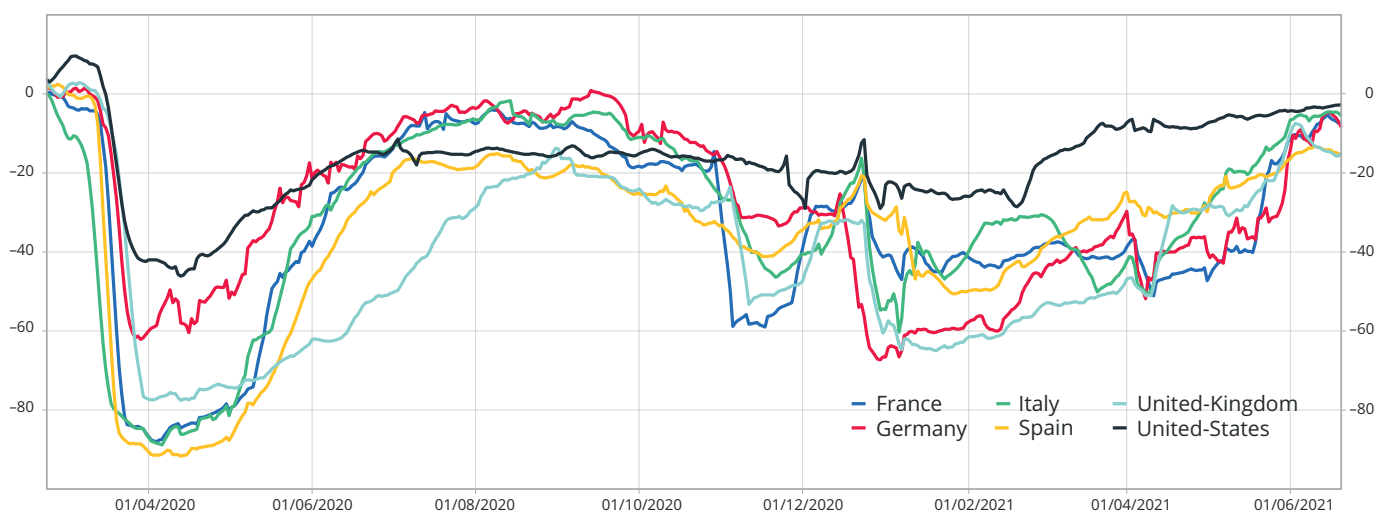


Note: the Oxford index lists and summarises all health containment measures in a single indicator, such as restrictions on personal mobility and closures of businesses, administrations and schools.

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

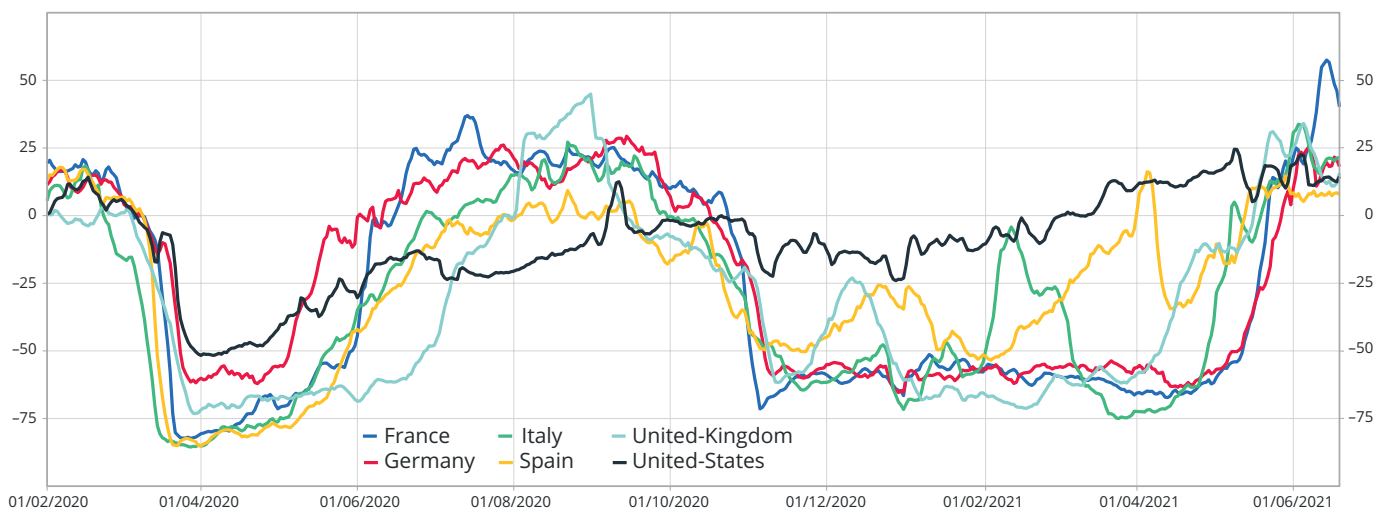
International economic outlook

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

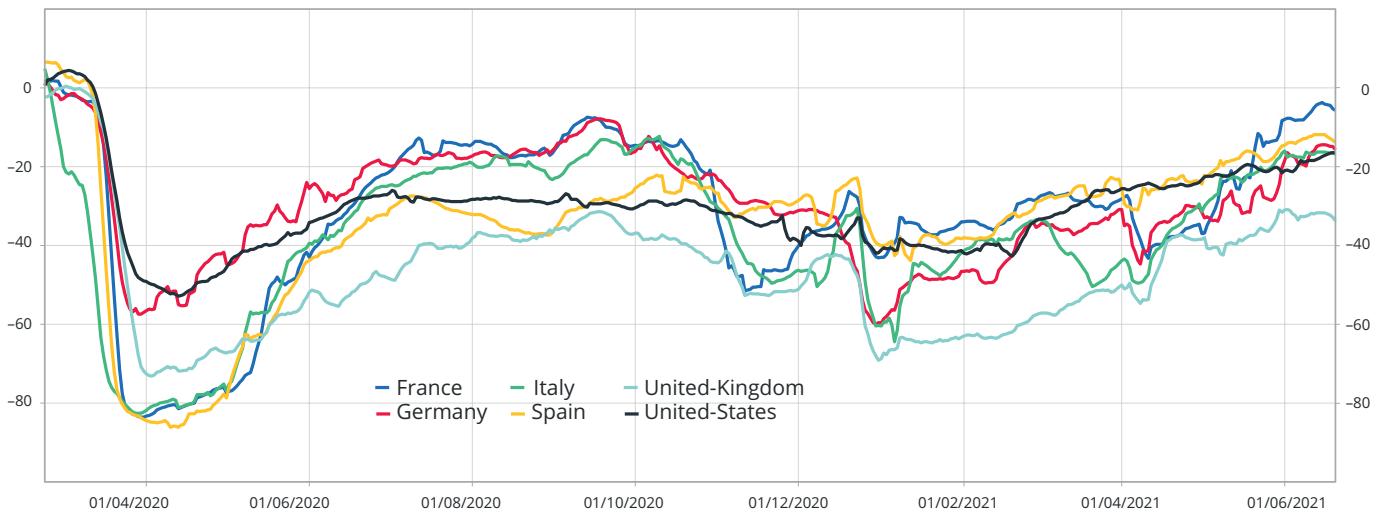
the main contributor to this recovery (► [Figure 13](#)). In the United States in particular, where domestic demand is expected to be stimulated by the massive aid packages paid out to households, activity looks set to exceed its pre-crisis level from mid-year and to continue to increase thereafter. 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.

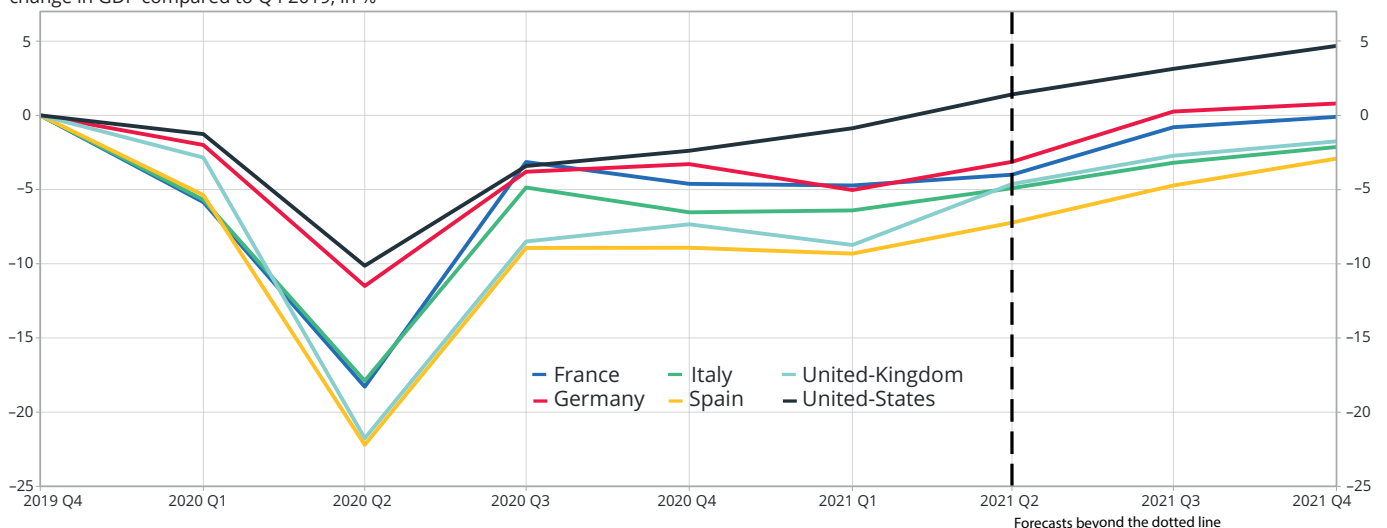
This scenario is based on the gradual disappearance of the epidemic and a strong recovery in household consumption, the extent of which will depend in part on their expectations, especially when dealing with inflation. It also assumes that sourcing problems and bottlenecks in industry will gradually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

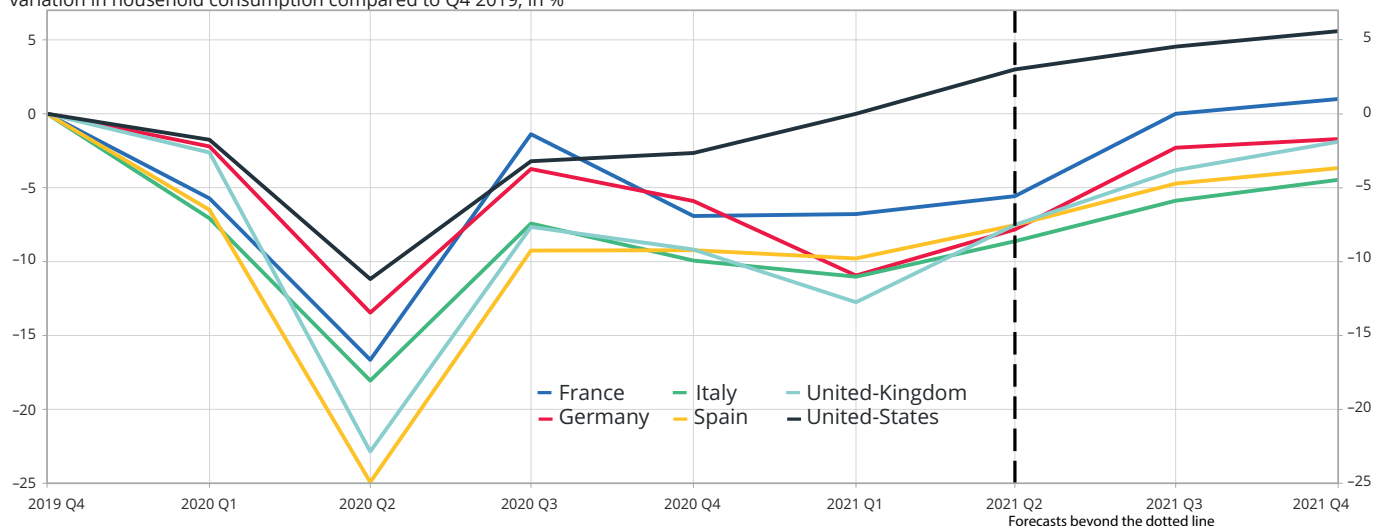
change in GDP compared to Q4 2019, in %



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

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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

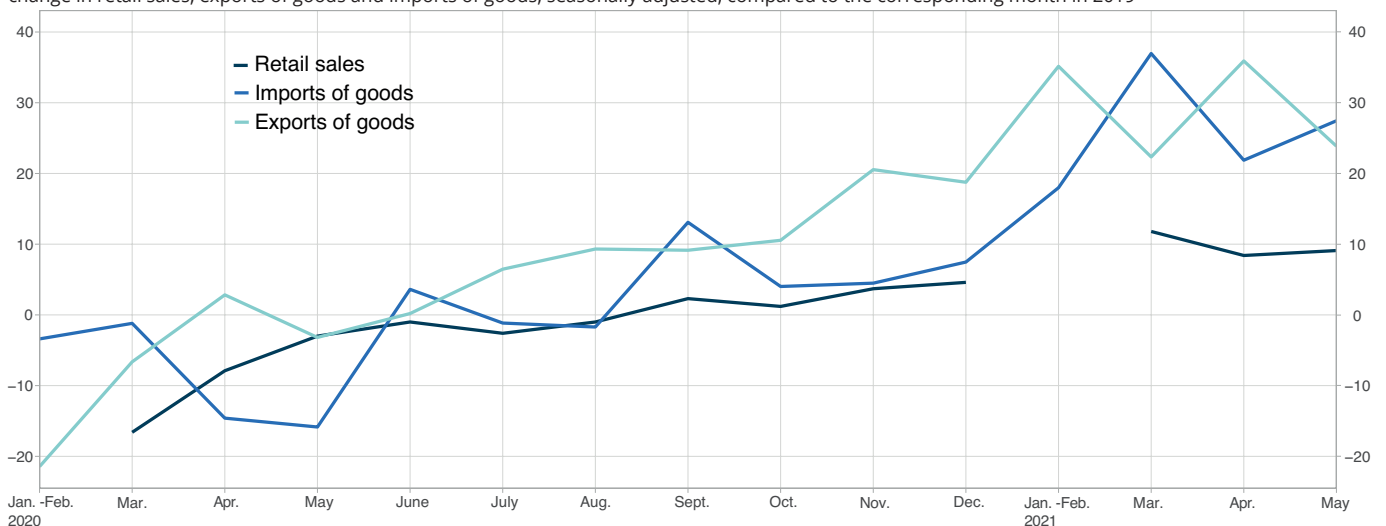
	2020	2021
France	-8.0	6.0
Germany	-5.1	3.5
Italy	-8.9	5.0
Spain	-10.8	5.9
United-Kingdom	-9.8	6.3
United-States	-3.5	6.7
China	2.0	9.3

■ 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