

## International comparisons

Europe returned to growth in Q2 with the easing of health restrictions, but GDP was still below its pre-crisis level in the main European economies. The recovery continued this summer, but the pace of growth is likely to slacken towards the end of the year, amid growing supply chain and hiring difficulties, and inflationary pressures fuelled by commodity prices. In the United States, where inflationary tensions are stronger than in Europe, GDP has already surpassed its pre-crisis level, and is expected to slow in H2. Finally, in China, activity seems to have fallen back slightly this summer, hampered by demand that is less dynamic than at the start of the year and by production difficulties.

### In Q2, GDP and household consumption remained below their pre-crisis levels in Europe

In Q2, activity rebounded in Europe after Q1 was severely affected by health restrictions: in the Eurozone, GDP growth reached +2.2% after -0.3%, whereas it rebounded to +5.5% after -1.4% in the United Kingdom. In the United States, GDP continued to improve: +1.6% after +1.5%. In Q2 2021, compared to Q4 2019, GDP in the main European economies was between -3.2% for France (-3.3% for Germany and the United Kingdom) and -8.4% for Spain (► **Figure 1**). US activity, however, exceeded its pre-crisis level (+0.9% compared to this level).

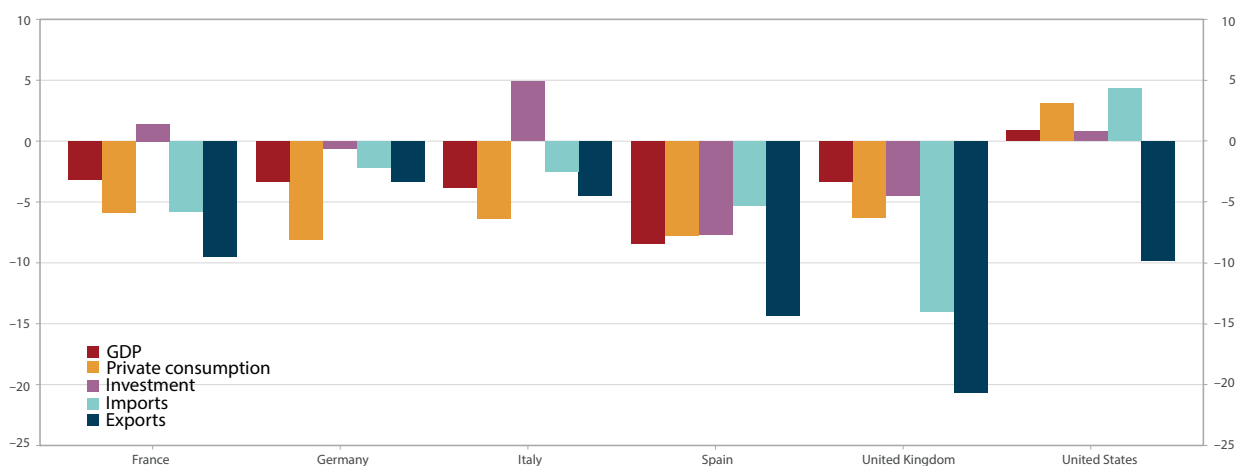
In the main European economies, private consumption in Q2 remained well below its pre-crisis level, as a result of restrictive measures in force or in the process of being reduced. This was notably the case for Germany, where consumption was still 8.1% below its pre-crisis level, after declining sharply in Q1. In the United States, however, consumption was above its Q4 2019 level, driven by fiscal support measures for households and by the lifting of health restrictions earlier than in Europe.

Concerning investment, situations vary from one country to another: in France and the United States, investment slightly exceeded its pre-crisis level in the spring, and in Italy it had already largely exceeded it, thanks mainly to the buoyancy of investment in construction. In Spain, however, investment in construction remains at a very low level (-12.9% compared to the pre-crisis level). In the United Kingdom, the Brexit issue and workforce shortages have created an unfavourable climate for corporate investment.

Regarding foreign trade, exports in Q2 (compared to pre-crisis) were still considerably worse than imports. This was especially the case in Spain, where exports have suffered from the drop in tourism since the start of the crisis.<sup>1</sup> In the United Kingdom, the entry into force of Brexit at the beginning of 2021 also hampered exports,

<sup>1</sup> In national accounting, non-resident tourism is included in exports. The tourism sector represents about 10% of Spanish value added.

### ► 1. In Q2, GDP and household consumption remained below their pre-crisis levels in Europe



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

due to the introduction of customs controls for goods destined for the single European market: having tumbled by 8.0% at the start of the year, British exports bounced back only partially in Q2 (+6.2%). In the United States, exports in Q2 were below their pre-crisis level, whereas imports have already exceeded this level, benefiting from the strong upturn in domestic demand.

## In Q2 2021, the trade, transport and accommodation-catering sectors contributed most to loss of activity compared to pre-crisis in the Eurozone

On the supply side, in Q2 2021, the trade, transport services and accommodation and catering sectors continued to weigh heavily on value added in the four main Eurozone economies (► **Figure 2**). This was the case in Spain, France and Italy (respective contributions of -5.0 points, -2.4 points and -2.1 points to variation in value added between Q2 2021 and Q4 2019) due to restrictions still in force in these sectors, but also to their weighting in terms of value added. Services to households, which include leisure activities, also had a significant effect in the four main Eurozone economies. Differences between countries are not due to the weighting of this sector, which is similar in all four

economies, but to their respective losses of activity, linked to the nature of the restrictions imposed.

Although industry was less affected by the health restrictions, in Q2 it nevertheless contributed to the difference in activity compared to pre-crisis. This was especially the case in Germany (-1.6 points) because of its importance in the economy, and the supply chain problems that are still being felt in some sub-sectors, like automotive and aeronautics, despite strong demand (► **Box 2**). This sector made the largest contribution to the loss of German activity in Q2, but only the third largest contribution in France and Spain and the fourth largest in Italy. In addition, some sectors made a positive contribution to the variation in activity compared to pre-crisis. This was the case for non-market services in Spain and construction in Italy.

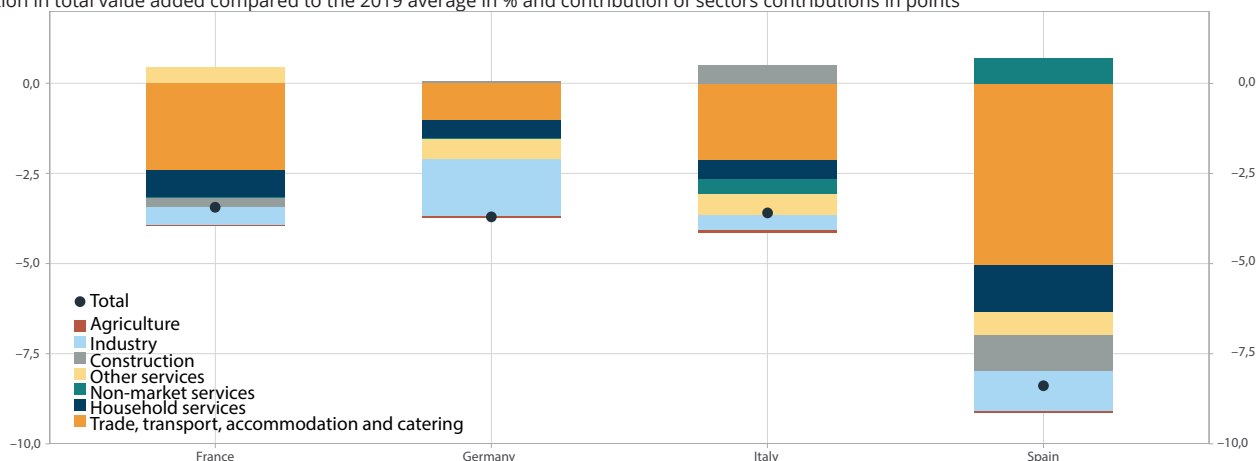
## This summer, after a rebound, retail sales were at a standstill

After increasing strongly in H1 with the easing of health restrictions, retail sales<sup>2</sup> stabilised or fell back slightly during the summer in the main western economies (► **Figure 3**). They nevertheless remained above their pre-crisis level, except in Italy and Spain, where they had been in a worse state previously. In France and

<sup>2</sup> The Retail Trade Volume Index, published by Eurostat, may differ for France from the household consumption of goods, published each month by INSEE (national accounts). One factor of difference between the two indicators is that of the scope used: retail sales exclude sales of transport equipment, whereas household consumption of goods includes them. As a result, and in particular given the deterioration in sales of transport equipment, retail sales appear to be more dynamic for France than household consumption of goods.

## ► 2. The trade, transport and accommodation-catering sectors have been the main contributors to loss of activity since the start of 2020 in the Eurozone, except in Germany where industry has had the most effect

variation in total value added compared to the 2019 average in % and contribution of sectors contributions 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

# International economic outlook

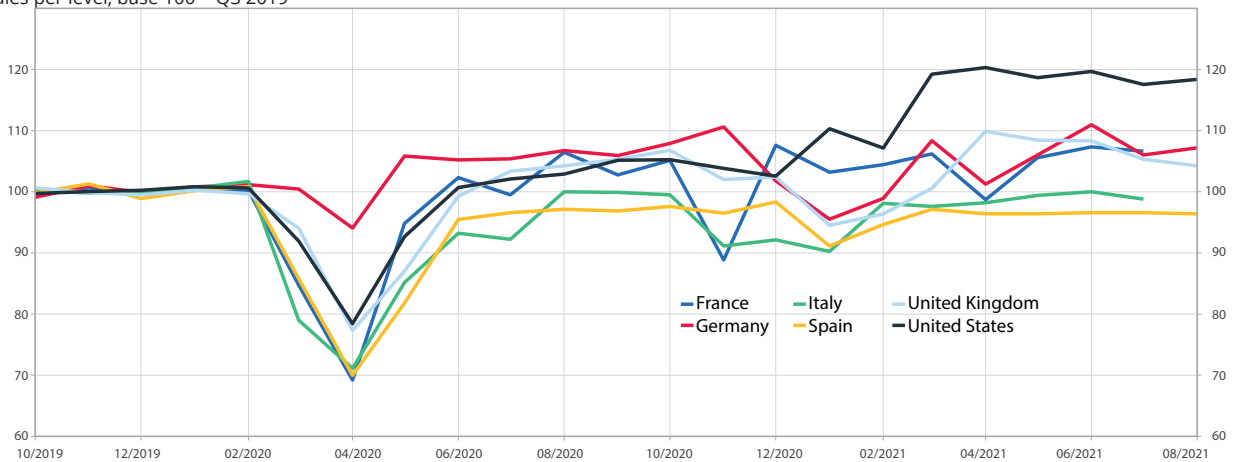
Germany, after the strong rebound seen in May-June when businesses reopened, retail sales stabilised over the summer, fluctuating in Germany around a fairly high level (+8% compared to Q4 2019). Consumption of services (catering, accommodation, travel), which was particularly dynamic this summer, is not measured by this retail sales indicator. In the United Kingdom, retail sales continued to decline slightly in August. The increase in the number of Covid-19 cases at the start of the summer would appear to have persuaded some consumers to limit their visits to shopping centres. Lastly, in the United States, retail sales were maintained at a high level during the summer, and exceeded their pre-crisis level by +18% in August.

## Inflationary tensions affect all western economies

Inflation moved up again in 2021, moderately at first at the beginning of the year before accelerating sharply in the following months, starting in the spring in the United States and in the summer in Europe (► **Figure 4**). In August, the Harmonised Index of Consumer Prices (HICP) reached its highest level for five years in the main European countries. This index is created from a basket of goods common to all countries. In this way, international comparisons of inflation can be made, but there may be differences from the consumer price index used in each country (► **Box 1**). In the United States, the HICP peak was reached in July (+6.4% year-on-year).

### ► 3. This summer, retail sales stabilised in the main western economies

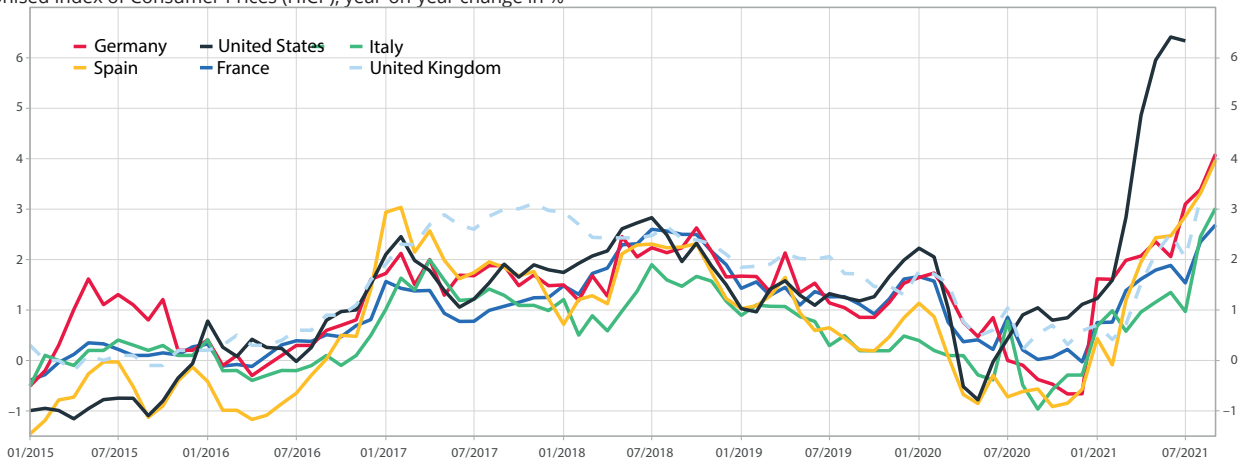
retail sales per level, base 100 = Q3 2019



Source: Eurostat, ONS, Census Bureau

### ► 4. Inflation continues to rise in the western countries

Harmonised Index of Consumer Prices (HICP), year-on-year change in %



Note: UK data is a CPI, as the HICP has not been published since late 2020.  
 How to read it: in July 2021, consumer prices in the US were 6.3% higher than in July 2020.  
 Source: Eurostat, ONS

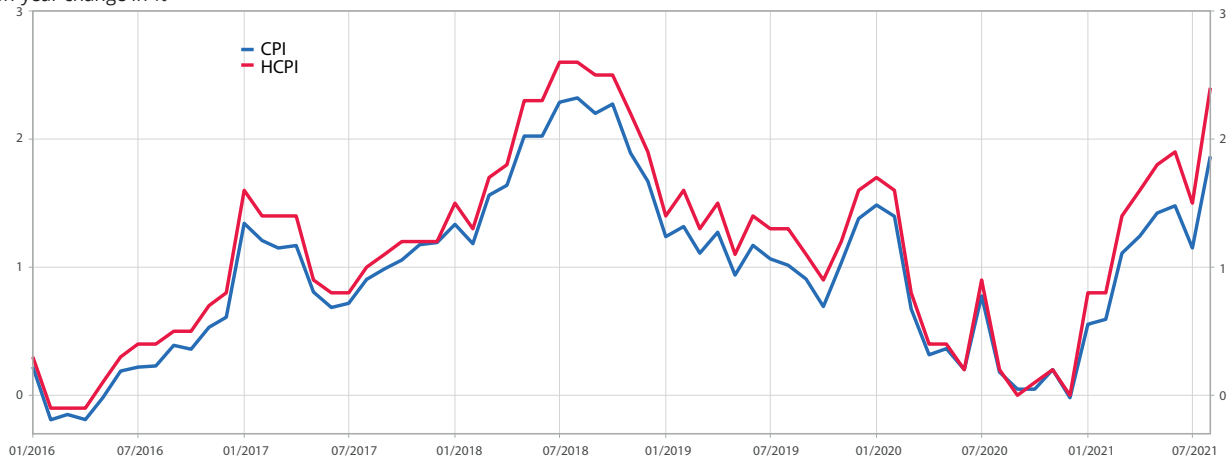
## Box 1: The Harmonised Consumer Price Index is necessary for comparisons between countries

For international comparisons of inflation, a harmonised indicator is needed to compare price changes, as national consumer price indices (CPI) are calculated using baskets of different products and are therefore not easy to compare one with another.

The Harmonised Consumer Price Index (HCPI) is therefore ideal in this context, as it is constructed with methods and content that ensure the best comparability between countries (however, the structure of the basket of goods reflects that of household consumption and can therefore still vary according to the country). In the case of France, the main difference between the CPI and the HCPI lies in the accountability of health benefits. On the one hand, the CPI counts all health benefits, including the amount payable by the national health insurance fund. The HCPI, on the other hand, only covers household spending “net” of the reimbursements by the health insurance fund. The weighting of the price of health services and goods is therefore greater in the CPI than in the HCPI. In France, this difference in weighting and the decline in prices of health services and goods in Q2 2021 resulted in a significant difference between the CPI and the HCPI (► [Figure 5](#)). ●

### ► 5. Comparison between CPI and HCPI in France

year-on-year change in %



Source: Eurostat, INSEE

# International economic outlook

This rise in inflation is the result of several factors, two of which are common to all economies. The first common factor is a base 2020 effect, linked to the very low level that prices fell to at the height of the health crisis, especially with regard to the price of oil. In fact, in H2 2020, prices (within the meaning of HICP) in several European countries were below their level of a year earlier (Germany, Italy, Spain) or only very slightly above (France and United Kingdom). One way to measure the magnitude of this base 2020 effect is to consider the HICP over two years (2021 compared to 2019, see *Economic Outlook* for July): in the United States, the HICP in August was 3.3% above its level of August 2019, annualised over two years, i.e. a much smaller increase than year-on-year over one year (6.3%). This difference between the two HICPs is also clearly visible in the case of Spain, where the annual HICP was at +4.0% in September against +1.7% when it was annualised over two years. The second factor common to all countries is the sharp rise in commodity prices –oil and also minerals and food– linked to the strong rebound in world demand. Sourcing difficulties are another aspect of these tensions.

There are other factors, more specific to the countries studied, that also contribute to the rise in inflation. In the United States, the extent of fiscal support, especially for household consumption, stimulated specific demand items, such as second-hand cars where prices surged by 31.9% year-on-year in August, partly because of the limitation on new car production linked to shortages of semi-conductors. In Europe, inflation evolved at a more moderate pace than in the United States, although Germany and Spain stand out with an HICP that is generally more dynamic over one year (about +4% year-on-year in August). In Germany, the introduction of a carbon tax and the reinstatement of the VAT rate (after the temporary reduction in 2020) since the start of 2021 may have driven the HICP upwards. In the United Kingdom, where HICP data are no longer available from the end of 2020, workforce shortages, accentuated by Brexit, caused shortages of some goods, thus boosting inflation. The CPI grew by +3.2% year-on-year in August, and is expected to reach +4% by the end of the year, according to the Bank of England.

## In China, economic activity seems to be slowing

Since the net rebound in Q2 2020, the Chinese economy has grown at a dynamic pace (+1.9% per quarter on average), so that in spring 2021 the country stood at +9.2% above its Q4 2019 level. This growth was driven by vigorous exports (+17% in Q2 2021 compared to Q4 2019), mainly fuelled by demand from western countries for textile products and electronic equipment (*Economic Outlook* of 6 May 2021).

In summer 2021, there were signs that suggested that growth in China was slowing. The manufacturing sector PMIs continued their downward trend: the official PMI calculated by the NBSC, mainly for heavy industries, has been in decline since March and fell back in September, for the first time since February 2020, below the contraction threshold (49.6). The Caixin-Markit PMI, more representative of light industry, rallied and reached 50 in September, after 49.2 in August. And in August the slowdown was even more marked in the non-manufacturing sector: the Caixin-Markit index and the official PMI lost 8.2 points and 5.8 points respectively, dropping to 46.7 and 47.5, although the latter index did rebound to 53.2 in September. The main reason for this slowdown in economic activity is the resurgence of outbreaks of the epidemic, forcing the authorities to lock down cities and close production units and port terminals, for example in August the port of Ningbo-Zoushan, third largest port in the world, was closed. In addition to these health factors, there was significant flooding during the summer and a tightening of regulations in several sectors: antitrust rules in the digital sector, regulations on private education and meal deliveries, prohibition of financial transactions involving cryptocurrencies, new debt limits, etc. The strengthening of CO2 emission standards also restricted coal production, causing electricity shortages, which in turn affected economic activity in industry, and potentially global supply chains.

The changes observed in industrial production and retail sales over the last few months confirm this finding (► **Figure 6**). While industrial production had been one of the driving forces behind Chinese recovery, returning to its pre-crisis level from April 2020, it appears to have been in decline since the beginning of 2021. In addition to sporadic closures, businesses are faced with bottlenecks and rising commodity prices. In fact, in August the producer price index reached its highest level in 13 years (+9.5% year-on-year), even though the consumer price index slowed (+0.8% after +1.0%), reflecting the difficulties producers were experiencing in passing on the rise in prices to consumers in a context of intense competition and fragile domestic demand.

In fact, retail sales already illustrated the relative weakness of domestic demand during the economic rebound in 2020, but this summer they have shown a particularly strong decline (–6.1% between June and August) with only slight growth over the year (+2.5%). Private consumption suffered from local lockdowns and travel restrictions, as illustrated by the 17.8% drop in automobile sales year-on-year.

In addition, there are fears around the possible bankruptcy of one of the country's main real estate developers, Evergrande, which is in debt to the tune of 260 billion euros. As a result of new debt regulations, Evergrande could find itself unable to repay this debt to businesses and households, threatening the entire economy in the absence of State intervention.

## By the end of the year, growth in the main economies is expected to slow a little

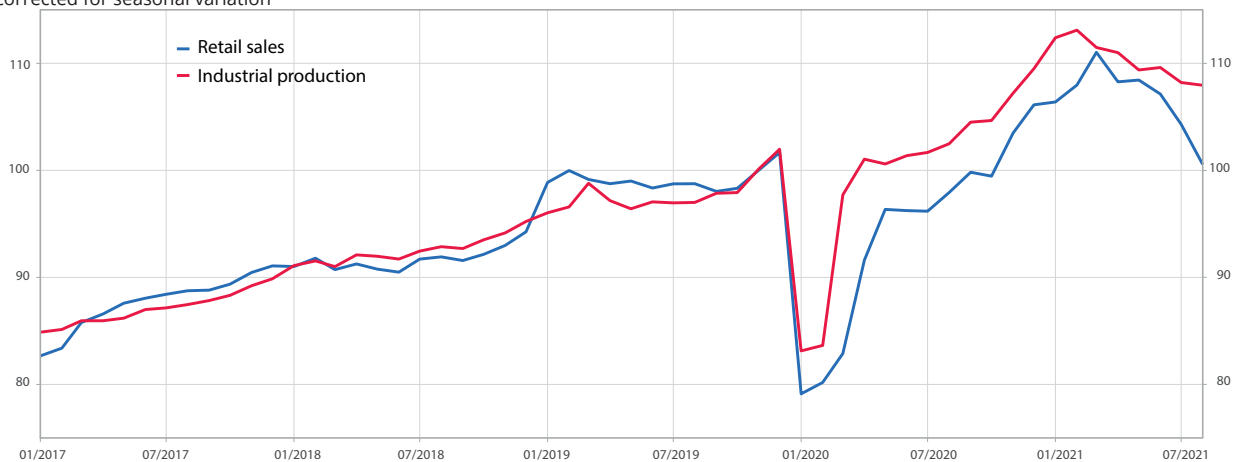
In H2 2021, economic activity in the major western countries is expected to continue to grow but at a slower pace (► **Figure 7**). The rise in the cost of commodities, the supply chain difficulties that

companies are facing and the change in the health situation are all factors that can affect activity.

In the Eurozone, activity would seem to have accelerated in Q3 in France (+2.7% after +1.1%), Germany (+2.8% after +1.6%) and Spain (+3.8% after +1.1%). In Italy, however, it would seem to have slowed slightly (+1.7% after +2.7%). As in Q2, it would seem that consumption was continuing to boost activity, especially in services, due to the easing of health restrictions and a particularly dynamic summer period. Investment is also expected to be dynamic in the Eurozone, where it would seem to have made a positive contribution to growth in Q3 in all countries. The progress made in the vaccination campaign in the countries of Europe should mean that the health risk

## ► 6. For several months, Chinese industrial production and retail sales have lost ground

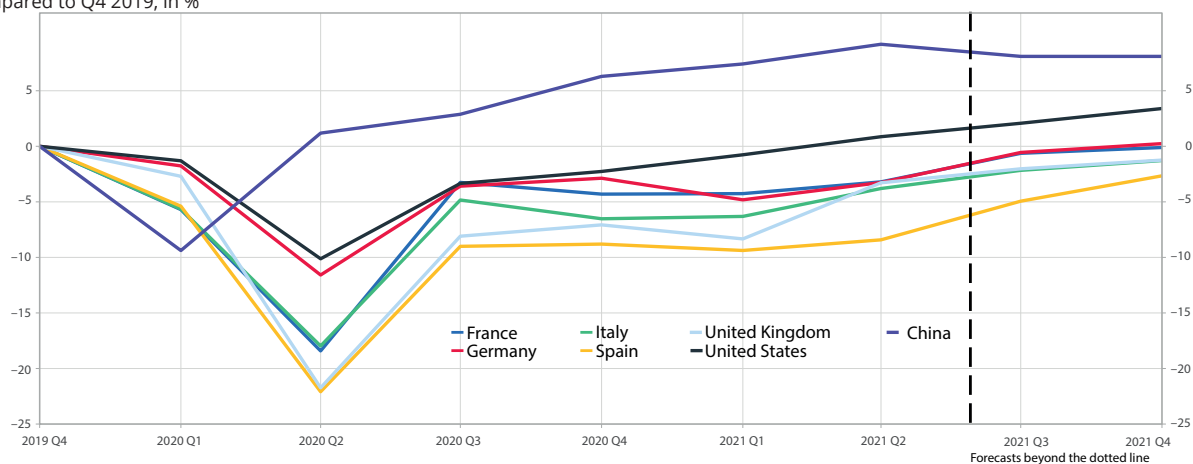
series corrected for seasonal variation



Source: NBSC, INSEE calculations

## ► 7. Recovery is expected to continue until the end of the year but at a slower pace

GDP compared to Q4 2019, in %



Source: INSEE, Destatis, Istat, INSE, ONS, BEA, NBSC, INSEE forecast

## International economic outlook

is limited, provided there is no new resistant variant. Conversely, the rise in commodity prices and supply chain difficulties (► **Box 2**) could hamper growth towards the end of the year.

Over the whole of 2021, GDP in the main Eurozone economies is expected to rebound significantly after nosediving in 2020: +3% in Germany, more strongly in Spain (+5½%), and even more so in Italy and France (6% and +6¼% respectively, ► **Figure 8**). Activity will probably still be around 3% below its pre-crisis level at the end of the year in Spain (compared to Q4 2019) and around -1% below in Italy. In France and Germany, GDP is expected to be back to pre-crisis level by the end of the year.

In the United Kingdom, activity would appear to have slowed considerably this summer (+1.3% in Q3 after +5.5% in Q2, which followed on from a decline of 1.4% in Q1). The resurgence of the epidemic at the beginning of the summer and the shortages of goods and workforce, exacerbated by the consequences of Brexit, would appear to have affected activity. Investment and exports therefore seem to have grown very little in Q3 and they are likely to remain well below their pre-crisis level in Q4. Consumption is expected to be buoyant, however, especially in

services, and should continue to drive growth at the end of the year (+3.5% in Q3 then +2.0% in Q4). GDP is expected to increase by +0.8% in Q4 and would then be around -1% below its pre-crisis level. Overall for the United Kingdom, GDP growth looks set to be 6¾% in 2021.

In the summer, growth in the US economy would seem to have slowed a little compared to Q2 (+1.2% after +1.6%), mainly as a result of the increased intensity of the epidemic in the Southern States. In addition, while household consumption has been the main driving force of activity since the start of the crisis, it looks set to slow towards the end of the year: inflationary tensions and the weakening effect of the assistance provided for households through stimulus plans are likely to affect consumers. Activity is improving by 6% across the year as a whole, and by the end of 2021 it is expected to be 3% above its Q4 2019 level.

In China, the deteriorating climate surrounding the summer indicators is likely to result in a sharp slowdown in economic activity: -1.0% in Q3 after +1.7% in Q2. If it remains at this level in Q4, GDP looks set to grow by +8% in 2021 after 2% in 2020. ●

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

	2020	2021
France	-8.0	6 ¼
Germany	-4.9	3
Italy	-8.9	6
Spain	-10.8	5 ½
United-Kingdom	-9.7	6 ¾
United-States	-3.4	6
China	2.0	8

■ Forecast

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

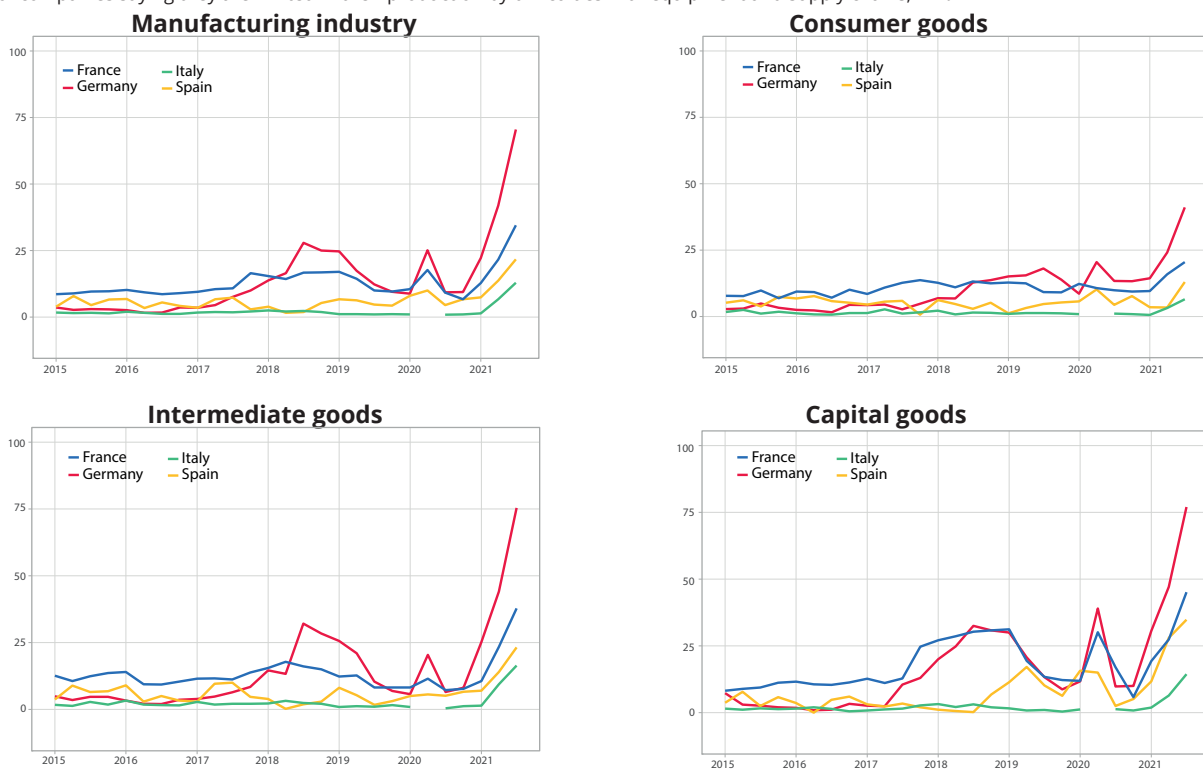


## In the main Eurozone countries, supply chain problems affect the manufacturing industry unevenly across sectors

Since the start of the year, more and more manufacturing companies in the main Eurozone countries have reported problems with supply chains<sup>1</sup> as factors that are limiting their output (► **Figure 9**). However, according to the business tendency surveys, the scale of these problems varies across countries and sectors. Companies manufacturing consumer goods<sup>2</sup> (agri-food, clothing, household equipment, etc.) appear to be less badly hit by these problems, as their increase is less pronounced than in other sectors. The phenomenon particularly affects companies manufacturing intermediate goods (engines, electronic components, etc.) and capital goods (automobile and aeronautical construction, etc.).

### ► 9. German industries are reporting the most supply chain problems in Europe, with just over three out of four companies concerned in the intermediate goods and capital goods sectors

share of companies saying they are limited in their production by difficulties with equipment and supply chains, in %



Source : DG ECFIN

<sup>1</sup> According to the definition harmonised at European level, the problems analysed here concern difficulties with supply chains and equipment that limit companies' output. However, in what follows there is a misuse of the definition as we discuss supply chain problems only, as these were most prevalent over the period.

<sup>2</sup> The results presented here are published by the DG ECFIN using the MIG (Main Industrial Grouping) classification which groups the industrial branches into five categories of manufactured product: consumer non durables, consumer durables, intermediate goods, capital goods, and energy. Questions on the subject of factors that limit production are asked quarterly, in January, April, July and October each year.



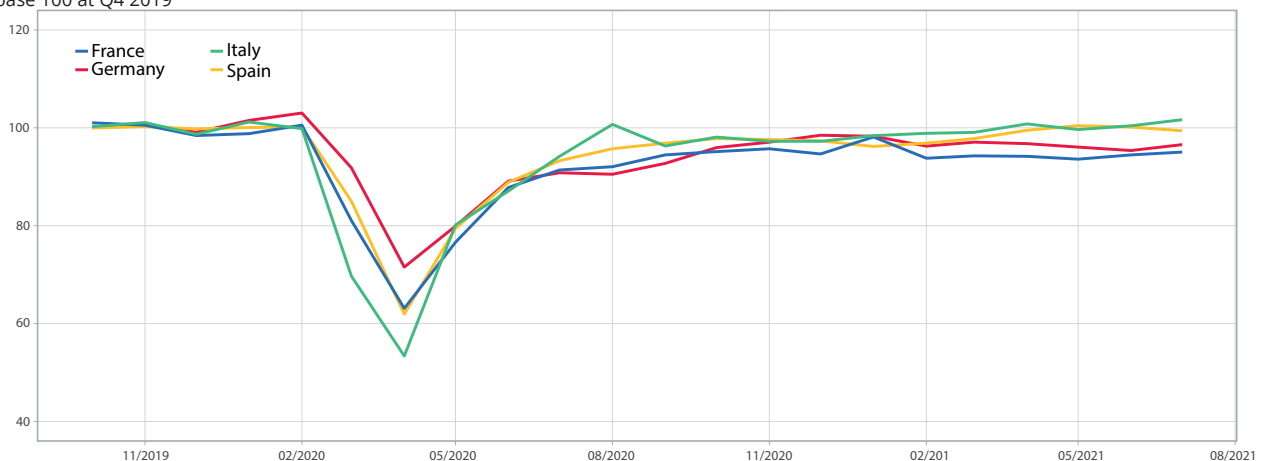
# International economic outlook

In the manufacture of both intermediate goods and capital goods, supply chain problems are more acute in Germany, where, in July, 75% of companies said they were hampered by this type of problem. In France, such problems certainly appear but they are less significant, as in July they affected 38% of companies producing intermediate goods and 43% of those producing capital goods. In Spain, these difficulties are less present in industries producing intermediate goods (23% of companies concerned) but they remain high in those producing capital goods (35%). In Italy, supply chain problems appear to be more moderate, affecting about 15% of companies in each of these two sectors. Finally, in the four largest European Union economies, the share of companies affected by these problems reached a high point in July (latest available month for these data), which was well above levels in previous years.

These difficulties may partly explain why the industrial production index levelled off in H1 2021, especially in Germany and France (► **Figure 10**). ●

## ► 10. In Italy and Spain, manufacturing output is more dynamic than in France and Germany

IPI, base 100 at Q4 2019



Source: Eurostat