

Eurozone

After an upturn in activity over the summer, driven for the most part by household consumption, the short-term outlook in the Eurozone countries was gloomy for the end of 2021: inflation, supply chain difficulties and a worsening health situation are likely to slow down activity in Q4 2021. At the start of 2022, this slowdown is expected to continue in those countries that are already back to their pre-crisis level of activity, like France and Italy, while GDP is likely to still require a catch-up effect in Germany and especially in Spain.

In the Eurozone, the recovery continued in Q3 2021

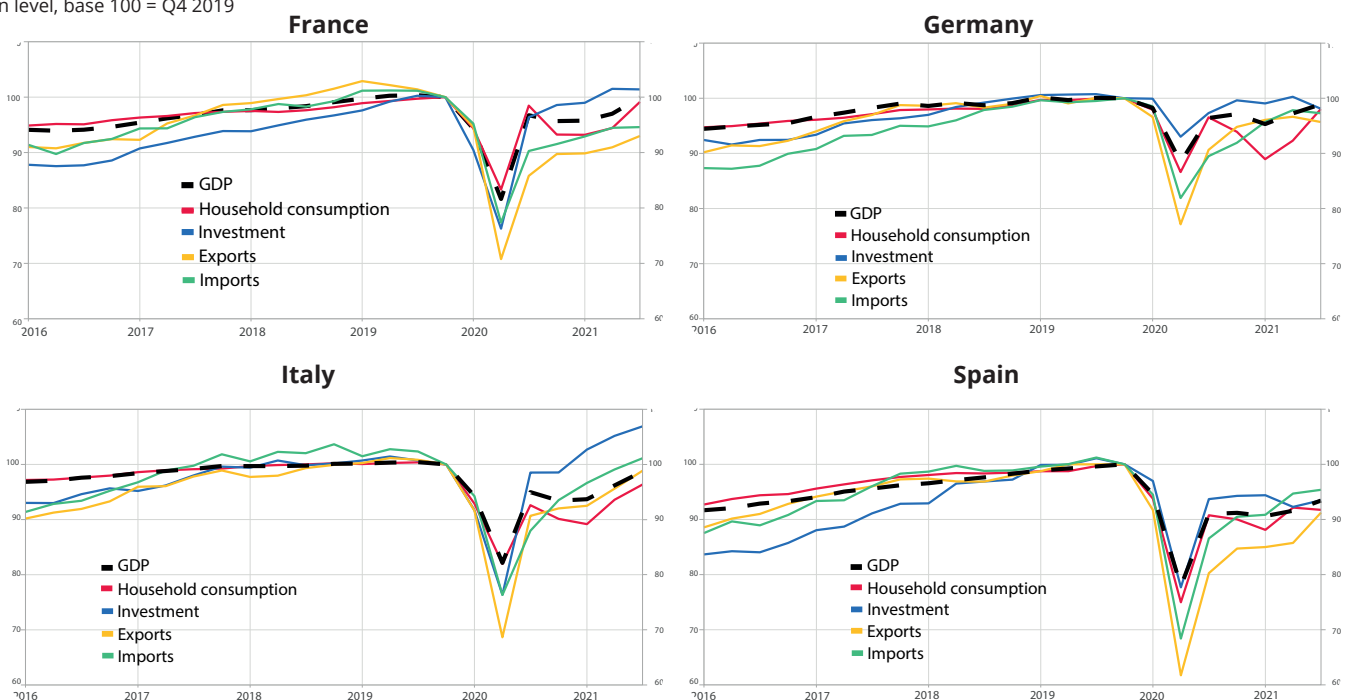
In Q3, activity in the Eurozone maintained its pace of growth: +2.2%, after +2.2% in Q2. The recovery continued to varying degrees according to the country: activity accelerated in France (3.0% after +1.3%) and Spain (+2.0% after +1.1%), while growth remained more or less stable in Germany (+1.7% after +1.9%) and Italy (+2.6% after +2.7%). Thus activity in France was back to its pre-crisis level from this summer (-0.1% compared to Q4 2019), whereas Germany and Italy were a little over one point below (-1.1% and -1.3% respectively, ► **Figure 1**). In Spain, activity is still a long way from its pre-crisis level (-6.6% in Q3), still with high losses in construction and services linked to tourist activities, such as accommodation-catering and transport services and also leisure.

The differences between the four main Eurozone economies, in terms of their level of activity compared to pre-crisis, are firstly linked to the dynamics of private consumption. While household consumption was virtually back to its pre-crisis level in the summer in France, and to a lesser extent in Germany, its recovery seems to be more sluggish in Italy, as health measures in Q1 had a considerable effect. In Spain, consumption is still very much affected and even saw a decline in Q3 (-0.4%).

French activity has also benefitted from dynamic investment, which overtook its pre-crisis level from Q2. Investment is even more buoyant in Italy, where it increased vigorously in H1, driven by the construction sector (+13.4% above its pre-crisis level in Q3). In Germany, investment remains just below its pre-crisis level, while in Spain it is still depressed.

► 1. In the Eurozone, investment has picked up vigorously since mid-2020, whereas the upturn in consumption follows the lifting of the health restrictions

in level, base 100 = Q4 2019



Source: INSEE, Destatis, Istat, INE

Finally, there is still a marked difference between imports and exports, with imports much nearer to their pre-crisis level, in line with the momentum of domestic demand. Meanwhile, exports are still affected by production difficulties in the exporting sectors, like the automobile sector (in Germany, Spain and France) or the aeronautics sector (in France), and by the return of foreign tourists, although still in very limited numbers (in Spain, Italy and France).

Payroll employment also continued to increase in Q3 in the main Eurozone countries (► **Figure 2**). In France and Italy, the pre-crisis level was reached in Q2 2021, and has now been exceeded. Germany is approaching its Q4 2019 level of payroll employment, whereas Spain is still far from it, although there was acceleration in Q3.

At the end of 2021, the short-term outlook is gloomy

After the upturn in Q3, supply chain problems, the rise in inflation and the deterioration in the health situation are factors that are likely to hamper activity in Q4 2021.

Since the beginning of the year, more and more businesses in the four main Eurozone economies report that their production is restricted by supply chain problems. In October, these difficulties were intensified, reaching a record high in industry (► **Figure 3**). In industry excluding building construction, it was in Germany in particular that these problems were felt most keenly, with more than 85% of businesses affected in October.

In construction, these difficulties are more varied from one country to another and are less intense compared to the rest of industry. However, they are again most vigorous in Germany, although they have declined since the summer, and are increasing steadily in France and Italy. In Spain, these difficulties have not emerged in the surveys of businesses in the sector, which is perhaps related to the fact that the main problem facing construction is reduced demand: there are still just as many businesses in Spain reporting that they are restricted because of insufficient demand, whereas these numbers have fallen sharply in France and Italy.

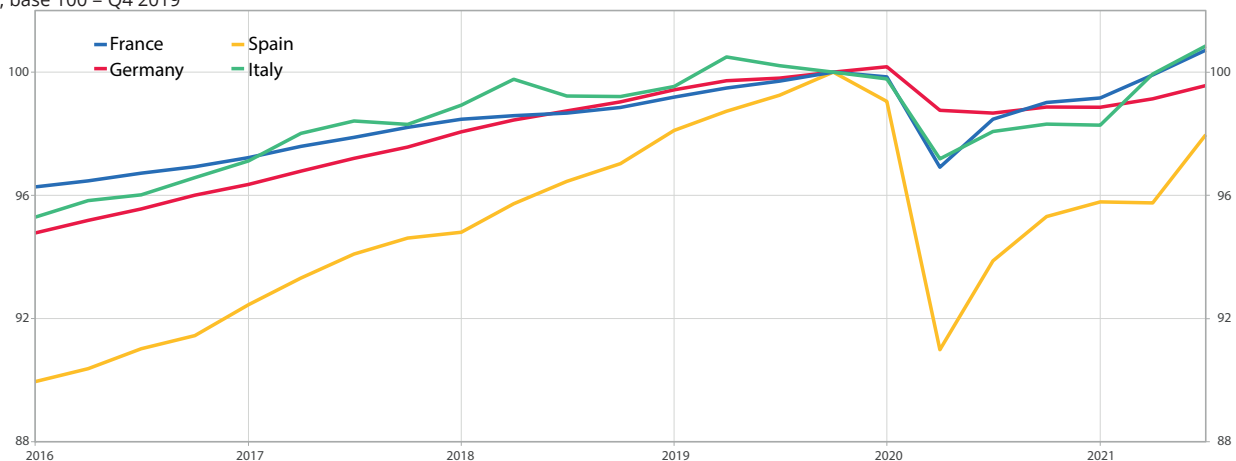
In line with these growing difficulties with supply chains, industrial production has been sluggish since early 2021 (► **Figure 4**). In Q3, German industrial production fell, whereas in the other countries it stabilised across the quarter. In October, German industrial production increased but was still below the pre-crisis level. In the other countries, production remained stable, slightly lower than the level at the end of 2019 in France and Spain, but slightly higher in Italy.

Concerning the construction sector, production increased over Q3 in Italy, exceeding its pre-crisis level by 13.4%, in contrast to German production which deteriorated, falling back to its pre-crisis level, despite having overtaken it in March 2021. In France and Spain, production remained stable, lagging behind pre-crisis levels (-5.0% and -16.7% respectively).

Regarding inflation, it has grown steadily since the end of 2020, driven by the increase in oil prices and energy prices generally, and to a lesser extent by rising commodity prices, especially mineral and agricultural commodities (► **Focus**). In November, inflation (within the meaning of the Harmonised Index of Consumer Prices) reached 6.0% per year in Germany, 5.6% year-on-year in Spain, 4.0% in Italy and 3.4% in France. This rise in inflation will stretch households' purchasing power, which is then liable to impact on their consumption dynamics, even if they have a surplus in previous savings. For businesses, the rising price of inputs is yet another factor weighing on supply, in addition to the supply chain problems.

► 2. In Spain, payroll employment is struggling to return to its pre-crisis level

in level, base 100 = Q4 2019



Note: this graph represents payroll employment of physical persons as a quarterly average (employment in the sense of national accounting), it may therefore differ from payroll employment at the end of the quarter, as published by INSEE, DARES and ACCOSS.

How to read it: in France and as an average in Q3, total payroll employment was 0.7% above its pre-crisis level.

Source: INSEE, Eurostat

International economic outlook

Lastly, the health situation has deteriorated since the beginning of November in Europe (► [International Overview](#)). In particular, the number of new Covid cases in Germany reached a record level since the start of the pandemic. In several Länder, measures were introduced to combat the spread of the virus: Christmas markets were cancelled, entry to certain places of consumption required a vaccine pass and a negative Covid-19 test result. These restrictions could hamper the consumption of services. For the time being, France, Spain and Italy seem to be less affected by the latest flare-up of the epidemic, but its effect on tourism could penalise exports in these countries.

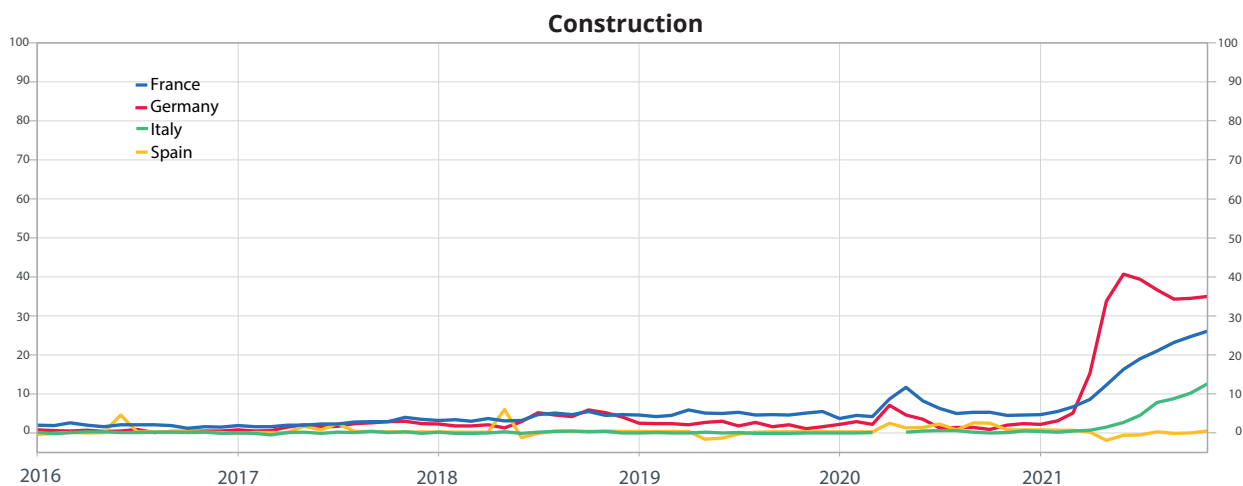
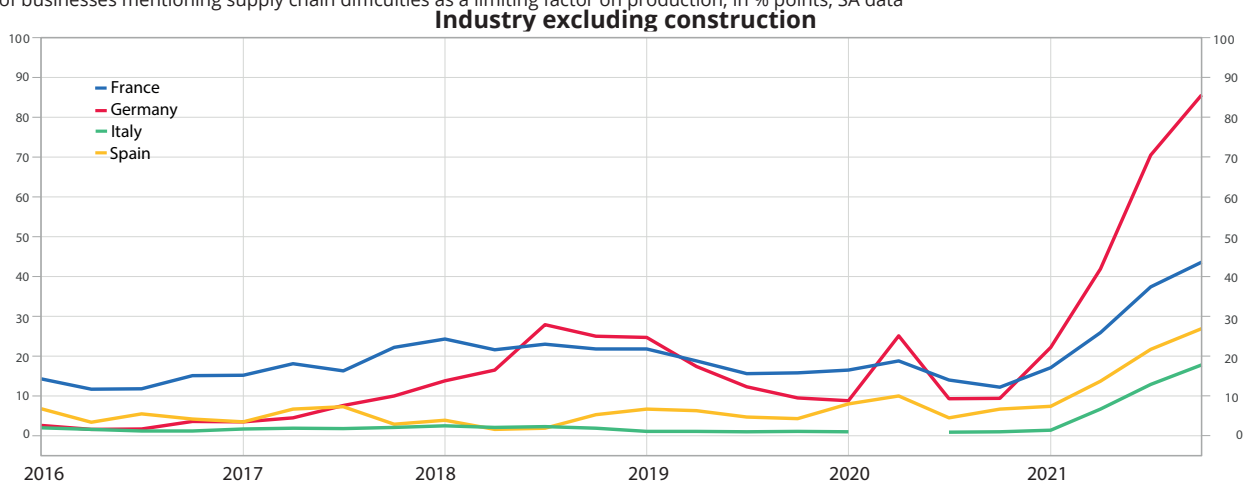
In Q4 2021, growth is expected to slow down

In Q4, given the factors described above and the catch-up momentum that is dwindling in some countries, activity in the Eurozone is expected to slow. Growth should remain substantial in Spain (+1.5% as a quarterly variation), where activity is lagging furthest behind compared to its pre-crisis level. There is also likely to be considerable growth in Italy (+1.2%). French activity, which has already returned to its Q4 2019 level, is expected to slow (+0.4%), as is German activity (+0.2%), which is penalised by the deterioration in the health situation.

In most countries, the slowdown in activity in Q4 is likely to be the result of less buoyancy in household consumption and exports. Household consumption is expected to decelerate in France, Germany and Italy after its dynamism in Q3, although it could continue to benefit from a catch-up trajectory in Italy. In Spain, however, it is expected to bounce back, after the minor downturn in Q3, and could also benefit from catch-up effects. Regarding exports, they look set to slow

► 3. In the main Eurozone economies, more and more businesses in the industrial sector report supply chain difficulties

share of businesses mentioning supply chain difficulties as a limiting factor on production, in % points, SA data



Note: these data are taken from business tendency surveys. They represent the proportion of businesses that have identified supply chain difficulties as a factor limiting production. The balance of opinion is quarterly in industry excluding construction and monthly in the construction sector. In April 2020, no surveys were carried out in Italy. These statistics correspond to European surveys centralised and harmonised by DGECFIN, especially with regard to seasonal adjustment. Their values may therefore differ from those disseminated by INSEE using the same source; trends are similar nevertheless.

Source: DG ECFIN

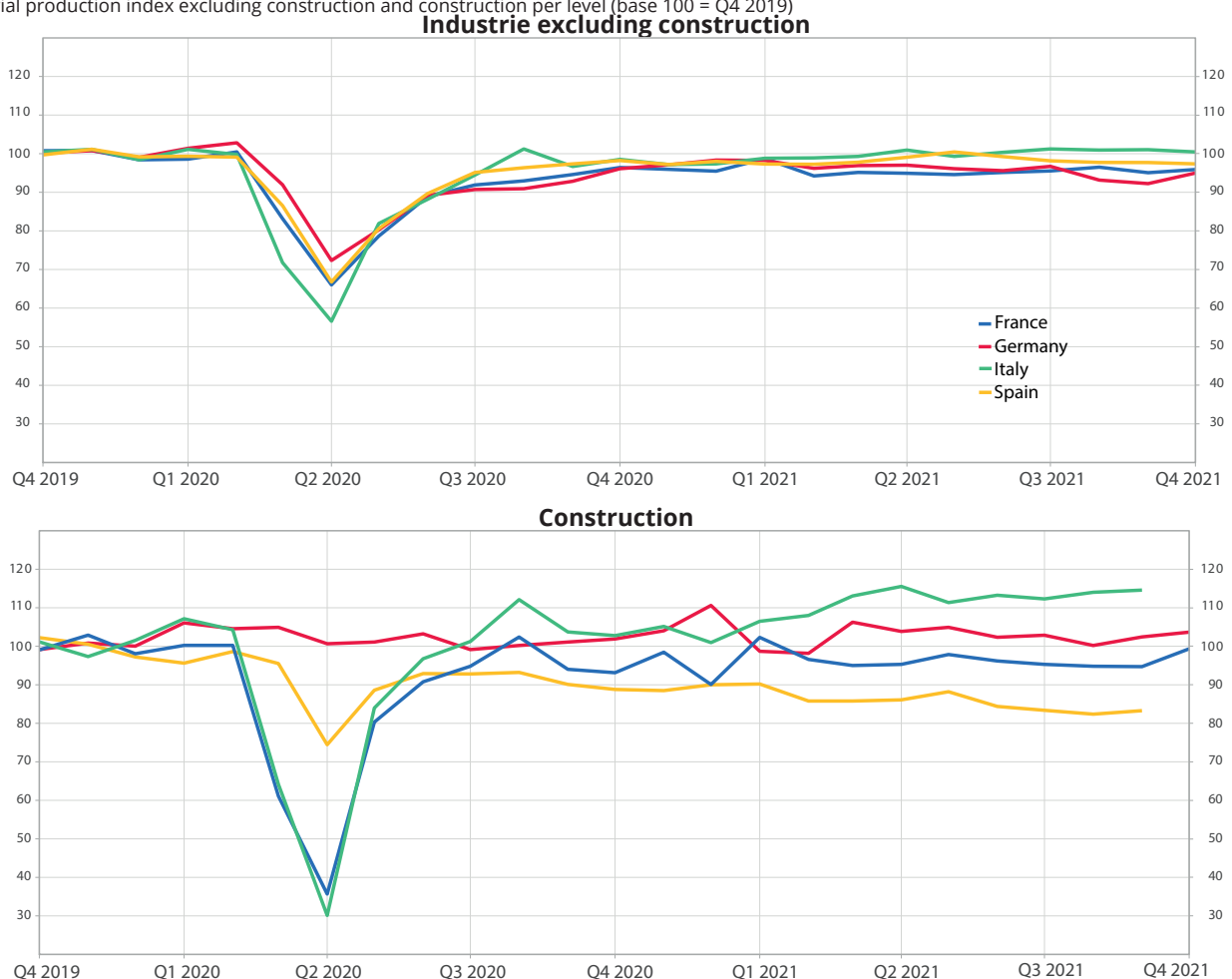
or stagnate in the four main Eurozone economies, linked to supply chain difficulties, the rise in inflation and the health risk. While supply chain problems are expected to disrupt production in some export sectors, inflation is likely to penalise exports via increased production costs for businesses. Meanwhile, the health risk is expected to affect the return of foreign tourist at the end of the year.

In H1 2022, the dynamics of activity are likely to be varied across the Eurozone, with two main trends. In France and Italy, countries where activity had already returned to its pre-crisis level by the end of 2021 or is likely to do so soon, growth rates will tend to be more moderate. In Germany and Spain, provided that the short-term outlook does not deteriorate further, activity should once again benefit from a catch-up effect, with Germany getting back to its Q4 2019 level of activity in Q2 2022.

These scenarios are contingent on there being no new health restrictions in the main Eurozone economies, although a rise in cases may affect economic behaviour even without further restrictions. They are also based on a very gradual easing of supply chain difficulties, which will probably still be felt in mid-2022. If the health situation were to continue to deteriorate, it could have even more of an impact on consumption, and growth in the Eurozone would be lower than forecast. Conversely, supply chain difficulties could be resolved sooner, which would result in a more favourable development in activity than in the scenario presented here. ●

► 4. In September 2021, industrial production declined in Germany and stagnated in France, Italy and Spain

industrial production index excluding construction and construction per level (base 100 = Q4 2019)



Source: Eurostat