

Growth and inflation tested by geopolitical uncertainties

Economic outlook

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Mesurer pour comprendre

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Growth and inflation tested by geopolitical uncertainties

Developments in the war in Ukraine partly determine the economic outlook

The war in Ukraine is a geopolitical event with significant economic consequences, both in the short term (by stoking inflation) and in the long term (with the probable reorganisation of some value chains). It is taking place in a context already affected by strong price pressures associated with the buoyancy of the global recovery in the wake of the health crisis.

The magnitude of the immediate economic consequences of this new “exogenous” shock is of course not on the scale of that of March 2020, and it operates through different channels, but again it makes economic forecasting particularly uncertain, precisely because it depends partly on factors that do not fall within the usual scope of short-term economic analysis, such as the development of the military situation or of sanctions against Russia.

In these rapidly changing circumstances, this *Economic Outlook* offers a complete short-term diagnosis for Q1 2022; and for the near future it provides an assessment of the situation rather than forecasts. This assessment consists of conditional estimates based on macroeconomic models, and on early results from the March business tendency surveys, published exceptionally in this edition, before publication of the full results at the end of March.

In Q1 2022, French economic activity would appear to have improved overall, despite consumption lagging behind

The first three months of 2022 have been full of contrasts. As expected, in January the shadow cast by the Omicron wave was contained and proved temporary. In February, most health restrictions were lifted and the business tendency surveys were sending out signals that suggested an acceleration in activity. March has already been affected by the first consequences of the war in Ukraine, exacerbating the price tensions that were already present and lowering expectations regarding activity, as reported by business leaders in the surveys. All in all, the forecast for GDP growth is maintained at +0.3% for Q1 (after +0.7% the previous quarter), but with more uncertainty than usual, especially for March.

Domestic demand excluding inventories is expected to be at a standstill overall in Q1, under the effect of its components moving in opposite directions. Household consumption is likely to slip back, due to the Omicron wave in January and sluggish winter sales. Conversely, government consumption is expected to be driven by tests and vaccinations. Corporate investment should remain dynamic, but decelerate somewhat. Foreign trade should also slow after its sharp acceleration at the end of 2021. Finally, the contribution of inventory change is expected to be positive this quarter.

Payroll employment looks set to slow this quarter (+0.1% forecast between December and March) and the unemployment rate should stabilise at 7.4% of the active population. In February, the year-on-year change in consumer prices reached 3.6%. It would have been around 5% were it not for the “tariff shield” on regulated sales tariffs for gas and electricity. In March, inflation is likely to exceed 4% year-on-year: energy is expected to account for about half of this year-on-year change. Due to the rise in prices and despite the solid performance of earned income, the purchasing power of households’ gross disposable income is likely to decline in Q1 2022 (-1.4% forecast per consumption unit, although one percentage point of this is due to the after-effects of accounting for the inflation compensation payment in Q4 2021).

The economic situation is likely to be more uncertain in the coming months, with more imported inflation

In the first analysis, the war in Ukraine and the sanctions against Russia affect the French economy via several channels. First is the energy and commodities price shock, but there is also an uncertainty shock and a foreign trade shock. The shock on prices of some imports may also be coupled with a shock on volumes, with the risk of an increase in supply chain difficulties –at a time when pre-existing problems, for example the case of semiconductors, do not yet seem to be resolved.

Early results from the March business tendency surveys, collected between 25 February and 14 March, provide first indications of the way businesses have adjusted their expectations since the start of the war in Ukraine. General prospects, as well as personal prospects for activity appear to be particularly affected in industry, and also in wholesale trade and some services. However, at this stage, the outlook for employment seems relatively unchanged.

Logically, growth should feel the effects in the coming months. By way of illustration, if the energy import prices seen at the beginning of March, which were admittedly very volatile, were to hold up until the end of the year, the associated loss of activity for the French economy could be almost one point of annual GDP in 2022, compared to the changes that could have been expected if there had been no war. These figures are provided by a macroeconometric model, and take into account the effects of international closure, but without considering either economic policy responses – likely to reduce the impact of the shock – or the other channels mentioned above – likely to worsen it. However, this is not a “central” assessment of the effect of the conflict, given the very high volatility of energy prices at present, and more broadly the degree of uncertainty over the development of the conflict.

The inflation outlook for the coming months is also uncertain, especially for energy, although the “reduction at the pump” is likely to ease the increase in fuel prices. Food prices could be driven up by commodity prices, but also as a result of trade negotiations between producers and distributors. The overall year-on-year price shift could thus be around 4.5% between April and June.

All in all, annual growth in 2022 should benefit from a strong carry-over effect (+2.7% at the end of Q1) linked to the dynamism of recovery after the health crisis, but there are expected to be considerable uncertainties over activity in the next few quarters. In addition to developments in the conflict itself, and any associated sanctions and economic policy responses, these uncertainties also concern the consequences of the confidence shock, for example, and the scale of supply chain problems, whether they are linked to the war or to a possible resurgence of the pandemic, if this were to lead to a halt in activity, especially in China. ●

French economic outlook



Economic activity

In Q4 2021, French GDP was 0.9% above its level before the health crisis, continuing its catch-up in several service sectors (trade, transport, services to households, etc.). The first three months of 2022 appear to be more contrasted. January saw a deterioration in the health situation (Omicron wave) and its consequences (use of teleworking, introduction of the vaccine pass, numbers limited for some events, etc.). In February, most restrictions were gradually lifted, and the business tendency surveys suggested that there could be a reacceleration in activity. March was affected by the first consequences of the outbreak of war in Ukraine, adding to difficulties around supply (problems with supply chain and hiring) and price tensions that were already being felt. In this context, the change in French GDP in Q1 2022 is for the most part likely to reflect this contrasting situation and it should therefore slow, with an increase of +0.3% forecast (after +0.7% in Q4). After an annual increase in GDP of +7.0% in 2021 compared to 2020, the carry-over effect for 2022 at the end of Q1 –i.e. the annual growth that would be seen if quarterly GDP remained stable for the rest of the year– would then be +2.7%.

More specifically (► **Figures 1** and **3a, 3b**), household consumption is likely to decline in Q1, in a context affected by the deterioration in the health situation in January, and also by the continuing rise in inflation. Government consumption is expected to remain buoyant, driven by the vaccination campaign and the provision of screening tests during the Omicron wave. Corporate investment should remain vigorous, but is likely to slow a little, and investment by households should pick up, driven by construction. Foreign trade was very dynamic at the end of 2021: it is likely to slow at the beginning of 2022, but nevertheless is still likely to be driven by the recovery in the trade of manufactured products (in particular with regard to exports, with naval deliveries). However, it is still likely to be affected at the end of the quarter by the repercussions of the war in Ukraine on energy and agricultural trade and on international tourism.

► 1. Goods and services: resources-uses balance at chain-linked prices for the previous year, in quarterly and annual change

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

	2020				2021				2022	2020	2021	2022
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1			ovhg
Gross domestic product	-5.7	-13.5	18.6	-1.1	0.2	1.3	3.1	0.7	0.3	-8.0	7.0	2.7
Imports	-5.0	-18.5	17.0	0.8	1.5	2.1	1.0	3.9	1.6	-12.2	7.8	5.6
Total resources	-5.4	-14.6	18.0	-0.4	0.5	1.7	2.6	1.3	0.5	-8.9	7.5	3.2
Household consumption expenditure	-5.7	-11.7	18.5	-5.5	-0.1	1.2	5.5	0.5	-0.5	-7.2	4.7	2.9
General government consumption expenditure**	-3.0	-11.4	17.5	-0.7	-0.3	0.7	2.9	0.4	0.6	-3.5	6.3	2.5
of which individual general government expenditure	-4.3	-12.8	20.5	-1.4	-0.1	0.8	4.2	0.5	0.9	-4.9	7.7	3.6
of which collective general government expenditure	-0.7	-8.3	13.1	1.1	-0.8	0.1	-0.4	-0.2	0.1	-0.1	3.7	-0.3
Gross fixed capital formation (GFCF)	-9.6	-15.8	26.5	2.4	0.3	2.3	0.0	0.6	0.6	-8.9	11.5	1.7
of which Non-financial enterprises (NFE)	-9.5	-15.6	28.1	1.4	1.3	1.6	0.1	1.1	0.8	-8.1	12.1	2.0
Households	-12.5	-18.1	30.0	6.9	-1.9	5.0	0.7	0.0	0.3	-12.2	15.6	1.8
General government	-4.9	-12.3	18.2	0.6	-0.6	0.9	-1.1	-0.4	0.3	-4.4	4.8	-0.3
Exports	-5.2	-25.1	21.3	4.1	0.8	2.0	1.7	3.1	1.9	-16.1	9.2	5.6
Contributions (in points)												
Domestic demand excluding inventory**	-6.0	-12.6	20.3	-2.5	-0.1	1.4	3.5	0.5	0.0	-6.7	6.8	2.5
Changes in inventories**	0.3	0.9	-2.2	0.5	0.4	0.0	-0.6	0.5	0.2	-0.2	0.0	0.3
Foreign trade	0.0	-1.8	0.5	0.9	-0.2	-0.1	0.2	-0.3	0.1	-1.1	0.2	-0.1

■ Forecast

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

** Changes in inventories include acquisitions net of valuable items

Note: the overhang for 2022 corresponds to the overhang in Q1.

How to read it: in Q1 2022, exports are expected to increase by 1.9% compared to Q4 2021; the contribution of foreign trade to quarterly GDP growth is expected to be 0.1 points.

Source: INSEE

French economic outlook

► 2. Goods and services: resources-uses balance at chain-linked prices for the previous year, difference to Q4 2019

difference to Q4 2019, in %, seasonally adjusted data - YTD

	2020				2021				2022
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Gross domestic product	-5.7	-18.4	-3.2	-4.3	-4.1	-2.9	0.2	0.9	1.2
Imports	-5.0	-22.6	-9.4	-8.7	-7.3	-5.4	-4.4	-0.7	0.9
Total resources	-5.4	-19.2	-4.7	-5.0	-4.5	-2.9	-0.4	0.9	1.4
Household consumption expenditure	-5.7	-16.8	-1.4	-6.8	-6.9	-5.7	-0.5	0.0	-0.5
General government consumption expenditure**	-3.0	-14.0	1.0	0.3	0.0	0.7	3.6	4.0	4.6
of which individual general government expenditure	-4.3	-16.5	0.6	-0.8	-0.9	0.0	4.2	4.7	5.6
of which collective general government expenditure	-0.7	-8.9	3.0	4.1	3.2	3.4	3.0	2.7	2.8
Gross fixed capital formation (GFCF)	-9.6	-23.9	-3.7	-1.4	-1.1	1.2	1.2	1.9	2.5
of which Non-financial enterprises (NFE)	-9.5	-23.6	-2.1	-0.7	0.5	2.2	2.2	3.4	4.2
Households	-12.5	-28.3	-6.8	-0.4	-2.3	2.5	3.3	3.3	3.5
General government	-4.9	-16.6	-1.5	-0.9	-1.5	-0.6	-1.6	-2.0	-1.7
Exports	-5.2	-28.9	-13.8	-10.3	-9.5	-7.7	-6.1	-3.2	-1.4

■ Forecast

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

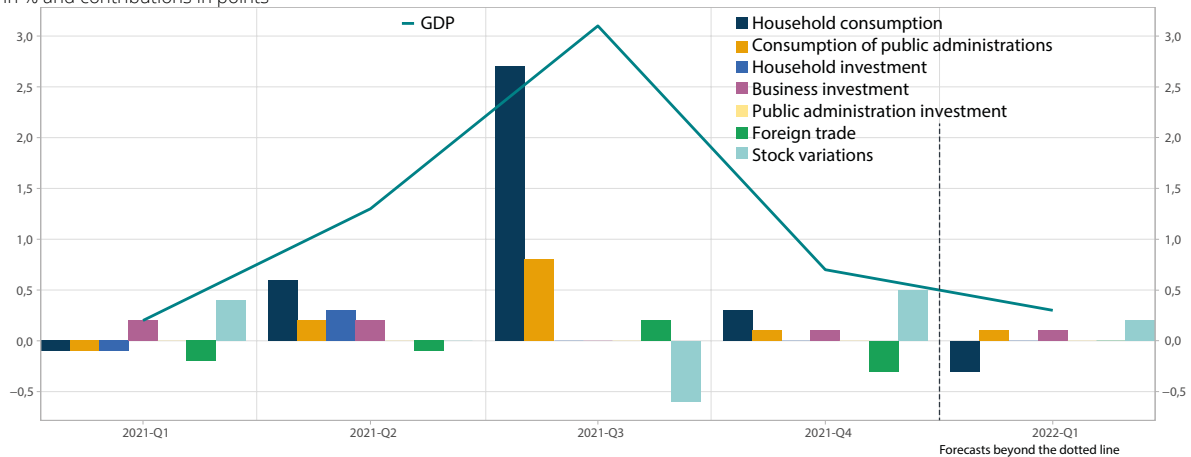
** Changes in inventories include acquisitions net of valuable items

How to read it: in Q1 2022, exports are expected to be around -1.4% below their Q4 2019 level.

Source: INSEE

► 3a. Quarterly variations in GDP and contributions of main demand items

variations in % and contributions in points

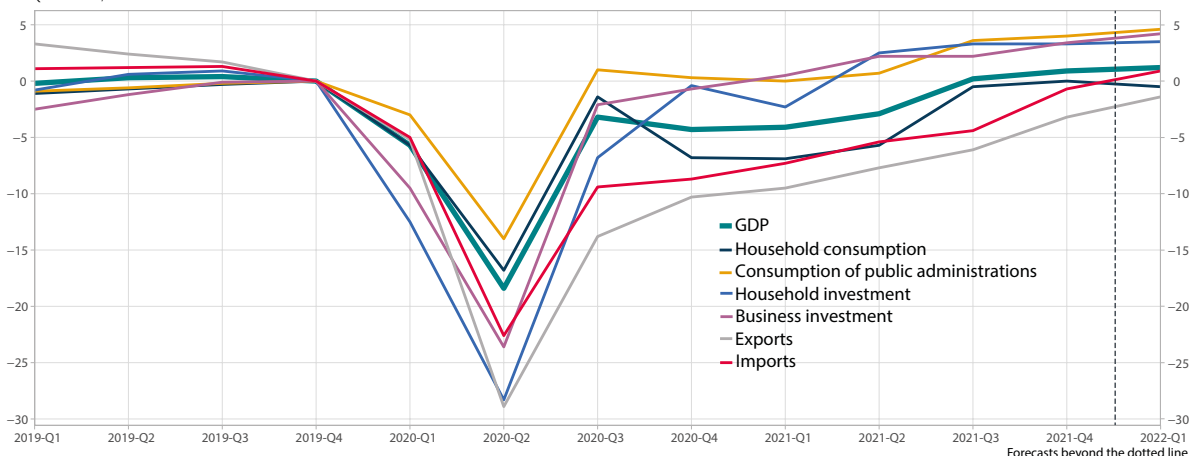


How to read it: in Q1 2022, GDP is expected to increase by 0.3% compared to Q4 2021; the contribution of investment by non-financial enterprises (NFE) is expected to be about 0.1 points.

Source: INSEE

► 3b. Quarterly changes in GDP, imports and main demand items difference to Q4 2019

difference to Q4 2019, in %



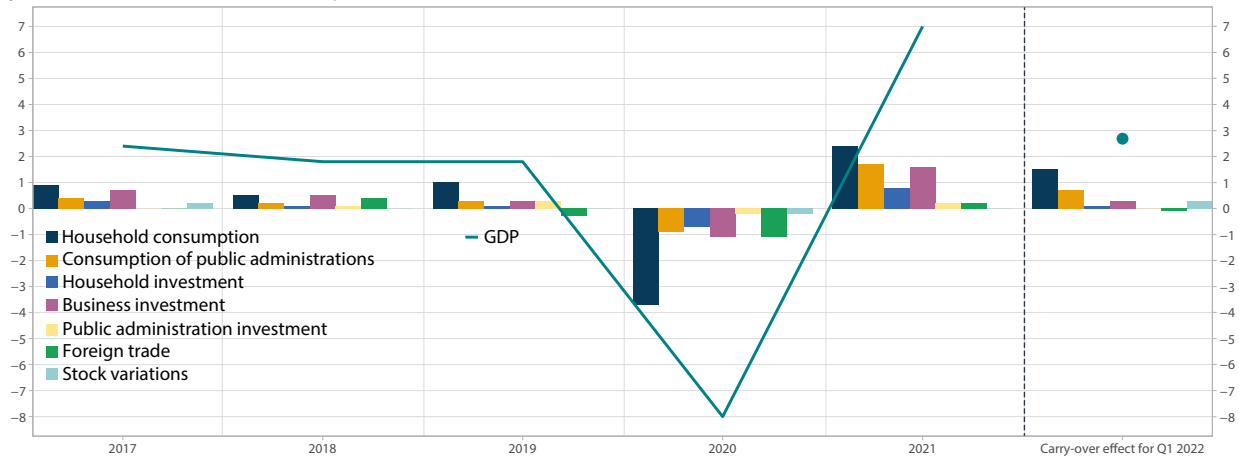
How to read it: in Q1 2022, imports are expected to exceed their Q4 2019 level.

Source: INSEE

Some sectoral contrasts are likely to persist in Q1: activity looks set to slow sharply in services, to pick up slightly in industry and accelerate a little in building construction (► [Figures 5, 6 and 7](#)). The deterioration in the health situation at the beginning of the year is expected to lead to a distinct slowdown in transport services and services to households, and even a decline in accommodation-catering. After a downturn in Q4 2021, industry is expected to pick up again, driven by the capital goods and transport equipment branches, among others.

► 4. Annual variations in GDP and contributions of main demand items

quarterly variations (in %) and contributions in points



How to read it: in 2022, the annual GDP growth overhang in Q1 is expected to be 2.7%; the contribution of household consumption is expected to be 1.5 points.

Source: INSEE

► 5. Quarterly changes in economic activity by industry

quarterly changes in %, forecast from Q1 2022

Branch	weight	2020				2021				2022
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Agriculture, forestry and fishing	2	0.1	0.0	0.2	-0.3	-0.3	-0.1	0.3	0.5	0.5
Industry	14	-5.2	-16.9	19.7	2.4	0.8	0.0	0.5	-0.2	0.3
Manufacture of food products, beverages and tobacco-based products	2	-0.9	-8.2	8.7	-1.9	3.4	1.2	-0.5	2.2	0.0
Coke and refined petroleum	0	6.7	20.5	-4.8	6.4	74.1	-12.5	-39.6	14.1	0.0
Manufacture of electrical, electronic, computer equipment; manufacture of machinery	1	-7.2	-17.8	20.6	4.5	1.6	-0.7	2.4	-2.1	0.5
Manufacture of transport equipment	2	-12.0	-42.9	56.3	4.0	-5.2	-4.0	-2.2	0.7	0.5
Manufacture of other industrial products	6	-6.0	-17.7	21.8	2.7	1.7	-0.6	-0.3	-0.6	0.2
Extractive industries, energy, water, waste treatment and decontamination	3	-2.3	-9.5	13.2	3.1	-1.0	2.3	3.0	-0.5	0.5
Construction	6	-12.8	-25.6	44.1	-0.3	0.1	2.9	-0.2	0.4	0.7
Mainly market services	-5	-5.3	-13.1	16.1	-2.0	-0.1	2.1	4.8	1.4	0.2
Trade; repair of automobiles and motorcycles	10	-6.0	-11.9	20.8	-2.2	-0.4	-0.8	1.7	0.9	0.0
Transport and storage	5	-10.9	-25.5	23.1	-4.1	3.8	4.9	8.9	5.0	0.3
Accommodation and catering	3	-20.5	-49.0	79.2	-29.8	-13.9	30.0	44.0	1.1	-3.0
Information and communication	5	-1.6	-5.2	7.3	2.0	1.9	1.0	2.6	2.0	1.5
Financial and insurance activities	4	-4.7	-11.1	14.9	0.9	1.5	1.8	2.2	0.6	0.5
Real estate activities	13	-1.3	-2.5	3.1	0.3	0.2	0.8	1.0	0.4	0.2
Scientific and technical activities; administrative and support services	14	-4.3	-13.9	18.1	0.7	-0.3	2.1	3.2	0.5	0.3
Other service activities	3	-9.5	-35.2	47.9	-14.7	-2.4	6.5	22.6	5.7	0.3
Mainly non-market services	22	-4.6	-10.9	18.9	-1.2	0.4	-0.4	1.5	0.1	0.6
Total VA	100	-5.5	-13.6	18.1	-1.1	0.2	1.3	3.1	0.8	0.4
Taxes and subsidies		-7.5	-12.6	22.1	-1.1	0.3	1.8	3.4	0.0	0.0
GDP		-5.7	-13.5	18.6	-1.1	0.2	1.3	3.1	0.7	0.3

■ Forecast

How to read it: in Q4 2021, the value added of the manufacture of transport equipment branch increased by 0.7%. It is expected to increase by 0.5% in Q1 2022.

Source: INSEE calculations from various sources

French economic outlook

Change in activity in Q2 is surrounded by great uncertainty, and mainly depends on developments in the war in Ukraine and its economic consequences. Early results from the March business tendency surveys, published exceptionally in this *Economic Outlook* (► [Focus](#) on the early results of business tendency surveys), notably suggest decidedly gloomy prospects for production –both personal and general– in industry.

In fact, the economic consequences of the war are likely to pass via several channels, both direct and indirect. First, the sharp rise in the cost of commodities and energy amplifies the momentum that began in 2021. These price increases look set to affect not only companies' production costs, but also household spending, despite the tariff shield, which is expected to hold down energy inflation significantly.

In addition, the closure of the Russian market, difficulties with supply chains involving Ukraine and the disorganisation of global value chains are expected to exacerbate supply constraints, which are already affecting industry and construction very severely, and likely to disrupt trade in goods and services. For international tourism, already very much affected by the epidemic, its recovery could be hampered.

More broadly, the climate of tension and uncertainty could lead to a deterioration in the confidence felt by economic agents, both businesses and households, thus penalising investment or even consumption.

All in all, it is difficult at this stage to quantify exactly the overall impact of the war in Ukraine on French activity. Nevertheless, by way of illustration, if the particularly high energy prices seen at the beginning of March were to hold up until the end of the year, the associated loss of activity would be almost one point of annual GDP for the French economy in 2022 (► [Focus](#) on the contribution of macroeconomic models). However, these illustrative figures do not take into account economic policy responses to this situation (e.g. "tariff shield"), which may mitigate the impact of the energy price shock. Nor do they take into account supply chain difficulties and the increase in the prices of certain commodities (excluding energy, notably including cereals), which, conversely, may impact more heavily on the economy. ●

► 6. Economic activity gaps by industry, difference to Q4 2019

quarterly changes in %, forecast from Q1 2022

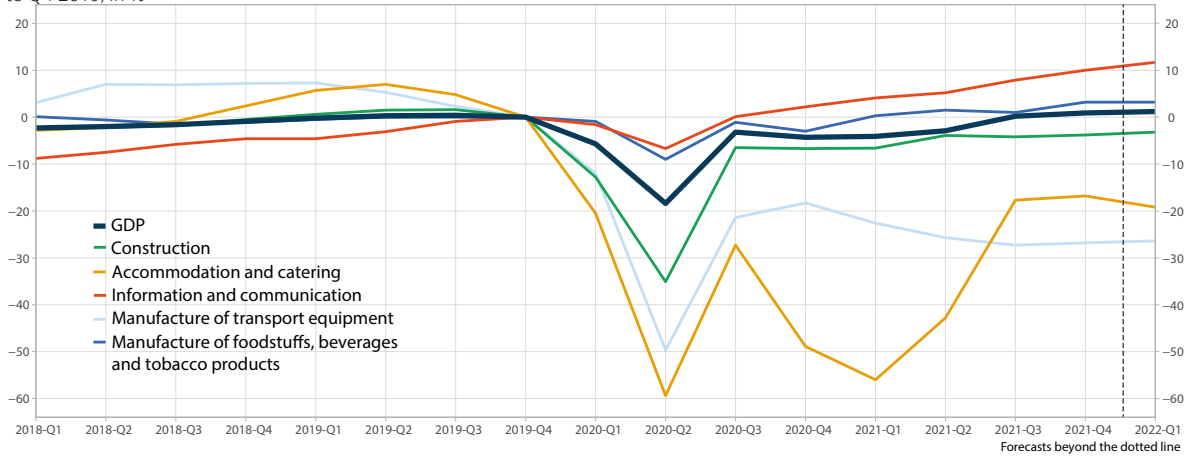
Branch	weight	2020				2021				2022
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Agriculture, forestry and fishing	2	0.1	0.1	0.3	0.0	-0.4	-0.5	-0.1	0.4	0.9
Industry	14	-5.2	-21.3	-5.8	-3.6	-2.8	-2.8	-2.4	-2.6	-2.3
Manufacture of food products, beverages and tobacco-based products	2	-0.9	-9.0	-1.1	-3.0	0.4	1.5	1.1	3.2	3.2
Coke and refined petroleum	0	6.7	28.5	22.4	30.2	126.7	98.3	19.6	36.5	36.5
Manufacture of electrical, electronic, computer equipment; manufacture of machinery	1	-7.2	-23.7	-8.0	-3.8	-2.3	-3.0	-0.7	-2.7	-2.2
Manufacture of transport equipment	2	-12.0	-49.7	-21.4	-18.3	-22.6	-25.7	-27.3	-26.8	-26.5
Manufacture of other industrial products	6	-6.0	-22.7	-5.8	-3.3	-1.7	-2.2	-2.6	-3.2	-2.9
Extractive industries, energy, water, waste treatment and decontamination	3	-2.3	-11.6	0.1	3.2	2.1	4.5	7.6	7.1	7.5
Construction	6	-12.8	-35.1	-6.5	-6.7	-6.6	-3.9	-4.2	-3.8	-3.2
Mainly market services	-5	-5.3	-17.7	-4.5	-6.3	-6.4	-4.4	0.2	1.6	1.8
Trade; repair of automobiles and motorcycles	10	-6.0	-17.2	0.0	-2.3	-2.6	-3.4	-1.7	-0.9	-0.9
Transport and storage	5	-10.9	-33.5	-18.2	-21.5	-18.5	-14.5	-6.9	-2.3	-2.0
Accommodation and catering	3	-20.5	-59.4	-27.3	-48.9	-56.0	-42.8	-17.7	-16.8	-19.2
Information and communication	5	-1.6	-6.7	0.1	2.2	4.1	5.2	7.9	10.0	11.7
Financial and insurance activities	4	-4.7	-15.2	-2.6	-1.8	-0.3	1.5	3.7	4.4	4.9
Real estate activities	13	-1.3	-3.8	-0.8	-0.5	-0.2	0.5	1.5	1.9	2.1
Scientific and technical activities; administrative and support services	14	-4.3	-17.6	-2.7	-2.0	-2.3	-0.3	2.9	3.4	3.7
Other service activities	3	-9.5	-41.3	-13.2	-25.9	-27.7	-23.0	-5.6	-0.2	0.1
Mainly non-market services	22	-4.6	-15.0	1.1	-0.2	0.3	-0.1	1.4	1.5	2.1
Total VA	100	-5.5	-18.3	-3.5	-4.5	-4.4	-3.2	-0.2	0.6	1.0
Taxes and subsidies		-7.5	-19.1	-1.3	-2.3	-2.1	-0.3	3.1	3.1	3.1
GDP		-5.7	-18.4	-3.2	-4.3	-4.1	-2.9	0.2	0.9	1.2

■ Forecast

How to read it: in Q4 2021, the value added of the manufacture of transport equipment branch stood at -26.8% below its Q4 2019 level. In Q1 2022, it is expected to move up to -26.4%

Source: INSEE calculations from various sources

► 7. Difference in economic activity compared to the pre-health crisis level, for different branches compared to Q4 2019, in %



How to read it: in Q4 2021, value added of the construction branch stood at -3.8% below its Q4 2019 level. In Q1 2022, it is expected to move up to -3.2%.
 Source: INSEE calculations from various sources

French economic outlook

According to the early results of the March 2022 business tendency surveys, taken just after the outbreak of war in Ukraine, prospects for activity in industry have declined sharply

Exceptionally, in this Economic Outlook, INSEE is publishing early results from the March 2022 business tendency surveys. These data are still provisional, but were collected from 25 February onwards, just after the start of the war in Ukraine, and from them we can therefore assess the first effects on the morale of business leaders. At this stage, it is above all in industry that the general prospects for activity have declined sharply, although elsewhere, other market sectors also seem to be affected (such as some services and trade). Expectations concerning tensions over prices also appear to be exacerbated by the conflict, whereas the impact on employment looks set to remain limited, in the short term at least. The full results, reflecting all the data collected, will be published by INSEE in the collection Informations Rapides on 24 March, as planned.

In the context of great uncertainty caused by the outbreak of war in Ukraine, an early analysis was carried out, on an exceptional basis, of the March 2022 business tendency surveys, in order to assess in advance the feelings of business leaders about the repercussions of the conflict. Although data collection is still going on, with publication planned for 24 March, the preliminary results are usable at this stage, with response rates close to three-quarters of the normal returns. The data collection period was opened on 25 February, just after the war began, and early analysis started on 14 March. During this period, the military, political and financial situation was highly volatile, which could of course affect business leaders' responses.

Overall, business leaders in all major sectors of activity appeared to be concerned by the repercussions of the conflict. The balances of opinion on general activity prospects are down sharply (► [Figure 1](#)). This deterioration is particularly striking in industry and retail and wholesale trade. All the manufacturing sub-sectors report a deterioration in their prospects,

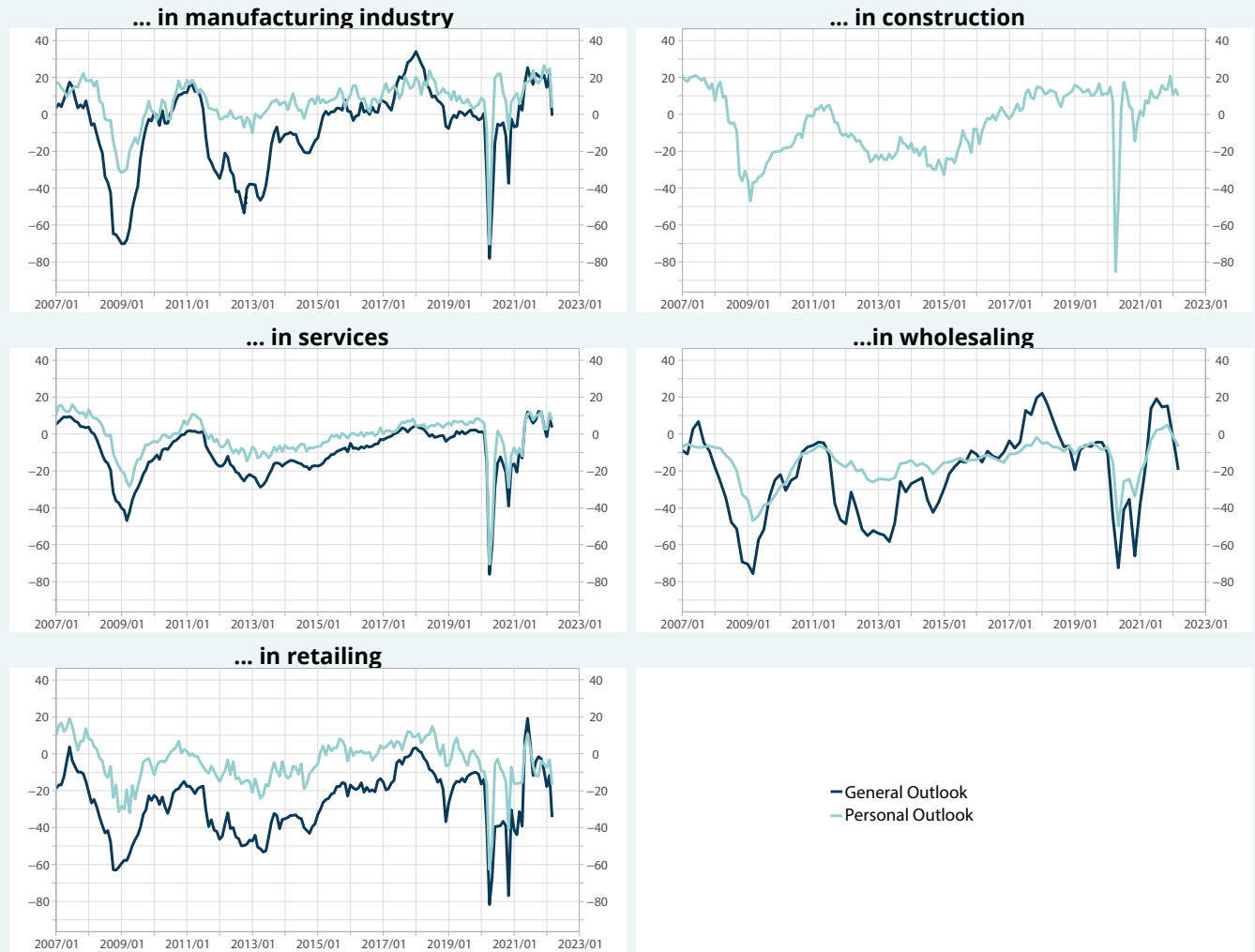
particularly transport equipment. Business leaders in market services are also concerned, although to a lesser extent, but with some more contrasted situations. For example, there is a marked deterioration in prospects for road freight transport and administrative and support services, whereas in accommodation-catering prospects are improving –no doubt linked to the return to normal of the health situation. Meanwhile, construction entrepreneurs appear to be the least pessimistic at this stage.

In addition, business leaders anticipate an increase in tensions over their selling prices (► [Figure 2](#)), probably linked to energy and commodity prices. Only services stand out somewhat. However, while the overall business climate is tending to deteriorate, this would not appear to be the case at this stage for the employment climate: balances of opinion on changes in workforce forecast for the next three months are still at relatively high levels (► [Figure 3](#)). Lastly, balances of opinion on inventory levels are up in March in industry and trade, possibly linked to the slowdown in demand (► [Figure 4](#)). ●

Bruno Bjai, Pierre Poulon, Julien Valentino

► 1. General and personal activity prospects...

balances of opinion, in % of responses, SA



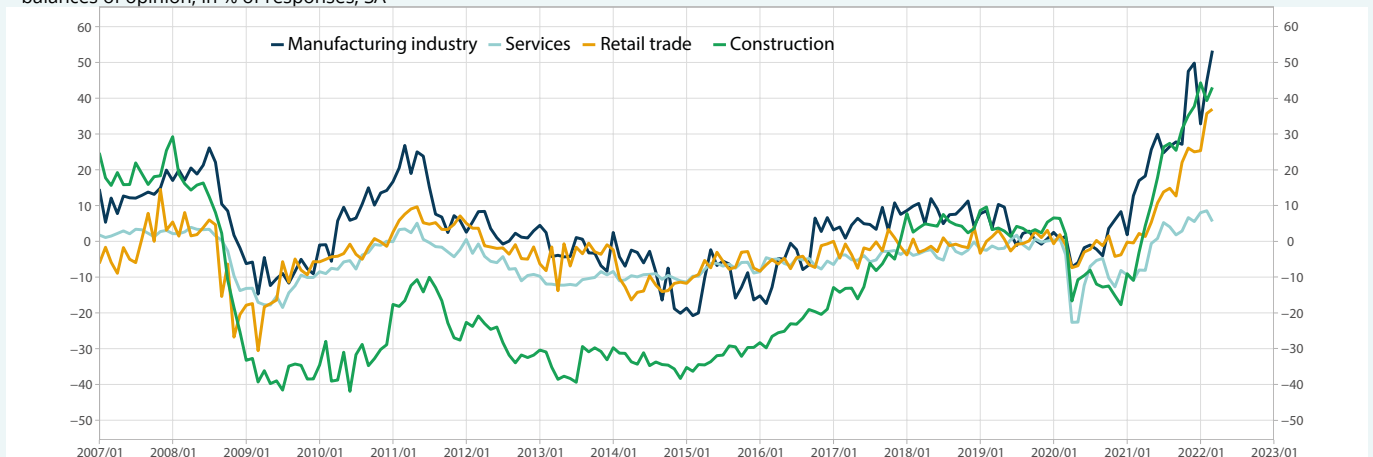
Note: responses to the question on personal prospects are weighted by turnover, those on general prospects are not weighted. In building construction, the question on general prospects is asked quarterly and was not available for March. The balance of opinion on ordering intentions is used to assess personal prospects in wholesale trade.

Last point: March 2022 (advance calculation before the full analysis of the March surveys).

Source: INSEE, business surveys

► 2. Change forecast in selling prices

balances of opinion, in % of responses, SA



Note: responses to the question are weighted by turnover.

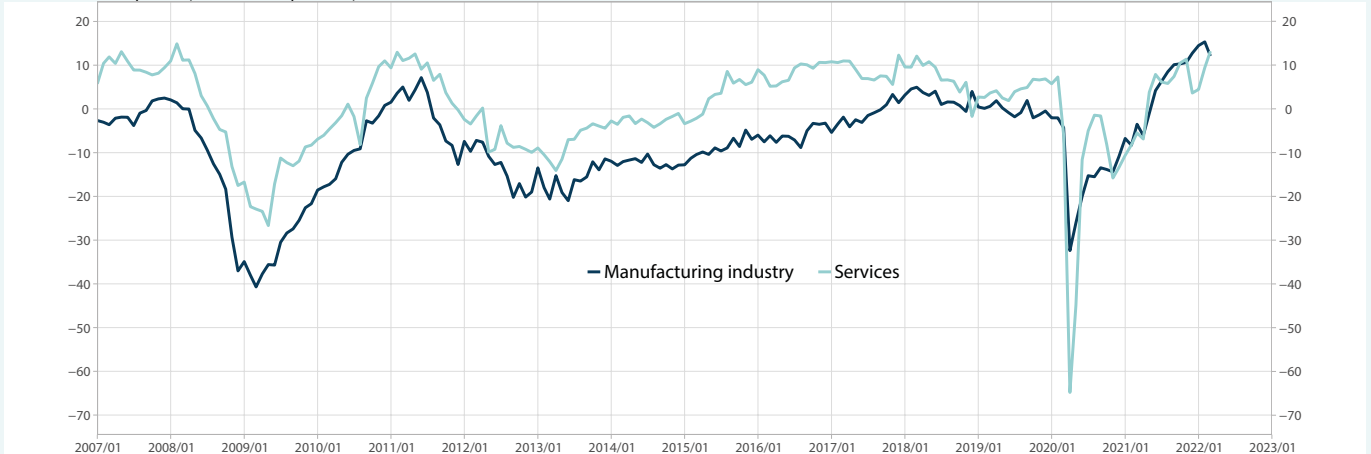
Last point: March 2022 (advance calculation before the full analysis of the March surveys).

Source: INSEE, business surveys

French economic outlook

► 3. Change forecast in workforce

balances of opinion, in % of responses, SA



Note: responses to the question are weighted by workforce business
Last point: March 2022 (advance calculation before the full analysis of the March surveys).
Source: INSEE, business surveys

► 4. Opinion on inventory level

balances of opinion, in % of responses, SA



Note: to the question are weighted by turnover.
Last point: March 2022 (advance calculation before the full analysis of the March surveys).
Source: INSEE, business surveys

Early results of the monthly consumer confidence survey of households

Every month, INSEE surveys a huge sample of companies about the economic outlook, but they also survey a sample of households.

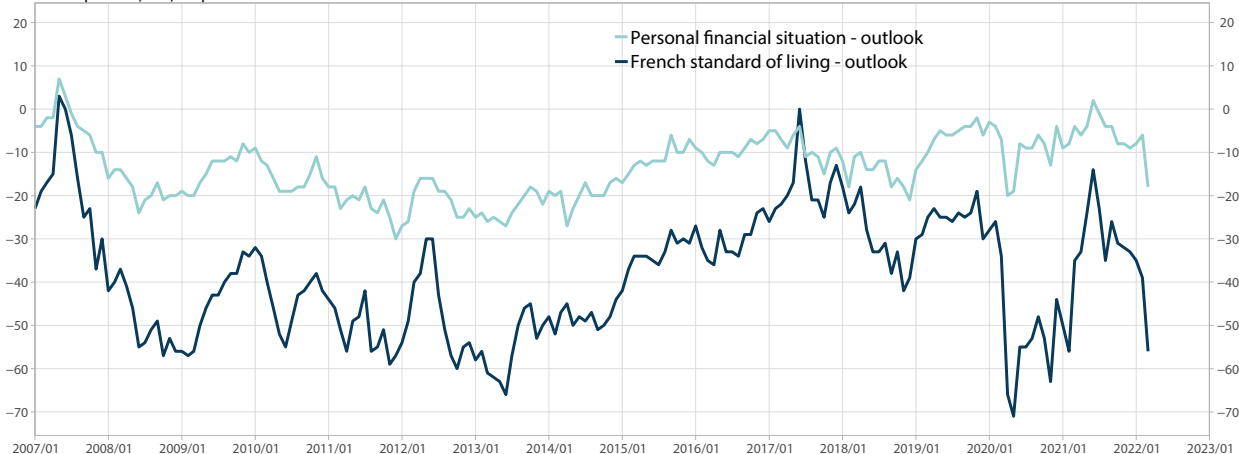
Early analysis of the data collected for the household survey was also carried out. It covers about two-thirds of the sample. The survey investigators were in the field from 24 February and the early analysis took place on 9 March. The definitive results will be published on 29 March.

According to these early results, households anticipate a sharp drop in the general standard of living in France. This decline is all the more notable because usually, periods immediately preceding presidential elections are accompanied by a clear one-off upturn in optimism on this balance of opinion. There is a sharp decline too, but on a lesser scale, in the future personal financial situation (► [Figure 5](#)). These downturns are accompanied by a brisk rise in expectations of future inflation.

According to these provisional results, balances of opinion on the opportunity to make major purchases and the opportunity to save are likely to decline in March (► [Figure 6](#)), although these downturns are expected to be much less pronounced than that in the standard of living. ●

► 5. Future standard of living in France and future personal financial situation

balances of opinion, SA, in points

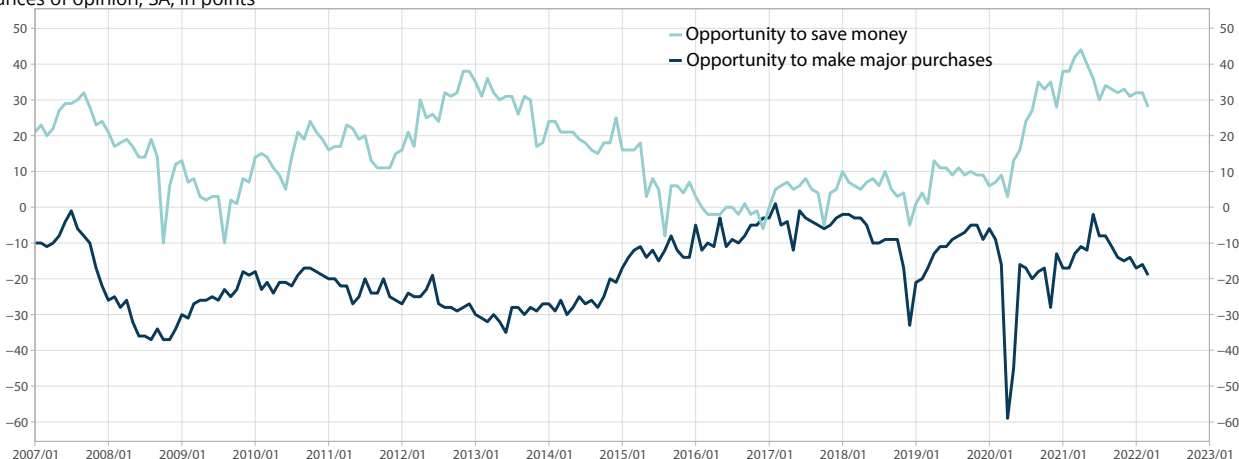


Last point: March 2022 (advance calculation before the full analysis of the March surveys).

Source: INSEE, monthly household survey

► 6. Opportunity to make major purchases and to save

balances of opinion, SA, in points



Last point: March 2022 (advance calculation before the full analysis of the March surveys).

Source: INSEE, monthly household survey

French economic outlook

The contribution of macroeconomic models to simulate the effects of higher energy import prices.

Macroeconomic models have proved useful for estimating the economic impact of energy price rises resulting from the war in Ukraine, as they take into account the scattering effects of these price hikes and the resulting knock-on effects. A simulation exercise was therefore carried out using the Mésange¹ model of the French economy (Bardaji *et al*, 2017) and GEM, the multi-country model by Oxford Economics. This exercise is for illustrative purposes only, with assumptions made on energy prices, but which are not forecasts. In addition, the model used here does not take into account the economic policy measures put in place to limit energy price rises for households (thus the tariff shield is not modelled). Here too, the impacts obtained on GDP or consumption do not constitute a forecast for these figures, but are merely an illustration of their momentum in the specific context of the assumptions made relating to changes in energy prices and the chosen model. Finally, other consequences of the war in Ukraine, in terms of increased prices for commodities other than energy, disruption to worldwide value chains and to the financial system, and loss of confidence among economic agents, beyond their usual habits, are also not taken into account here.

The rise in energy prices is spreading to the rest of the economy, putting a strain on households' purchasing power and penalising business activity

The rise in energy prices as a result of the war in Ukraine mainly concerns imported energies (oil, gas, coal) and therefore affects the price of France's energy imports. To simulate the macroeconomic consequences, the assumption is made that from 8 March until the end

of 2022, the import prices of oil, gas and coal will hold steady at \$125 per barrel of Brent for oil, €215 per MWh for gas and €390 per tonne for coal² (► **Figure 1**). Compared to a reference scenario where these prices remain at their average January-February levels, their increase corresponds to an increase in energy import prices of around 0.8 points of quarterly GDP in Q1 and 2.5 points in Q2 and subsequent quarters. Brent and gas contribute slightly less than 40% and 60% respectively to these increases, with coal making a much smaller contribution. In addition, the prices of other commodities, especially agricultural (wheat, etc.) or minerals, are here assumed to be unchanged.

This rise in the price of energy imports acts both on supply, by making production more expensive, and on demand, by reducing households' purchasing power. This then has a negative impact on consumption (-0.1% in Q1 and -0.6% in Q2, -1.0% over the whole of 2022), which is still cushioned as households then draw on their savings. Businesses for their part face an increase in their costs, especially those whose production makes intensive use of imported energy (oil and gas). This rise in costs is passed on to their selling prices and gradually spreads through the economy, with greater losses of activity in the second half of the year. GDP is therefore likely to be affected at around -0.1% in Q1, and -0.4% in Q2. Over the whole of 2022, the simulated rise in energy prices results in an impact of -0.7% on activity (► **Figure 2**). There is also a negative impact on the trade balance, at -1.7 points of GDP, due to the increased cost of imports.

This simulation exercise of course has limitations. As mentioned previously, it does not take account of fiscal policy (especially the tariff shield) or monetary policy. Moreover, in the Mésange model, the international

¹ Modèle Économétrique de Simulation et d'Analyse Générale de l'Économie.

² With regard to oil, the assumption corresponds to the price of a barrel of Brent at €117 in March and €118 from April 2022. With regard to gas, the import price of gas was chosen to follow the dynamics of the spot price (fixed-term contracts in the Netherlands, TTF), i.e. an assumption of €208 per MWh in March and €215 from April 2022. For coal, it is also the spot price that is assumed to reflect that of the coal import price, with the selected assumption at €384 per tonne in March and €390 from April 2022.

► 1. Assumptions made for oil, gas and coal prices

Assumptions in euros	Oil (in dollars per barrel of Brent)	Gas (in euros per MWh)	Coal (in euros per tonne)
Simulated prices from 8 March	125	215	390
Reference level	92	83	151

Note: the assumptions consist in keeping the spot prices of a barrel of Brent, of gas (fixed-term contracts in the Netherlands, TTF) and coal (fixed-term contracts Rotterdam, ICE Futures) constant until the end of the year, based on their value observed on 7 March 2022. The reference scenario consists in maintaining the average prices observed in January and February 2022 throughout the year.

Source: INSEE

environment of the French economy is hypothetically assumed to be exogenous, and hence not affected by the rise in energy prices. In practice, the increase in energy prices also affects France's trading partners, depressing world demand for French products.

The global nature of the shock accentuates the impact

Using a multi-country macroeconomic model, GEM (*Global Economic Model*), developed by Oxford Economics, the economic consequences of the rise in energy prices can be estimated by taking into account the effects of international closure associated mainly with trade.³ The assumption of rising energy import prices is similar to that considered previously. Unlike the oil and coal markets, the gas market is essentially regional, with the majority of gas trade going through physical pipelines, while the transport of liquefied natural gas is even more marginal. The simulated rise in the price of gas therefore

only concerns Europe, and the price of gas in the United States in particular is not directly affected.

In addition to the mechanisms described above, the shock results in a decline in world demand for French products (of around 1% year-on-year, compared to a situation with energy prices stable at their January-February average). For the French economy, the impact of higher energy prices amounts to almost -1% on GDP, for the year as a whole (► **Figure 2**). The difference in dynamics between the Mésange simulation and that from Oxford Economics may reflect modelling decisions specific to each model. However, the downturn in world demand for French products negatively accentuates the impact of the shock on activity and on the trade balance, compared to that estimated above using the Mésange model.

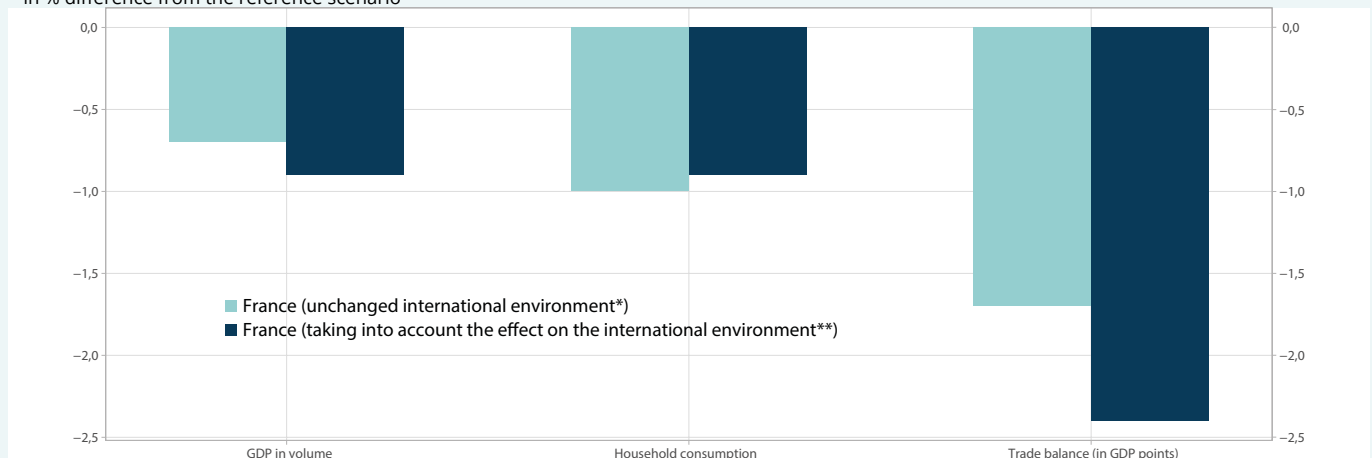
Note that, as before, this exercise is for illustrative purposes only, and does not take into account economic policy reactions in the different countries. ●

Damien Babet, Matthieu Lequien, Alain Quartier-la-Tente

³ The decline in exports to the combat zone or the consequences of supply chain disruptions are not taken into account in this exercise, which illustrates the consequences only of higher energy prices.

► 2. Impact of higher energy prices (oil, gas, coal) with the Mésange model of the French economy and the multi-country Oxford Economics model, for the whole of 2022

in % difference from the reference scenario



* Mésange model (INSEE-DG Trésor)

** multi-country Oxford Economics model

Note: simulation carried out without taking into account economic policy responses (notably the tariff shield).

Source: modèle Mésange (Insee-DG Trésor), Oxford Economics Global Economic Model, INSEE calculations

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INSEE: J. Bardaji, B. Campagne, M.-B. Khder, Q. Lafféter et O. Simon - DG Trésor : A.-S. Dufernez, C. Élezaar, P. Leblanc, E. Masson et H. Partouche, (2017) "The MESANGE macroeconometric model: re-estimation and innovations", Document de travail, n° G2017/04, INSEE, May 2017.

Oxford Economics, (2019) The Oxford Global Economic Model. ●

Foreign trade

In Q4 2021, foreign trade was particularly buoyant (► [Figure 1](#)). In terms of both exports and imports, this acceleration was the result of the sharp rebound in trade in manufactured products, especially transport equipment on the import side. Trade in services bounced back too, driven by transport services. Despite the deterioration in the health situation at the end of the year, trade relating to tourism (spending by foreign tourists in France and spending by French residents abroad) continued to improve, although more moderately than in the previous quarter, when it had accounted for most of the increase in foreign trade. All in all, due to imports being even more dynamic than exports, in accounting terms foreign trade hampered GDP growth in Q4 2021.

In Q1 2022, foreign trade looks set to continue to grow. The deterioration in the health situation at the very beginning of the year is likely to affect spending linked to tourism, both exports and imports. Imports of manufactured products are expected to slow after their rebound at the end of 2021 but should nevertheless remain relatively dynamic, in line with the rebound in manufacturing activity. Meanwhile, exports of manufactured products are expected to accelerate, driven in particular by naval deliveries. At the end of the quarter, however, the outbreak of war in Ukraine is likely to affect the dynamism of foreign trade, especially in energy and agricultural goods (► [Box](#)). Concerning imports, however, changes in inventories should not be excluded, if possible shortages of materials or components are to be avoided. The tourist trade is likely to be affected, directly because of the closures of air space, and indirectly, due to the less favourable context for international tourism. Ultimately, in Q1 2022, imports are expected to return to their pre-health crisis level, while exports are likely to be at more than 98% of this level (► [Figure 3](#)). The contribution of foreign trade to growth in Q1 looks set to be slightly positive.

The disruption of foreign trade following the outbreak of war in Ukraine could continue into Q2, as well as the disruption of global value chains. Regarding commodities, the ability of other producing countries to replace Russia and Ukraine could largely determine the momentum of this trade. ●

► 1. After strong growth in Q4 2021, foreign trade is expected to slow in Q1 2022

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

	quarterly variations								annual variations			
	2020				2021				2022	2020	2021	2022
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1			ovhg
Exports												
Total	-5.2	-25.1	21.3	4.1	0.8	2.0	1.7	3.1	1.9	-16.1	9.2	5.6
Manufactured products (67%*)	-4.4	-27.9	28.3	5.3	-0.8	2.2	-1.3	1.6	1.8	-15.4	8.2	2.9
Imports												
Total	-5.0	-18.5	17.0	0.8	1.5	2.1	1.0	3.9	1.6	-12.2	7.8	5.6
Manufactured products (69%)	-4.2	-20.4	24.5	1.0	1.6	1.9	-0.4	4.1	1.8	-9.9	9.7	5.1
Contribution of foreign trade to GDP	0.0	-1.8	0.5	0.9	-0.2	-0.1	0.2	-0.3	0.1	-1.1	0.2	-0.1

■ Forecast

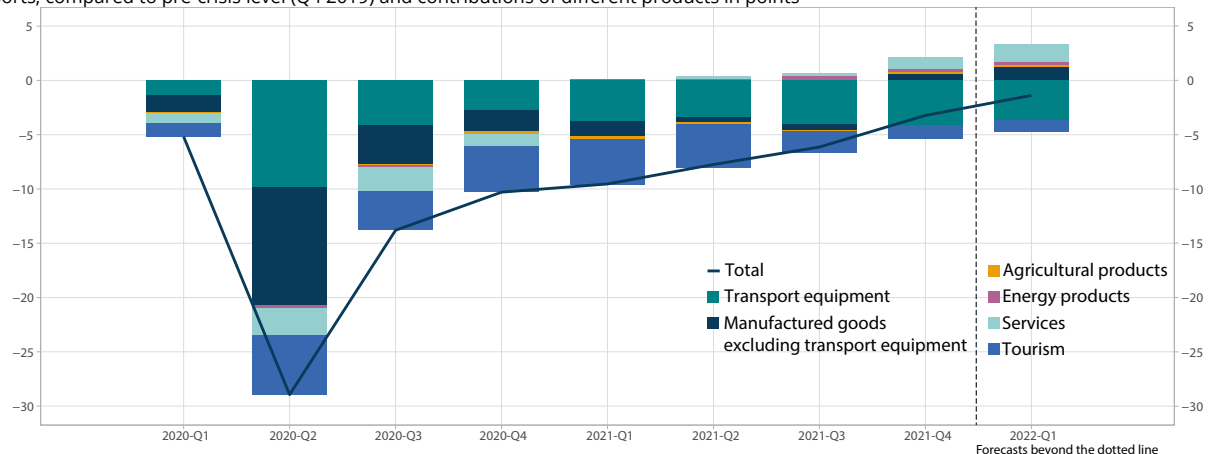
How to read it: French exports are expected to grow by +1.9 % in Q1 2022. In 2021, exports increased by +9.2% compared to 2020. The annual growth overhang in exports coming out of Q1 2022 (i.e. the annual growth that would result if the level in Q2, Q3 and Q4 2022 were stable compared to Q1) is likely to be +5.6%.

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

Source: INSEE

► 2. Over the forecasting period, exports of transport equipment are expected to remain rather markedly below their level before the health crisis

total exports, compared to pre-crisis level (Q4 2019) and contributions of different products in points

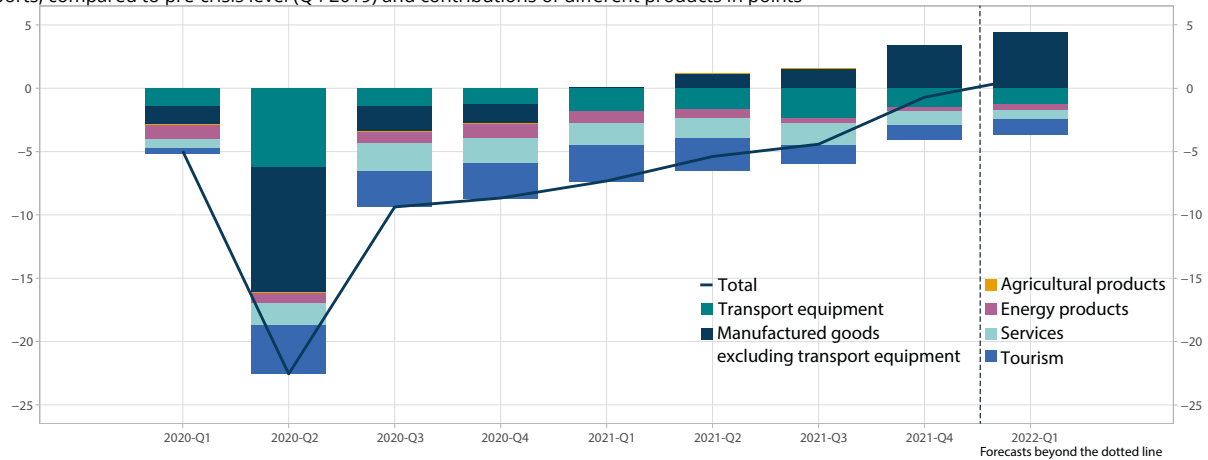


How to read it: in Q4 2021, French exports were 3.2% below their Q4 2019 level. Exports of transport materials contributed -4.1 points

Source: INSEE

► 3. In Q1 2021, imports are expected to exceed their pre-health crisis level

total imports, compared to pre-crisis level (Q4 2019) and contributions of different products in points



How to read it: in Q4 2021, French imports were 0.7% below their Q4 2019 level. Imports from tourism contributed -1.3 points.

Source: INSEE

France's trade with Russia, Ukraine and Belarus

In France's foreign trade as a whole, the weight of Russia, Ukraine and Belarus is fairly limited, even though a significant proportion of energy imports come from Russia (► Figure 4). More specifically, 33% of French imports of coal, 17% of imports of coke and refined petroleum products and 10% of French imports of hydrocarbons come from Russia. On the export side, it is mainly manufactured products (transport equipment, capital goods and other manufactured products), and also agricultural products that are exported to Russia, Ukraine or Belarus. ●

► 4. Weight of Russia, Ukraine and Belarus in French foreign trade in 2021

Products	Share of Russia, Ukraine and Belarus in French imports	Contribution to total French imports (in points)	Share of Russia, Ukraine and Belarus in French exports	Contribution to total French exports (in points)
Total	1.7%	1.7	1.2%	1.2
Agri-food products	0.6%	0.0	0.7%	0.1
Man. of coke and refined petroleum products	17.1%	0.7	0.3%	0.0
Machinery and equipment goods	0.2%	0.0	1.8%	0.2
Man. of transport equipment	0.1%	0.0	2.0%	0.3
Other manufacturing	0.9%	0.3	1.5%	0.5
Agricultural products	1.4%	0.0	1.7%	0.0
Energy products ¹	7.7%	0.4	0.1%	0.0
Services ²	1.0%	0.2	0.5%	0.1
Tourism ³	0.4%	0.0	1.1%	0.1

1. Note added on 23 March 2022: imports of natural gas by pipeline are considered here as coming from the last country they cross before arriving in France, which tends to underestimate the share of Russian energy products in French imports.

2. trade in services refers to 2019.

3. tourist trade refers only to Russia and to 2019.

How to read it: among French imports of coke and refined petroleum products, 17.1% were from Russia, Ukraine or Belarus in 2021. They contributed 0.7 points to total French imports in this year.

Source: Customs (national statistics for foreign trade), Banque de France (balance of payments), INSEE calculations

Employment

In Q4 2021, payroll employment again increased sharply (+107,000 between the end of September and the end of December, ► **Figure 1**): this was the fourth consecutive quarterly increase, with a vigorous upturn in Q1 (+164,000) and Q2 (+305,000) and a similar rise in Q3 2021 (+121,000). These successive increases more than make up for the 317,000 job destructions in 2020, with the result that at the end of December 2021 payroll employment was well above its level at the end of 2019, with 380,000 net job creations in two years (or +1.5%). This level was exceeded in all the major sectors of activity (building construction, market and non-market tertiary) with the exception of industry (► **Figure 2**). Notably, at the end of 2021 the health situation contributed to increasing the need for workforce: absences linked to the epidemic (sick leave, isolation, childcare, etc.) rose temporarily resulting in a drop in employees' average working time (► **Focus** on the impact of sick leave). Covering for these absences resulted in considerable use of temporary employment, thus providing a boost to employment.

In Q1 2022, payroll employment is expected to slow considerably (+15,000 jobs). On the one hand, the buoyancy of employment in 2021 was to a large extent a rebound after the dip associated with the health restrictions, which hit services particularly badly until spring 2021. At the beginning of 2022 this rebound is largely over and offers no further potential. On the other hand, after the temporary increase in the need for workers to make up for absences resulting from the health situation at the end of 2021, a return to a normal proportion of absences is likely to have a negative impact on improving employment during Q1.

Self-employment is expected to stabilise in 2022 after a moderate downturn in 2021. Total employment (payroll employment and self-employment) should therefore increase in Q1, on a par with payroll employment (+15,000). By the end of March 2022, it is likely to exceed its pre-crisis level at the end of 2019 by 385,000 jobs (including 395,000 payroll employment jobs), or +1.3% over a little more than two years. In comparison, between 2015 and 2019, 260,000 jobs were created on average each year (including 216,000 payroll employment jobs). ●

► 1. Change in payroll employment

in thousand, SA, at the end of the period

	Evolution over 3 months								2022	Evolution over 1 year		Evolution since end of 2019		
	2020				2021					2020	2021	End of Dec. 2020	End of Dec. 2021	End of March 2022
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4						
Agriculture	-4	-2	2	5	1	0	1	5	0	2	7	2	9	9
Industry	-12	-24	-8	-12	7	3	6	5	3	-55	21	-55	-34	-31
Construction	2	4	16	8	31	1	-2	6	2	31	37	31	68	70
Commercial tertiary sector	-451	-106	277	-71	98	277	109	99	9	-350	583	-350	233	242
Tertiary non-trading	-9	-76	107	34	27	24	6	-9	0	55	49	55	104	104
All	-472	-203	394	-36	164	305	121	107	15	-317	697	-317	380	395
	-1.9%	-0.8%	1.6%	-0.1%	0.7%	1.2%	0.5%	0.4%	0.1%	-1.2%	2.8%	-1.2%	1.5%	1.5%

■ Forecast

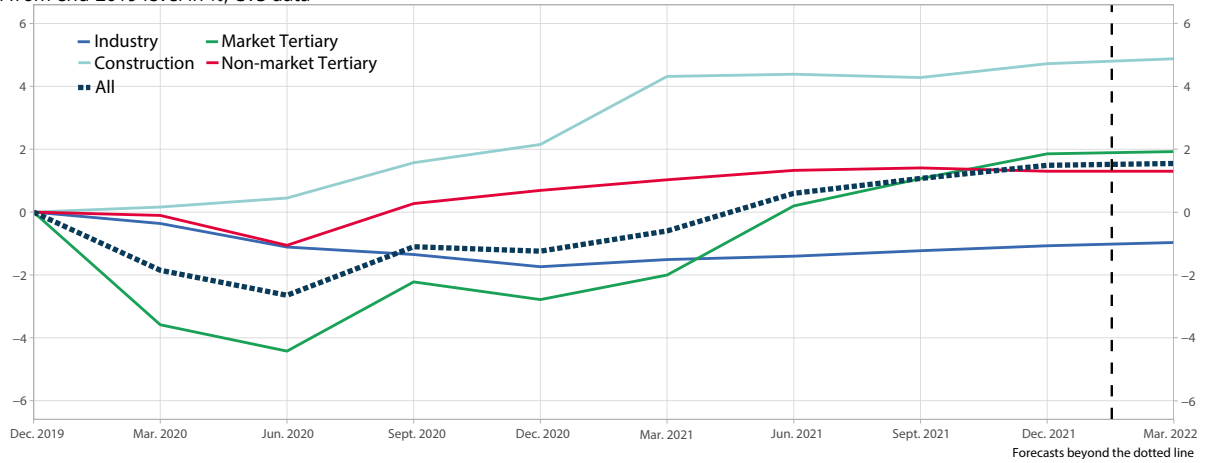
Note: in this table, temporary workers are counted in the sector tertiary non-trading.

Scope: France (excluding Mayotte)

Source: INSEE

► 2. Payroll employment compared to the end of 2019

deviation from end-2019 level in %, CVS data



How to read it: at the end of June 2021, payroll employment was 0.6% higher on its level at the end of 2019.

Note: in this graph, temporary workers are counted in the sector tertiary non-trading.

Scope: France (excluding Mayotte)

Source: INSEE

In 2021, the number of assisted contracts rebounded slightly

In 2021 the number of beneficiaries of assisted contracts (excluding sandwich contracts) rebounded slightly after five consecutive years of sharp decline. These contracts are intended for a public who are furthest from the labour market and they are mainly filled in the non-market sector. There was only a limited number of these contracts in 2021 and they therefore had little effect on payroll employment during the crisis, as employment support measures were mainly applied through other channels (e.g. massive take-up of short-time working and the growth of sandwich contracts for young people).

The number of beneficiaries of assisted contracts (excluding sandwich contracts) rebounded slightly in 2021 after five consecutive years of decline

Assisted contracts reduce the cost of hiring and training certain employees, by providing direct or indirect aid. These assisted jobs usually target specific groups, those who are furthest from the labour market, with the aim of helping them enter this market or return to work. The number of assisted contracts is determined by the public authorities: they are often used for counter-cyclical purposes, with an increase in their number usually intended to lessen the effect on total employment of a slowdown in activity.

Assisted contracts, excluding sandwich contracts, apply for the most part to the non-market sector, with employers in the public sphere (State, territorial authorities, hospitals) and the private sector (associations). Non-market is defined here as any activity provided free of charge or at prices that are not economically significant, namely: the public administration sector, education, health and social action and the so-called “other service activities”

sector (especially associative activities and arts and entertainment).¹ In the last ten years, the non-market sector has had three main types of assisted contract at its disposal: the single integration contract in the non-market sector (CUI-CAE), which was the one used most until 2017, when it was replaced by the “employment skills programmes” (PEC) from January 2018 (► **Focus** “Assisted contracts in 2018” *Conjoncture in France* March 2019); in parallel, Future Contracts in the non-market sector (EAV-NM) were introduced from 2012, aimed at young people with few qualifications and on longer-term contracts. No new Future Contracts have been possible since 2018.

The number of beneficiaries of assisted contracts has decreased since 2016, falling sharply since 2017, in the context of an improved economic outlook, until the health crisis emerged (► **Figure 1**). Their number declined from 436,000 beneficiaries at the end of 2015 (of which 336,000 were in the non-market sector) to 69,000 beneficiaries at the end of 2020 (of which 65,000 were in the non-market sector). The stock of assisted contracts thus decreased more than five-fold in the non-market sector between 2015 and 2020 and has virtually disappeared from the market sector.

¹ When we talk about assisted contracts, the “non-market sector” means all host bodies such as local municipalities, the State, associations, etc. that do not sell their products and are funded mainly by compulsory levies or subsidies. This definition goes slightly beyond the usual strict grouping of “Tertiary mainly non-market” in the French classification of activities (NAF) which covers only public administration, education, health and social action.

► 1. Stock of assisted contracts at the end of the year

raw data in thousands

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total	286	267	250	350	374	436	400	260	139	88	69	144
<i>Variation</i>		-19	-17	99	25	62	-36	-140	-121	-51	-19	75
Non-market	231	220	218	300	314	336	328	227	128	84	65	85
Future Contract	0	0	1	60	91	98	77	46	18	5	0	0
CUI-CAE	231	220	217	241	223	238	251	181	6	0	0	0
PEC	0	0	0	0	0	0	0	0	104	79	65	85
Market	55	47	32	49	60	100	72	33	11	5	4	59
Future Contract	0	0	0	12	24	31	28	16	7	1	0	0
CUI-CIE	55	47	32	37	36	69	44	17	5	4	4	59

Scope: All of France

Source: DARES, Agence de services et de paiement (ASP)

Nevertheless, in 2021, the number of beneficiaries of assisted contracts bounced back, increasing for the first time since 2015: +75,000 between the end of 2020 and the end of 2021, of which +20,000 were non-market and +55,000 were market (► **Figure 1**). This rebound was part of the “1 young person, 1 solution” plan, introduced in July 2020 to support employment in the context of the health crisis. At the end of 2021, however, the number of beneficiaries of assisted contracts was still three times less than at the end of 2015.

Since the start of the health crisis, assisted contracts have been few in number, with little effect on the impetus of employment

In the context of the health crisis, total payroll employment fell substantially in 2020 (-1.2% or -317,000 jobs between late 2019 and late 2020). Nevertheless, this fall mainly concerned the tertiary market sector as over the same period, payroll employment increased in the

non-market tertiary (public administration, education, health and social action): +0.7% or +55,000 jobs. This increase was mainly due to public employment (+43,000 against +12,000 in the private sector).

Private payroll employment in the so-called “other service activities” sector (including associative activities and the arts and entertainment) fell more sharply and more permanently during the crisis (-69,000 between the end of 2019 and the end of 2020), only getting back to its pre-crisis level in summer 2021.

All in all in 2020 and 2021, the change in the number of assisted contracts was secondary given the magnitude of the changes in total employment. Given the unprecedented context of the health crisis, employment support measures were mainly directed through other channels, especially the massive take-up of short-time working, then the increase in sandwich contracts for young people (► **Focus** on sandwich contracts). ●

Léa Garcia

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DARES, <https://dares.travail-emploi.gouv.fr/definitions-et-concepts/contrats-aides>. ●

French economic outlook

At the end of 2021, in the context of the Covid epidemic, sick leave impacted the volume of work paid by companies

In 2021, on average over the year, the volume of work paid by companies in the private sector (► [Methodology](#)) remained 2.1% below its 2019 level. It fell back by 9.4% in 2020 compared to 2019, a fall on a scale unprecedented since the post-war period, to be likened to the drop in gross domestic product (GDP) by volume (-8.0%) or in production in the non-agricultural market branches (-9.6%).

At the height of the health crisis, and until May 2021, the take-up of short-time working accounted for the majority of the decline in the volume of paid work (► [Focus](#) in *Economic Outlook* of 17 November 2020). Since then, with the end of the third wave of the epidemic and the gradual lifting of restrictive measures up to mid-2021, recourse to short-time working has declined significantly. At the end of 2021, the main factor affecting the volume of paid work was that of worker absences, mainly due to sick leave (► [Figure](#)). Thus, in December 2021, the volume of paid work was 1.9% above its December 2019

level, due in particular to an increase over two years in the volume of employment contracts, associated with the rise in payroll employment, and which contributed +4 points to the difference compared to December 2019. However, absences due mainly to sick leave slowed down this overall change, contributing -1.2 points.

The intensity of the waves of the Covid epidemic in fact caused employees to take a great deal of sick leave, which also includes leave for childcare and periods of isolation, although the information declared by companies each month in the Nominative Social Declaration (DSN) does not specify the reason for the sick leave. Compared to the situation before the health crisis, sick leave in December 2021 represented an additional work deficit of around 200,000 full-time equivalent jobs in the private sector. This estimate is relatively homogeneous across sectors of activity and size of employing establishment as well as by department. ●

Catherine Renne

Methodology

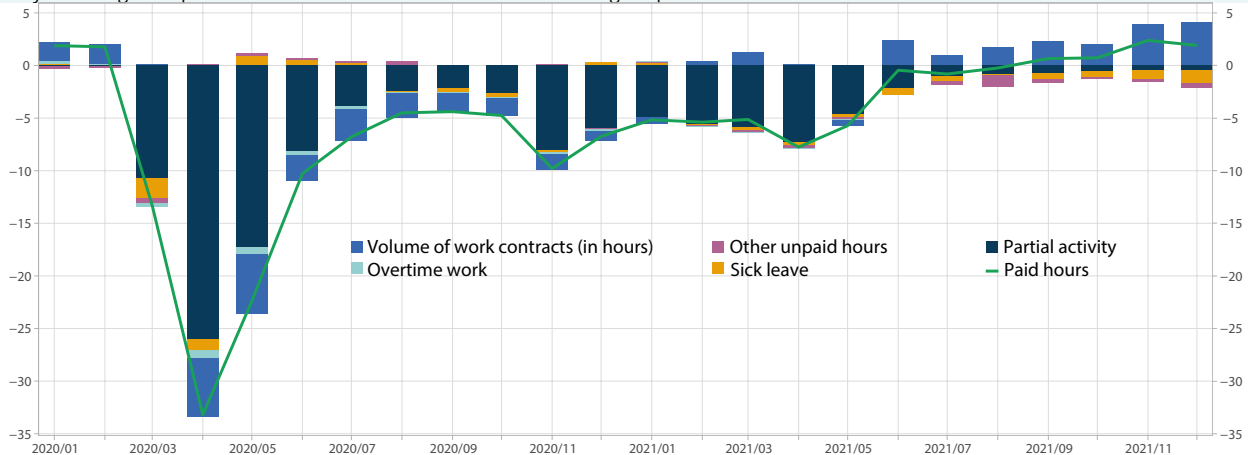
The estimate presented in this Focus is the result of a provisional analysis of the Nominative Social Declarations (DSN) sent in by companies every month. The volume of paid work corresponds to the duration for which the employee is paid over the period, which in particular includes overtime but also absences for which the employee receives remuneration (paid leave, public holidays, days attributed for reduced working time). From the DSNs, it is also possible to estimate the duration of unpaid absences (unpaid leave, sick leave with or without pay being maintained, period of short-term working, etc.) and determine the main reasons. ●

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► Volume of paid work compared to 2019 and contributions to this change

year-on-year change compared to 2019 in % and contributions to this change in points



Note: changes are calculated in relation to the same month in 2019.

Source: DSN; provisional processing INSEE

Unemployment

In Q4 2021, the unemployment rate according to the ILO definition decreased by 0.6 points compared to the previous quarter, to 7.4% of the active population (► **Figure 1**). This drop is the result of a substantial increase in employment (+154,000 as a quarterly average after already +267,000 in Q3¹) and a moderate downturn in the active population (-48,000, in reaction to a brisk increase of 305,000 in the previous quarter). These changes have particularly affected young people: their unemployment rate fell by 3.6 points over the quarter to 15.9%, returning to the lowest levels of earlier cycles at the end of the 1980s and 1990s, and their employment rate increased by 2.5 points over a half-year, to 33.8%, thus reaching its highest level since 1991, mainly due to the effect of sandwich contracts (► **Focus**).

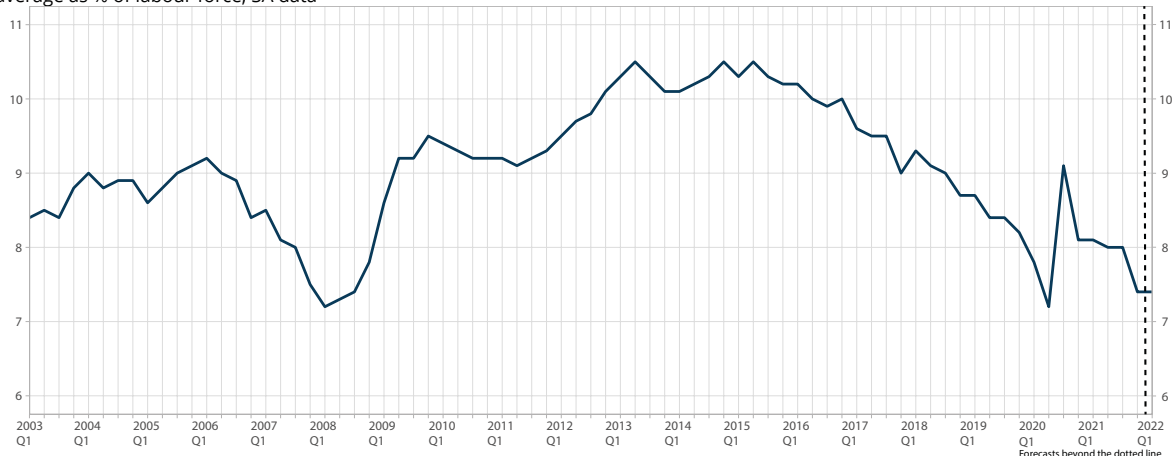
In Q1 2022, the active population is expected to bounce back fairly sharply (+85,000) in reaction to the decline in Q4 (► **Figure 2**). However, this forecast is dependent on future changes in the active population, where the trend movement, after two years of exceptionally large fluctuations, is still difficult to determine. The chosen scenario is based on the last available projections of the active population, dating from 2017, adjusted to take into account observed pre-crisis trends and the recent activity behaviour of young people due to the increase in work-study training.² All in all, the forecast is that the active population is expected to slow, given the trends observed in 2021, and should return to a rate of growth similar to pre-crisis: the slowdown in the trend of the active population is likely to be more than offset by the effects of sandwich contracts on young people’s activity.

Given the increase forecast for employment (+80,000 on average in Q1 2022), the unemployment rate looks set to stabilise at 7.4% of the active population in Q1 2022 (► **Figure 3**). ●

1 These figures differ from those on the “Employment” Sheet due to the switch to a quarterly average and because sandwich contracts are now taken into account, where-as they are not included in the URSSAF source used to measure payroll employment in the “Employment” Sheet.
2 The latest INSEE active population projections date back to 2017. In this Sheet, they have been adjusted to take several factors into account, which still have to be analysed and confirmed in the coming quarters. First, the trend level of activity for people in the intermediate age groups has been slightly lowered to take into account changes observed between 2015 and 2019. Next, since 2017, the number of sandwich contracts has risen sharply and this increase accelerated in 2021. Projections for the active population of young people have therefore been revised upwards to take these contracts into consideration. Lastly, on a more technical note, but with no effect on the momentum of 2020 and 2021, projections have also been adjusted to take into account the redesign of the Labour Force Survey in 2020, which slightly increases activity rates, and to transpose the results in the scope “France excluding Mayotte” which is that used in the Employment Survey. A full set of results updating INSEE’s active population projections will be disseminated in June 2022.

► 1. Unemployment rate (ILO definition)

quarterly average as % of labour force, SA data

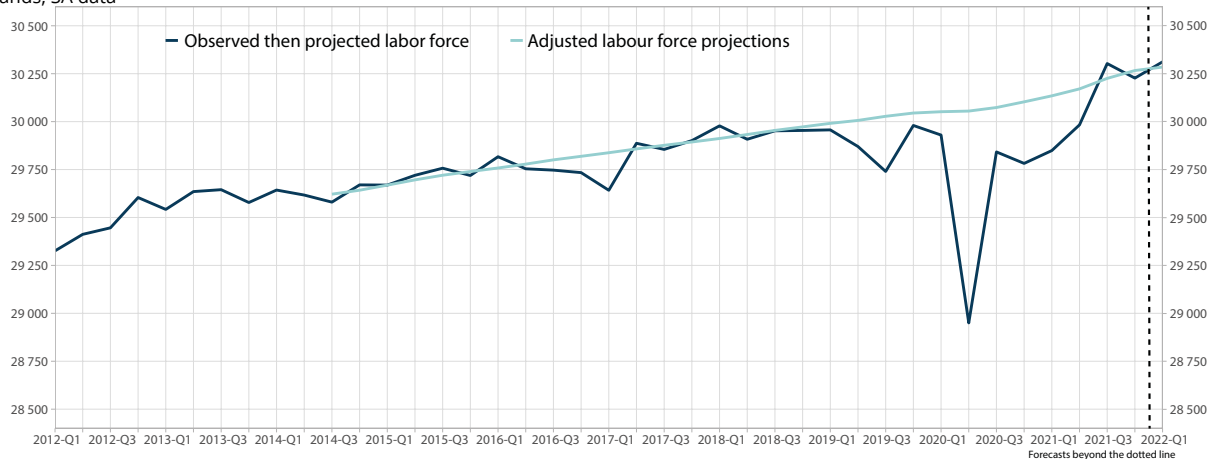


Scope: France (excluding Mayotte), persons aged 15 or over living in ordinary housing
 Source: INSEE, Labour Force Survey

French economic outlook

► 2. Change in the active population compared to adjusted projections

in thousands, SA data



Scope: France (excluding Mayotte), People aged 15 or over living in ordinary housing

Source: INSEE, Labour Force Survey, adjusted labour force projections; DARES, numbers of sandwich contracts

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

variation in quarterly average in thousands, SA data

	2020				2021				2022	Cumulative change from Q1 2020 to Q1 2022
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Employment (1)	-88	-679	364	174	142	264	267	154	80	678
Unemployment (2)	-108	-272	630	-302	6	-16	38	-203	5	-222
Active population = (1) + (2)	-196	-951	994	-128	148	248	305	-48	85	457
<i>Trend labour force (a)</i>	7	7	7	7	7	7	5	4	3	54
<i>Effect of work-linked training on youth activity (b)</i>	1	-3	12	23	25	30	48	39	16	191
<i>Pre-crisis» cyclical bending effect (c)</i>	-9	-68	35	14	11	22	20	10	6	41
<i>Residue (d)</i>	-194	-887	941	-172	105	189	232	-101	60	173
Variation in unemployment rate	-0.4	-0.6	1.9	-1.0	0.0	-0.1	0.0	-0.6	0.0	-0.8
Unemployment rate	7.8	7.2	9.1	8.1	8.1	8.0	8.0	7.4	7.4	

■ Forecast

How to read it: between Q3 2021 and Q4 2021, employment increased by 154,000 on average, unemployment decreased by 203,000 and the active population decreased by 48,000. The unemployment rate fell by 0.6 points, reaching 7.4%.

Note: Employment corresponds here to total employment (payroll employment including sandwich contracts + self-employment), measured as a quarterly average

(a) Trend based on adjusted active population projections.

(b) Effect based on sandwich contract numbers from DARES, calculations by INSEE.

(c) This flexibility effect represents the fact that new workers enter the labour market when the employment situation improves. It was estimated over the pre-crisis period.

(d) In 2020 and 2021, the remainder covers the specific effect of the health crisis on activity behaviour, i.e. mainly the massive withdrawal of activity during the 1st lockdown in spring 2020.

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

Source: INSEE, Labour Force Survey, Quarterly employment estimates

Sandwich contracts contributed substantially to boosting the activity rate of young people in 2021

Since 2016, the number of beneficiaries of sandwich contracts has increased sharply. This trend accelerated in 2021. These contracts are targeted mainly at the youngest populations, providing them with some professional experience during their training. Within the meaning of the International Labour Organisation (ILO), young people on these contracts are considered as being employed, and hence active. Between the end of 2015 and the end of 2021, the employment rate for young people increased by 5.3 points, of which 2.9 points were due to sandwich contracts

The number of beneficiaries of sandwich contracts increased substantially between 2016 and 2020, and accelerated in 2021

Sandwich contracts combine theoretical learning in a specialist establishment and practical training in a company. There are two types of contract: apprenticeship contracts and professionalisation contracts.

Apprenticeship contracts are open to young people aged 16 to 29, and exemptions are possible for over-29s. The aim is to obtain a vocational or technological diploma, an engineering degree or a recognised qualification. Professionalisation contracts are open to people aged 16 to 25, jobseekers aged 26 and over and recipients of some social minima. The aim is to obtain a professional qualification.

The number of beneficiaries of sandwich contracts has increased considerably since 2016 and even accelerated between the end of 2020 and the end of 2021 (► [Figure 1](#)). According to the Labour Force Survey, this total increased from 612,000 at the end of 2015 to 870,000 at the end

of 2021,¹ in line with the sharp increase in entries into apprenticeship contracts. The rise in the number of beneficiaries of apprenticeship contracts is specifically due to various reforms: the opening of the contracts to 25-29-year-olds, financial aid for apprentices, increased support for hiring and measures to simplify the apprenticeship process for employers. These different forms of aid were increased in response to the health crisis in 2020, notably with the “One young person, one solution” plan.

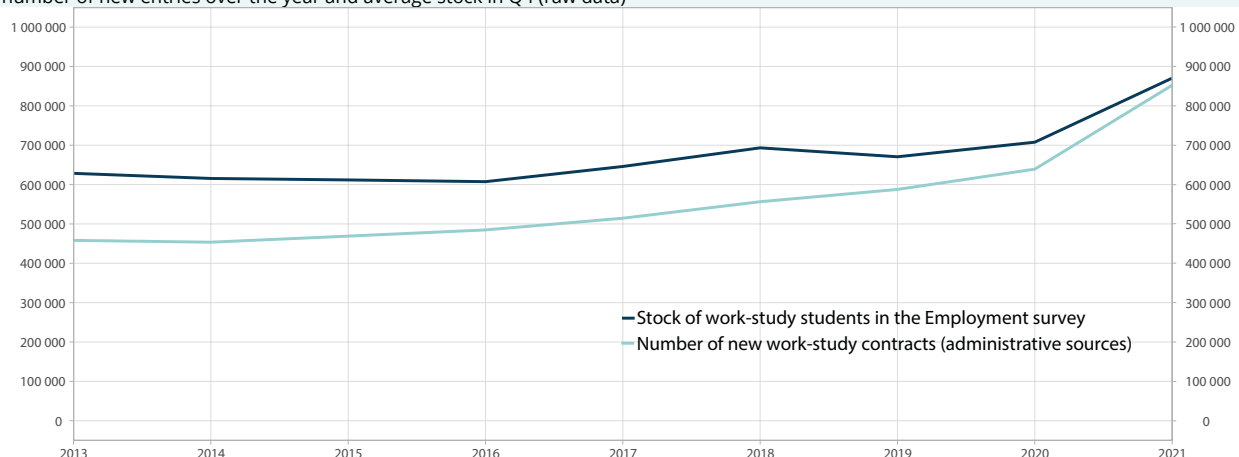
Sandwich contracts greatly boosted young people’s activity rate in 2021

Sandwich contracts are mainly intended for the youngest populations: under-25s made up 81% of beneficiaries in 2021 (compared to 76% in 2015). The surge in the number of sandwich contracts has resulted in a marked increase since 2016 in the share of this type of training in the employment of 15-24-year-olds: this share was 27.5% of those in employment in this age bracket in Q4 2021 against 22.0% in Q1 2016 (► [Figure 2](#)).

¹ In the Labour Force Survey, sandwich contracts comprise apprenticeship contracts (67% in 2021), professionalisation contracts (20%) and internships (13%).

► 1. Number on sandwich contracts in the Labour Force Survey and number of new entries in the administrative sources

total number of new entries over the year and average stock in Q4 (raw data)



Scope: France (excluding Mayotte), persons aged 15 or over, living in ordinary housing, for numbers on sandwich contracts.

All of France (including Mayotte) for the number of new entries.

Note: in the Labour Force Survey, numbers on sandwich contracts include apprentices, professionalisation contracts and interns. The number of new entries includes apprentices and professionalisation contracts.

Source: INSEE, Labour Force Survey for numbers on sandwich contracts. DARES administrative data for number of new entries

French economic outlook

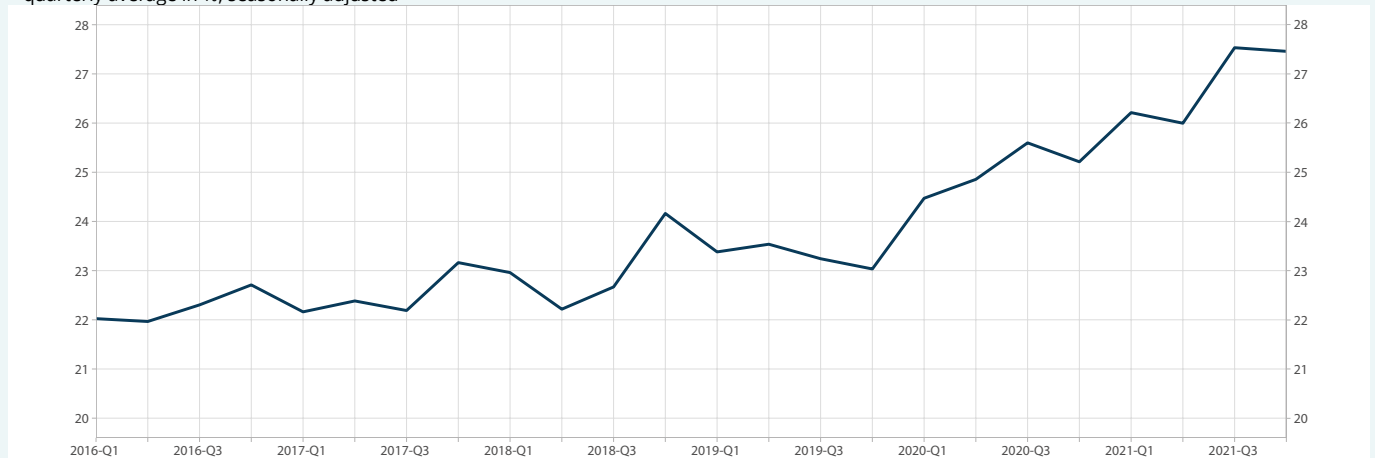
This sharp increase in the number of sandwich contracts clearly boosts the activity rate and the employment rate among young people. According to data from DARES, in 2020, 53.9% of new apprentices were studying before the start of their contract and only 28.1% were already in an apprenticeship or were jobseekers. It can therefore be estimated that a large proportion of the beneficiaries of these contracts went from being inactive to being

in employment. Thus, with the increase in the number of apprenticeship contracts, the sandwich principle is becoming an increasingly important explanatory factor for changes in the employment and activity rates of the 15-24 age bracket. At the end of 2021, the employment rate stood at 5.3 points above its level at the end of 2015 (► **Figure 3**), of which 2.9 points were linked to growth in sandwich contracts. ●

Vivien Guérin

► 2. Share of sandwich contracts in the employment of people aged 15 to 24

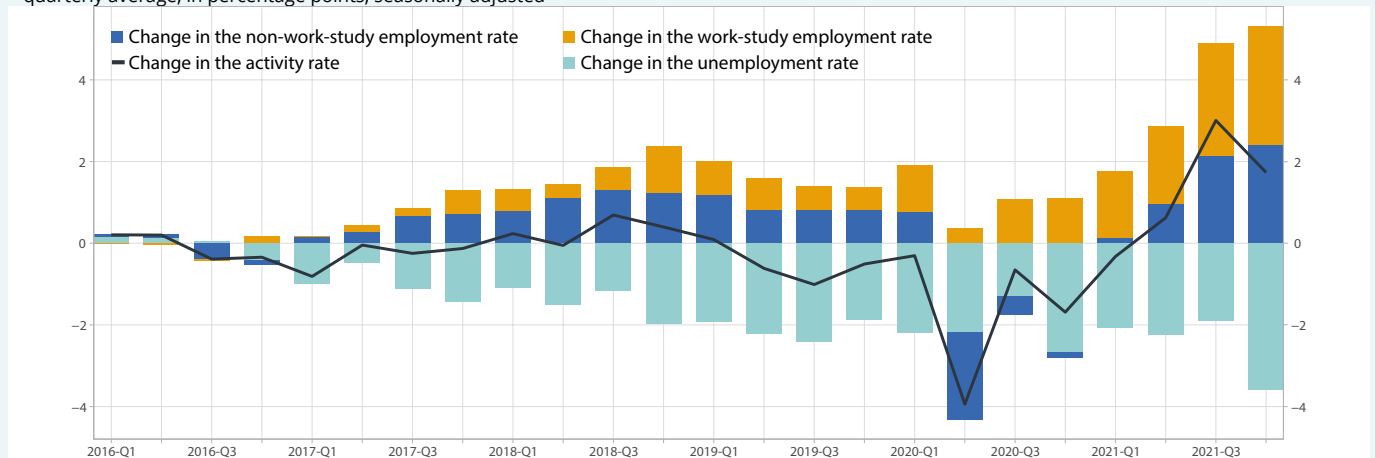
quarterly average in %, seasonally adjusted



Scope: France (excluding Mayotte), persons aged 15 or over, living in ordinary housing, Source: INSEE, Employment survey

► 3. Change in activity rate of 15-24-year-olds compared to Q4 2015

quarterly average, in percentage points, seasonally adjusted



Scope: France (excluding Mayotte), persons aged 15 or over, living in ordinary housing, Note: between Q4 2015 and Q4 2021, among 15-24-year-olds, the share of unemployment decreased by 3.6 points, the employment rate excluding sandwich contracts increased by 2.4 points and the rate of employment on sandwich contracts increased by 2.9 points. As a result, the activity rate increased by 1.7 points over the period Source: INSEE, Employment survey

Consumer prices

Year-on-year, consumer prices have increased substantially since the beginning of 2021, from 0.6% in January 2021 to 3.6% in February 2022, a level not seen since 2008. The rise in inflation until summer 2021 was mainly the result of prices being low in 2020 (“base effect”), it then increased with the strong surge in energy prices, despite the “price shield” which held it down significantly (► **Focus**).

The war in Ukraine has led to a further rise in the prices of oil, gas and many commodities. This sudden and substantial increase is likely to impact in part on the consumer price index. In March, under the assumption that the price of oil is fixed at \$125 for a barrel of Brent from 8 March (date this forecast was made) and a euro-dollar exchange rate of \$1.09/€, inflation is expected to increase sharply, to 4.2% year-on-year, driven mainly by the energy component.

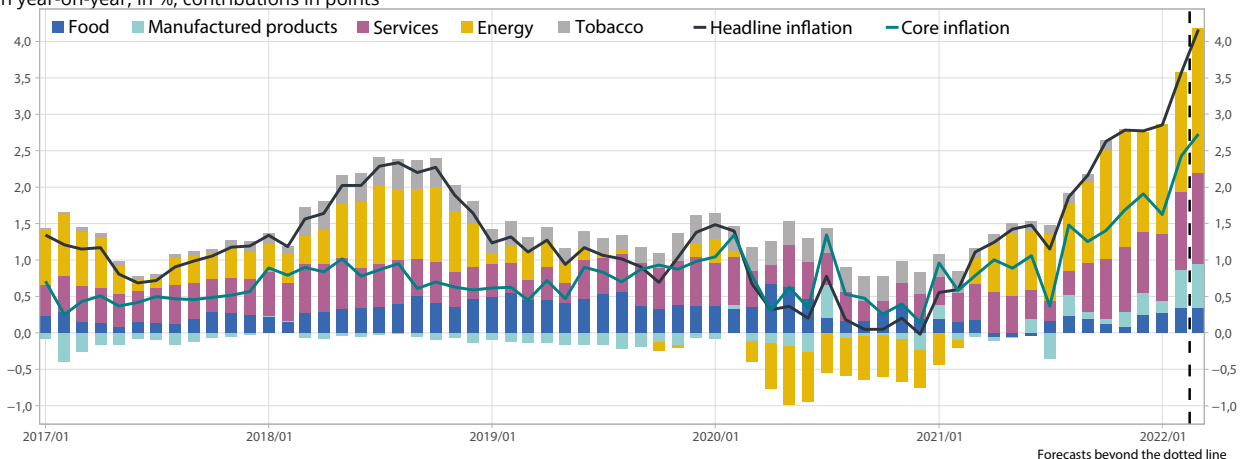
Elsewhere, the sharp rises in production prices already recorded in recent months, both in manufacturing industries and agriculture (+11.4% and +15.8% respectively year-on-year in January 2022), are expected to continue, impacting gradually on consumer prices. In manufactured products, inflation is expected to rise, and reach 2.5% year-on-year in March after 2.2% in February (when inflation for this item had already been driven upwards because the winter sales period was shorter than in this month in 2021). Food prices are likely to increase in March to 2.1% year-on-year, as in February. Within food, the prices of non-fresh food products, which are less volatile and more sensitive to increases in production prices than fresh produce, look set to continue to accelerate. Finally, prices of services year-on-year are expected to accelerate from 2.2% to 2.6% between February and March, probably driven by wage increases in some sectors such as accommodation-catering, and by transport services because of the increase in fuel prices.

Core inflation is expected to reach +2.7% year-on-year in March driven by the underlying prices of services.

The forecast for the coming months is much more uncertain than usual. The dynamics of inflation in Q2 are still likely to be strongly determined by energy prices, especially oil, as these prices are currently very volatile. However, the 15-centime reduction on the price of fuel at the pump should soften the effect of the high prices for a barrel of Brent on the price of petroleum products. Producer prices could continue to increase strongly. In April, inflation is also likely to be driven upwards by food products, with the start of trade negotiations between producers and major retailers on the Egalim 2 Law. As a result, and by extending the assumptions for the price of Brent and the €/€ exchange rates to the end of March, the year-on-year change in consumer prices could be around 4.5% in Q2. ●

► 1. Headline inflation and contributions by item

inflation year-on-year, in %, contributions in points



Source: INSEE

16 March 2022 - Consumer prices

French economic outlook

► 2. Consumer prices

change in %, contributions in points

CPI groups* (2021 weightings)	January 2022		February 2022		March 2022		Annual averages	
	yoy	cyoy	yoy	cyoy	yoy	cyoy	2020	2021
Food (16.5%)	1.5	0.3	2.1	0.4	2.1	0.4	1.9	0.6
<i>including: fresh food (2.5%)</i>	4.0	0.1	5.9	0.2	5.4	0.1	7.3	1.9
<i>excluding: fresh food (14.0%)</i>	1.1	0.2	1.4	0.2	1.6	0.2	1.0	0.4
Tabacco (2.2%)	-0.1	0.0	-0.1	0.0	0.0	0.0	13.7	5.5
Manufactured products (24.4%)	0.6	0.2	2.2	0.6	2.5	0.6	-0.2	0.3
<i>including : clothing and footwear (3.4%)</i>	-0.6	0.0	6.3	0.2	5.7	0.2	-0.5	0.1
<i>medical products (4.0%)</i>	-1.9	-0.1	-1.5	-0.1	-1.6	-0.1	-2.0	-1.2
<i>other manufactured products (17.1%)</i>	1.5	0.3	2.4	0.4	2.7	0.5	0.2	0.6
Energy (8.9%)	19.9	1.5	21.1	1.7	25.1	2.0	-6.1	10.5
<i>including : oil products (4.3%)</i>	24.3	0.9	26.9	1.0	35.7	1.4	-11.8	13.5
Services (48.1%)	2.0	0.9	2.2	1.1	2.6	1.3	0.9	1.2
<i>including : rent-water (8.0%)</i>	1.8	0.2	1.8	0.1	1.7	0.1	0.3	1.1
<i>health services (7.0%)</i>	-0.6	0.0	-0.9	-0.1	-0.9	-0.1	0.3	-0.5
<i>transport (2.0%)</i>	3.9	0.0	6.1	0.1	7.9	0.1	-1.7	3.8
<i>communications (2.3%)</i>	1.4	0.0	2.3	0.1	2.5	0.1	1.0	2.9
<i>other services (28.9%)</i>	2.6	0.7	2.9	0.8	3.5	1.0	1.4	1.1
All (100%)	2.9	2.9	3.6	3.6	4.2	4.2	0.5	1.6
<i>All excluding energy (91.1%)</i>	1.4	1.3	2.1	1.9	2.4	2.2	1.2	1.0
<i>All excluding tabacco (97.9%)</i>	2.9	2.9	3.7	3.6	4.3	4.3	0.1	1.6
Core inflation (59.2%)**	1.6	1.0	2.5	1.5	2.7	1.6	0.6	1.1

■ 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

The “tariff shield” on electricity and gas prices substantially cushioned the rise in inflation in February

The “tariff shield” implemented in October on gas and electricity prices would appear to have contributed to reducing the year-on-year change in consumer prices by 0.3 points in December and January, then by 1.5 points in February. This assessment was made by comparing the values observed for the consumer price index (CPI) with what they could have been if no price shield had been in place, taking into account recent publications by the French Energy Regulation Commission (CRE) and specific assumptions on market offer prices.

To limit energy inflation, a measure known as the “tariff shield” was adopted in autumn 2021, alongside other measures relating to income (“inflation allowance”, “energy cheque”). This “tariff shield” freezes regulated sales tariffs (TRV) for gas at their October 2021 level at least until June 2022 and limits the half-yearly increase in TRV for electricity applied on 1st February to 4%. In this context, consumer prices of energy products increased by 21.1% year-on-year in February. This rise can be put into perspective by recent publications from the French Energy Regulation Commission (CRE), showing the increase in TRV that would have been applied for gas¹ and electricity,² had there been no “shield”.

The gas and electricity retail markets include two types of supply offer: offers at regulated sales tariffs (TRV) and market offers. The price of the latter is fixed by the energy suppliers and is subject to competition. TRVs concern about 67% of household electricity consumption and 29% of their consumption of natural gas and mains gas.³ These tariffs are offered at regular intervals by the CRE, every month for gas and twice a year (in February and August) for electricity.

According to the usual calculation rules, gas TRVs would have increased gradually by 66.5% including VAT between October 2021 and February 2022,¹ if there had been no tariff shield. Electricity TRVs would have increased by 35.4% including VAT on 1st February 2022.² In addition, as market offers are partly indexed on the regulated tariffs, the prices of these offers would probably have been more dynamic, had there been no “shield”, than what has been observed since it was put in place. The assumption adopted here is that in the absence of a “shield”, the market offer prices for gas and electricity would have continued their recent momentum in relation to the regulated tariffs. (► [Methodology box](#)).

Under these assumptions, without the “tariff shield” headline inflation would have been higher than the inflation observed from November (year-on-year change in prices would have been 2.9%, against 2.8% observed) and would have reached 5.1% year-on-year in February (i.e. 1.5 points more than observed inflation, ► [Figure 1](#)). In February, the significant increase in the “shield” effect is explained by the increase in the regulated electricity tariffs by only 4%, much less than the theoretical increase proposed by the CRE (► [Figure 2](#)). ●

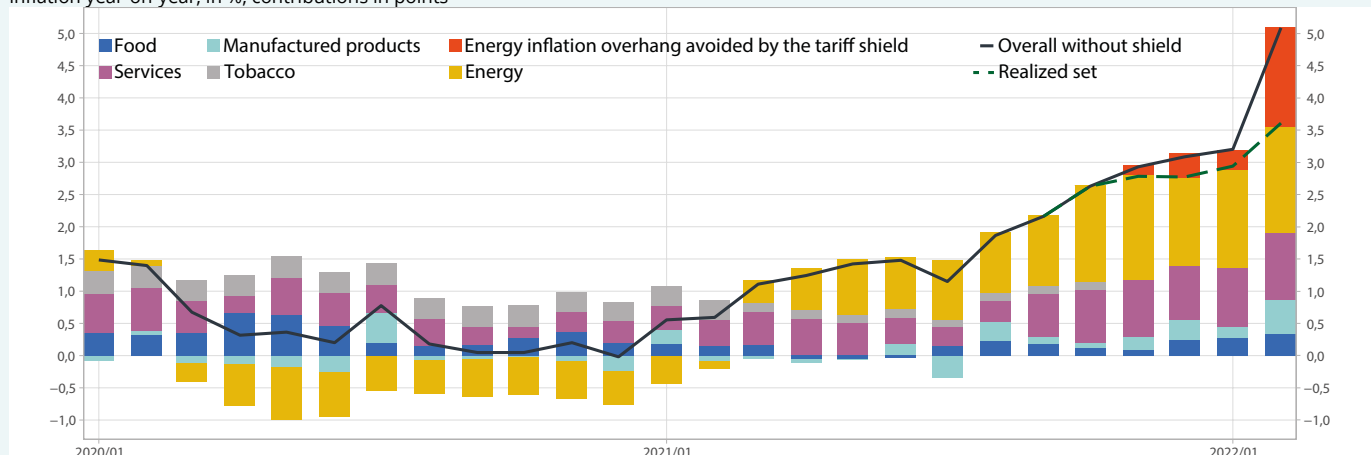
Narjis Benchekara et Jérémy Marquis

1 Commission de régulation de l'énergie, 10 February 2022, Publication des barèmes applicables pour les tarifs réglementés de vente de gaz naturel – Février 2022.

2 Commission de régulation de l'énergie, 1st February 2022, Évolution des tarifs réglementés de vente d'électricité : hausse de 4 % TTC au 1^{er} février 2022.

3 Commission de régulation de l'énergie, 30 September 2021, Observatoire des marchés de détail du 3^e trimestre 2021.

► 1. Estimated counterfactual inflation without the tariff shield and headline inflation ultimately observed



How to read it: with no measures limiting energy price increases, headline inflation would have been 5.1% year-on-year in February, against 2.8% actually observed. Energy would have contributed around 3.2 points to this counterfactual inflation, against 1.6 points in reality.

Source: INSEE calculations

French economic outlook

► 2. Breakdown of the “tariff shield” effect on headline inflation

in points

	Nov-21	Dec-21	Jan-22	Feb-22
Effect of “tariff shield” on headline inflation	-0.1	-0.3	-0.3	-1.5
including contribution linked to gas	-0.1	-0.3	-0.3	-0.5
including contribution linked to electricity	0.0	0.0	0.0	-0.9

Note: sums have been calculated on unrounded components, and may therefore differ slightly from the sums of the rounded components.
Source: INSEE calculations

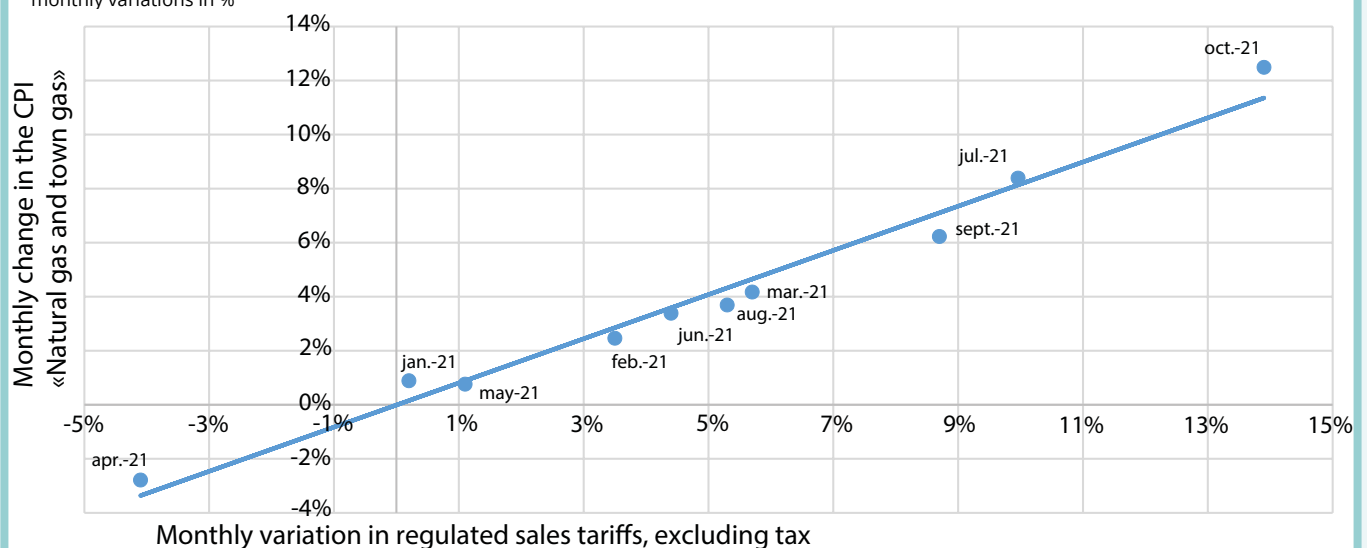
Methodology: how to model changes in the market offer price with no tariff shield in place?

The methodology used in this Focus consists in estimating the change in gas and electricity consumer prices, in a situation where the “tariff shield” on gas and electricity TRVs has not been introduced. The possible consequences of this measure on prices other than those of gas and electricity are considered negligible and hence not taken into account.

With regard to gas, we estimate the price elasticity between the monthly change in the gas CPI and the monthly change in its TRV over the recent period. In order to be as close as possible to recent developments, the estimation period runs from January to October 2021 for gas. In the absence of available data for this period on TRV including VAT, we consider change in TRV excluding VAT. Elasticity is estimated at 0.82 (► Figure 3) suggesting that over this period, the gas CPI is slightly less dynamic than the TRV or, in other words, that the market offer prices experienced smaller fluctuations than the TRV. In addition, the CRE publications giving the scale applicable for natural gas TRVs indicate the change that would have happened since October 2021 to TRVs excluding VAT (and also including VAT) if the tariff shield on gas were not present. We can therefore deduce the associated change in the gas CPI, using the elasticity estimated previously, and on the assumption that it continues to apply.

► 3. Relationship between change in the “Natural gas and mains gas” consumer price index and variations excluding VAT in the regulated sales tariff for gas

monthly variations in %



Source: CRE, INSEE calculations

The method is the same for electricity prices: taking into account the twice-yearly increase in the electricity TRV, we estimate (between January 2019 and February 2022) price elasticity between the half-yearly changes in the electricity CPI and in its TRV excluding VAT. In this case, elasticity is estimated at 1.02: the dynamics of market offer prices are therefore very similar to those of the TRVs. We then deduce, as in the case of gas, the change that there would have been in the electricity CPI in February 2022 had there been no “tariff shield”, taking into account the change suggested by the CRE in this situation (and assuming that the estimated relationship remains valid).

The advantage of this method is that it provides directly the probable change in the gas and electricity CPIs in the absence of a tariff shield, associated with that of their respective TRVs, with no prior data on market offer prices and assuming that the relationships estimated above are verified. Nevertheless, given the breakdown of gas and electricity consumption between contracts subject to TRVs and those covered by market offers, we can deduce the underlying market offer prices when this “counterfactual” CPI is calculated in the absence of the tariff shield (► **Figure 4**). For gas, the average market offer price would thus have increased by about 55% between October 2021 and February 2022 (compared to 5.5% with the tariff shield); for electricity, the average market offer price would have increased by 38% between August 2021 and February 2022 (compared to +4.5% when the rise in TRV is limited to 4%). ●

► 4. Assumptions adopted for gas and electricity prices

variations monthly in %

	Oct. 21	Nov.	Dec.	Jan. 22	Feb.
Changes observed					
Electricity consumer price index	0.2	0.7	-0.2	0.8	2.5
“Natural gas and mains gas” consumer price index	12.5	1.9	1.2	0.9	-0.1
Estimated counterfactual changes in the absence of tariff shield					
Electricity consumer price index	0.2	0.7	-0.2	0.8	33.9
“Natural gas and mains gas” consumer price index	12.5	17.3	17.0	-2.5	18.1

■ INSEE estimations

Source: CRE, INSEE calculations

Wages

In H2 2021, the nominal average wage per capita (SMPT) in the non-agricultural market branches increased sharply (+5.0% in Q3 then +0.6% in Q4, ► **Figure 1**), due to a decline in the use of short-time working, as since the start of the health crisis compensations for short-time working had largely replaced wages. The renewal of the extraordinary purchasing power bonus (PEPA) and the +2.2% increase in the minimum wage (SMIC) on 1st October helped to ensure that wages remained dynamic. This automatic increase and the net upturn in inflation were the main contributory factors to the rise in the basic monthly wage (SMB, ► **Box**). All in all, by the end of the year the nominal SMPT had recovered its pre-health crisis trajectory. Thus on average in 2021, it rebounded significantly (+6.4% after -4.9%), whereas the purchasing power of the SMPT, eroded by the rise in prices, was a little less dynamic (+4.6% after -5.5%, ► **Figure 2**).

In Q1 2022, nominal wages are expected to remain buoyant. Notably, the SMPT is likely to increase by 0.9% (► **Figure 1**). In addition to the most recent increase in the SMIC by 0.9% on 1st January, nominal wages are also expected to receive a boost as in many branches, rising consumer prices and hiring difficulties are to be taken into account in wage negotiations. Short-time working, which was already weakening towards the end of 2021, is expected to fall back still further but only slightly, making only a small contribution to change in the SMPT. All in all and given the expected trend movement in prices, the growth overhang of the real SMPT at the end of March looks set to be positive for 2022 (+1.3%), despite a negative trend in Q1. The dynamism of wages is likely to continue in Q2, especially as there could be another increase in the SMIC, of at least 2%, given the possible change in prices.

In general government, the nominal SMPT increased by 1.4% in 2021, after +2.8% in 2020. This was mainly driven by the payment of exceptional bonuses to emergency workers mobilised in the context of the emergency health situation and by revisions to hospital civil service wages, planned in the “Ségur de la santé” agreements and implemented from autumn 2020. Given the rise in prices, general government wages in real terms declined slightly in 2021 (-0.3%, after +2.1% in 2020). In 2022, the nominal general government SMPT looks set to bounce back, mainly as a result of the increase in the wages of category C personnel. All in all, in general government at the end of March, the growth overhang of the SMPT in real terms for 2022 is nevertheless expected to be negative (-1.1%). ●

► 1. Variation in the basic monthly wage and the average wage per capita

changes in %, seasonally adjusted data

	Quarterly growth rates									Average annual change				Difference to average 2019
	2020				2021				2022 Q1	2019	2020	2021	2022 ovhg	2022 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4						
Average wage per capita (SMPT) in non-agricultural market branches	-3.6	-11.4	16.5	-1.8	0.7	-0.2	5.0	0.6	0.9	2.3	-4.9	6.4	3.7	5.0
Basic monthly wage (SMB)	0.3	0.4	0.4	0.4	0.3	0.3	0.4	0.6	0.9	1.7	1.5	1.5	1.7	4.8
SMPT in general government (GG)										1.4	2.8	1.4	1.3	5.6
Household consumer prices (national quarterly accounts)	0.2	-0.1	0.2	0.0	0.8	0.3	0.8	0.8	1.3	0.8	0.6	1.7	2.4	4.8
Real WPS in the non-agricultural market branches	-3.8	-11.3	16.3	-1.9	0.0	-0.5	4.2	-0.2	-0.4	1.5	-5.5	4.6	1.3	0.2
Real WPS	0.2	0.5	0.2	0.4	-0.5	0.0	-0.4	-0.1	-0.4	0.9	0.9	-0.2	-0.7	0.0
Real WPS in GG										0.5	2.1	-0.3	-1.1	0.8

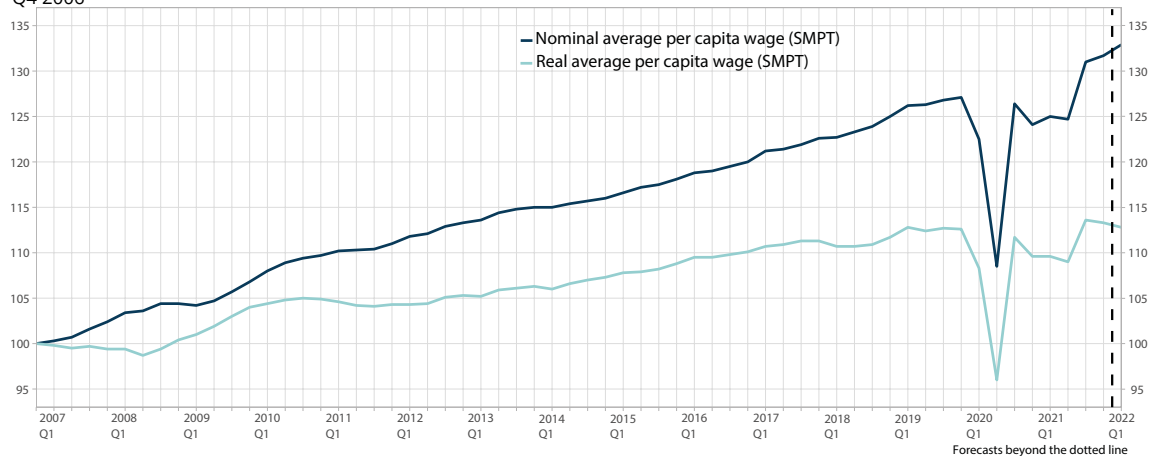
■ Forecast

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

Source: DARES, INSEE

► 2. Nominal and real average wage per capita and basic wage

base 100 = Q4 2006



Scope: non-agricultural market sector.
Source: INSEE

Forecasting changes in the basic monthly wage

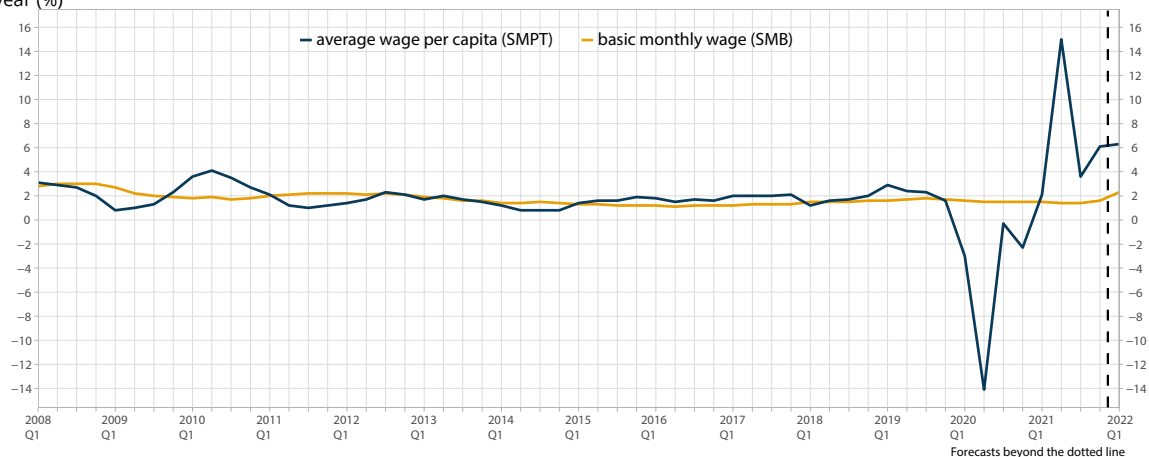
The end of 2021 and the start of 2022 were marked by a sharp upturn in inflation and growing hiring difficulties in several sectors. These factors are likely to increase the buoyancy of nominal wages.

In this context, change in the basic monthly wage (SMB) is a more relevant indicator than the average wage per capita (SMPT). The SMPT reflects change in all the components of wages, including the most short-term elements (compensation for sick leave or use of short-time working, overtime, bonuses), and as a result, changes in the SMPT have been very much affected by the health crisis in the last two years (► [Figure 3](#)).

The SMB, however, reflects mainly the underlying trend in wages. It generally corresponds to the first line of an employee's pay slip. It does not include the short-term components taken into account in the SMPT, nor the effects on the average wage of change in the structure of jobs (in particular those linked to the upward trend in average worker qualifications). Fluctuations in SMB are therefore usually smoother than those in SMPT, between +1.0% and +2.0% year-on-year per quarter since the end of 2012, including during the health crisis.

► 3. Basic monthly wage (SMB) and average wage per capita (SMPT)

year-on-year (%)



Scope: non-agricultural market sector for the SMPT, private sector employees excluding agriculture, private individual employers and extraterritorial activities for the SMB.
Source: INSEE, DARES

Thus change in the SMB demonstrates the result of collective wage negotiations better than the SMPT, where the main determinants are prices, the possible rise in the SMIC and tensions in the labour market. Econometric modelling of changes in the SMB, used for forecasting, consists in explaining the quarterly variation in the SMB (gross) as a function of variations in inflation and in the SMIC, and using the unemployment rate as an indicator of tension in the labour market¹.

The main model used for the SMB forecasting exercise is thus based on a linear dependence on change in wages in relation to these determinants:

$$\begin{aligned} \Delta \ln(SMB_{brut})_t = & 0,003 + 0,211\Delta \ln(IPC_{brut})_t + 0,074\Delta \ln(IPC_{brut})_{t-2} + 0,240\Delta \ln(IPC_{brut})_{t-3} \\ & \quad (6,5) \quad (5,0) \quad (1,4) \quad (5,1) \\ & + 0,202\Delta \ln(SMIC_{<1998t4})_{t-1} + 0,072\Delta \ln(SMIC_{\geq 1998t4})_t \\ & \quad (5,9) \quad (4,4) \\ & - 0,001(tcho_t - tcho_{moyen1975-2019}) + 0,002T1_{<1998t4} - 0,002T2_{<1998t4} + 0,002T1_{\geq 1998t4} \\ & \quad (-3,2) \quad (2,9) \quad (-2,0) \quad (3,6) \end{aligned}$$

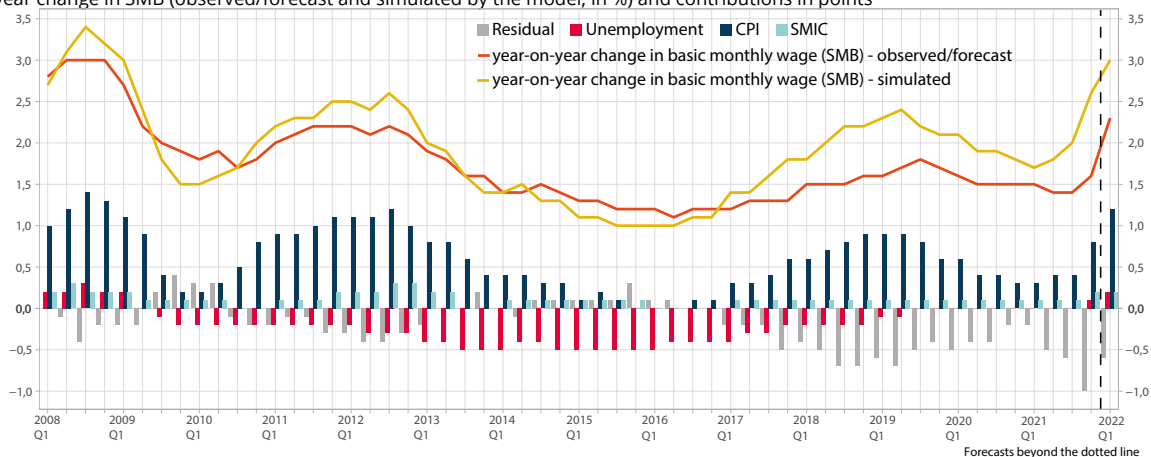
(Estimation period: 1985-2019)

In this model, variation in the consumer price index (CPI) is introduced as an explanatory variable, in the current quarter "t", and in previous quarters, so as to take into account the delay in adjusting wages to price changes.² The unemployment rate (variable "tcho"), expressed as a deviation from its average level over a long period, reflects the state of tension in the labour market. The SMIC is incorporated into the model by estimating separately its impact before and after the last quarter of 1998, to take into account the change in the frequency of measuring the SMB in the appropriate survey (ACEMO) at that date. Lastly, indicators for the first two quarters (T1 and T2) are added to the model to neutralise the seasonality of the price and wage variables.

The predictive power of a model like this is usually high, even if it has overestimated variation in the SMB in recent years (the residuals are systematically negative, especially outside the estimation period, ► [Figure 4](#)).

► 4. Forecasting model for the basic monthly wage (SMB): breakdown of observed then forecast SMB

year-on-year change in SMB (observed/forecast and simulated by the model, in %) and contributions in points



Scope: private sector employees excluding agriculture, private individual employers and extraterritorial activities.

Note: models are estimated over the period 1998 to 2019. The contribution of the constant (stable over the period), which also includes the average of residuals from 2008 to 2019, does not appear in this graph.

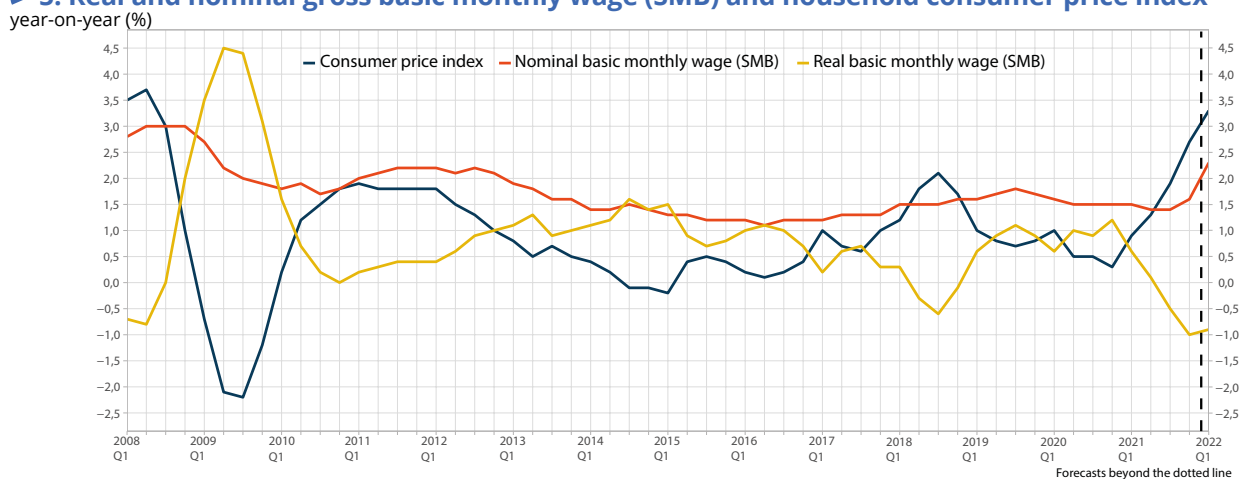
Source: INSEE, DARES

¹ Other indicators of tension could be used, such as hiring difficulties (measured in INSEE's business tendency surveys), which are likely to have an upward influence on wages. Although the correlation is indeed established, it still appears that taking these hiring difficulties into account in the econometric equations does not significantly improve wage forecasting: these difficulties are above all highly correlated with the unemployment rate, which is already used as an indicator of tension (► [Focus in Conjoncture in France](#) by INSEE, June 2019 "Do recruitment difficulties help to explain recent wage trends in France?").

² An alternative model could consist in imposing a unit indexation of wages to prices. However, empirically, indexing wages to prices emerges as partial and harking back to the mid-1980s. This could be because a larger share of wage indexation now uses the intermediary of anticipated prices (and hence the constant of the equation). This apparent deindexation of wages to prices also probably reflects the fact that from a microeconomic point of view, wage increases in companies are on the basis of agreements covering longer periods than before, compensating less systematically, or only partially, for recent inflation "surprises", whether up or down.

Thus, given the upturn in inflation, especially since summer 2021, and the automatic increase in the SMIC (+2.2%) which followed on 1st October 2021, the SMB was more dynamic at the end of 2021 (+1.6% year-on-year in Q4). In H1 2022, it will be even more so, in a context of high inflation, with tensions in the labour market resulting in relatively low unemployment and another increase in the SMIC (+0.9%) on 1st January (there could also be a new increase before the end of the half-year, given the possible rise in prices). Specifically, the SMB is expected to improve by +2.3% year-on-year in Q1 (+0.9% year-on-year). This acceleration is likely to be supported by collective wage negotiations, which for some should not become effective until spring. However, as has been the case since mid-2021, the upturn in inflation is eroding the purchasing power of the SMB, which is therefore expected to continue to fall in real terms in early 2022 (► [Figure 5](#)). ●

► 5. Real and nominal gross basic monthly wage (SMB) and household consumer price index



Scope: private sector employees excluding agriculture, private individual employers and extraterritorial activities.
Source: INSEE, DARES

French economic outlook

The sectors most affected by hiring problems are also those in which most companies expect significant wage increases

In January 2022, INSEE's business tendency surveys asked business leaders in the building construction and services sectors for the first time about their expectations for change in wages in their sector. This was in addition to leaders in industry who have already been asked this question for several years. The sectors in which companies most often expect significant wage hikes are also those most affected by hiring problems (agrifood, road transport, accommodation-catering). More generally, the answers to this question in industry proved interesting for completing the outlook diagnosis on wage trends.

In January 2022, INSEE made a slight change to the questionnaire in their business tendency surveys, by questioning companies in building construction and services on their expectations for change in wages in their sector, in the next three months ("significant increase", "small increase" or "stability", ► **Box**). This qualitative question will now be asked every quarter, as is already the case since 1991 in the manufacturing industry.

Contrasting expectations for wage increases between sectors in January 2022

In light of the answers to this question, expectations for wage increases seem contrasted, depending on the sector of activity. At the aggregated level, they are highest in construction, with 38% of companies in this sector declaring that they anticipate a significant rise in wages in the next three months. This proportion is smaller in services (17%). The manufacturing industry is in an intermediate position, with 31% of business leaders expecting major wage increases in their sector (► **Figure 1**).

At a more disaggregated level, contrasts can be more pronounced. Among industry sub-sectors (► **Figure 2**), expectations of significant increases are currently more frequent in agrifood (38%) than in the manufacture of transport equipment (25%), which is still affected by supply chain problems. In services, it is in the road transport of goods that most companies expect a significant rise in wages (44% of them). This proportion is also relatively high in accommodation-catering (25%). Conversely, only 8% of companies in real estate activities expect strong wage increases in their sector (► **Figure 3**).

Expected changes in wages can be considered alongside hiring difficulties

There are several factors that can account for these contrasting expectations, for example, the outcome of wage negotiations in the different branches, but also the degree of tension over hiring. According to the business tendency surveys, the sectors of activity most affected by hiring difficulties are indeed also those where business leaders most frequently expect large wage increases.

► 1. Wage expectations and hiring problems by sector, in January 2022

% of companies



Source: INSEE, business surveys

Expectations of high wages in agrifood, for example, go hand in hand with serious hiring difficulties: 72% of companies in the sector say they encounter them, i.e. the highest proportion among industry sub-sectors. The same correlation is found in services: road freight transport entrepreneurs report both the highest proportion of hiring difficulties (71%) and the highest proportion of large wage increases (44%).

However, some sectors remain exceptions, including, for example that of “other services” where hiring difficulties are particularly high (71% of companies concerned) while the proportion of companies expecting large increases remains close to the average measured in services. Analysis can be complex for such a sector that groups together some relatively diverse activities.

In the manufacturing industry, data are available over a longer period and it is therefore possible to highlight the link between hiring problems and the expected trend in wages in this sector in the longer term (► [Figure 4](#)).

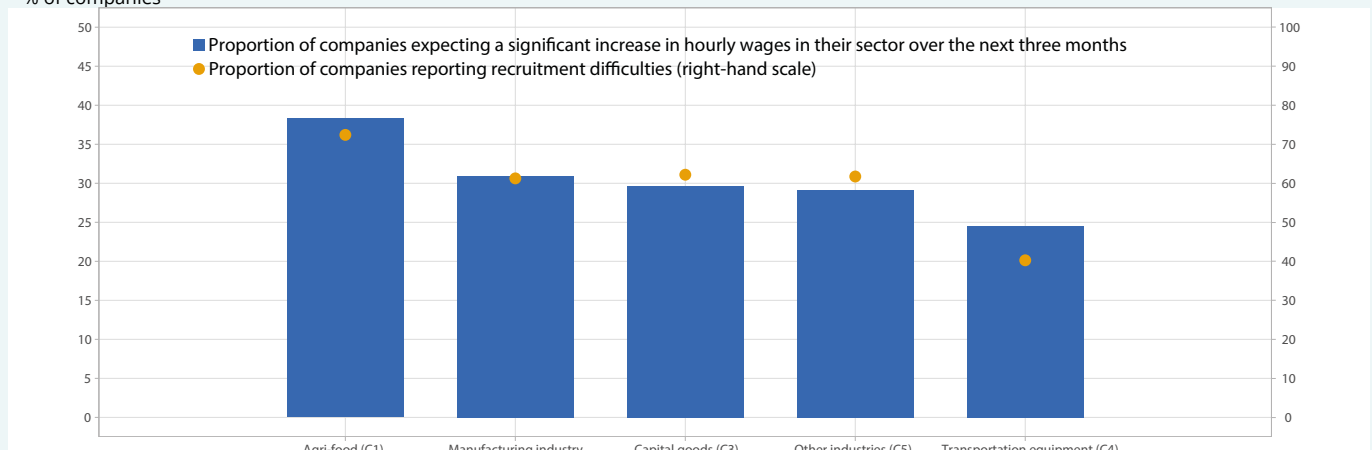
Over the recent period, there is still a marked correlation but it should be remembered that the strong rebound in hiring problems is strongly influenced by short-term factors linked to the health crisis (catch-up of hiring that did not happen during the crisis, unavailability linked to the epidemic, etc.).

Results from the business tendency surveys complete the outlook diagnosis on changes in wages

The wage forecasts presented in the *Economic Outlook* are traditionally based on an equation linking variations in actual wages and various macroeconomic indicators (change in consumer prices, change in the minimum wage, level of unemployment; ► [Wages Sheet](#)). The diagnosis based on this equation is supplemented by analysis of the balances of opinion taken from the business tendency surveys. Although they are qualitative, the answers to the question on expectations for wages in

► 2. Wage expectations and hiring problems in industry, in January 2022

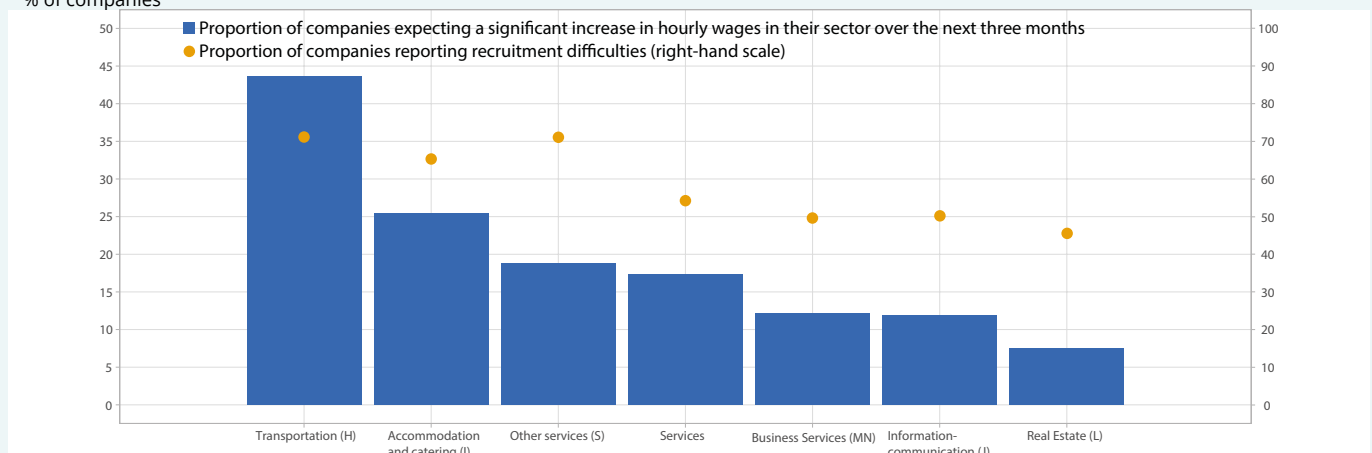
% of companies



Source: INSEE, business surveys

► 3. Wage expectations and hiring problems in services, in January 2022

% of companies



Source: INSEE, business surveys

French economic outlook

the sector in three months' time appear to be fairly well correlated with changes observed in the basic monthly wage (► **Figure 5**).

In addition, these results have the advantage of being available from the first month of the quarter and they can therefore be an advance indicator of wage changes. However, as the scope of the questioning has been limited until now to industry, at this stage this restricts the use of these results for forecasting. In any case, previous studies have shown that introducing survey results on hiring difficulties into the model duplicates information from the unemployment rate (► **Focus** Do recruitment difficulties help to explain

recent wage trends in France?, *Conjoncture in France* June 2019). Thus the business tendency surveys provide information that is relevant, but not exclusive for forecasting.

Despite these limitations, the latest survey data suggest significant wage increases, at least in nominal terms. However, this development must be interpreted with caution since wage increases will not necessarily be synonymous with improved purchasing power. In particular, as the threshold beyond which an increase can be described as "significant" is qualitative (► **Box**), it does not necessarily reflect an expectation of increases higher than inflation. ●

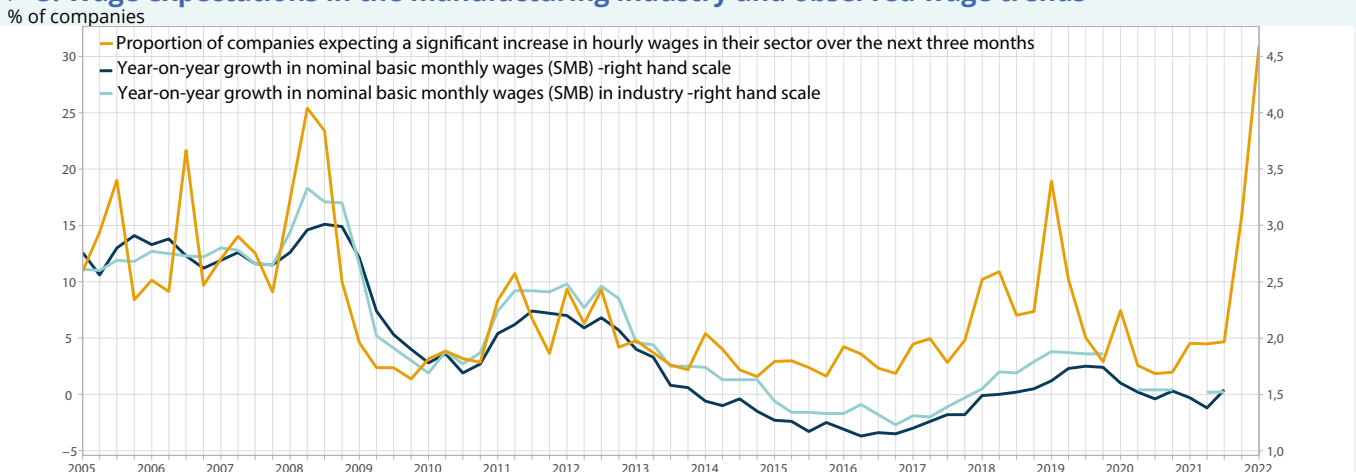
Bruno Bjai

► 4. Wage expectations and hiring problems in manufacturing industry since 2005



Source: INSEE, business surveys

► 5. Wage expectations in the manufacturing industry and observed wage trends



Note: the quarterly ACEMO survey by DARES was stopped in Q2 2020 (data relating to Q1 2020). The growth rate of the basic monthly wage (SMB) in the first quarters of 2020 and 2021 shown here are the result of estimates and figures for the SMB in industry are not available.
Source: INSEE, business surveys

Since 1991 in industry, and 2022 in services and the building industry, the business tendency survey questionnaires have included a qualitative question, asked every quarter, on probable wage trends over the next three months. The questions concern the outlook for change in hourly wages across the entire sector of activity of each company surveyed (and not wage trends specific to each company).

The question has three response options: “significant increase”, “small increase” and “stability” (Figure 6). These three modalities are slightly different from the usual questions in the business tendency surveys, where responses usually take the form of “increase”, “stability” and “decrease”. This is justified above all by the fact that nominal wages are generally downwardly rigid. Obviously, this methodological decision does not rule out downturns in real wages.

In practice, assessment of the threshold above which an increase can be described as “significant” is left to the discretion of the responding company. The question remains qualitative, with the main aim being to record a perception, which may therefore differ, depending on the respondent.

► 6. Wording of the question on wages in the Services questionnaire

2. What change do you currently think is most probable, in the next 3 months, in hourly wages in your sector?

- significant increase
- small increase
- stability

The balance of opinion disseminated on the basis of this question is calculated as the difference between the share of companies declaring that they anticipate a significant increase and those that anticipate a small increase, while the stability modality can be interpreted as an opinion that is not very decisive. Alongside this balance of opinion, it may also be relevant to look at the distribution of responses across the three modalities and especially at the share of companies that expect significant wage increases in their sector. This is what we have done in this Focus, comparing this proportion with companies reporting that they are experiencing hiring difficulties. ●

Household income

In Q4 2021, household gross disposable income (GDI) increased substantially (+1.6% after +0.8% in Q3). Payment of the “inflation allowance”¹ (representing about 1 point of quarterly GDI) resulted in social benefits rebounding significantly (+2.4% after –2.6%). In addition, taxes and social contributions were virtually stable: social contributions and income tax increased in the wake of increased earned income, but this rise was offset by the continuing reform of housing tax relief (first reduction for the 20% most well-off households). As a result of the buoyancy of household GDI, purchasing power per consumption unit rebounded in Q4 (+0.7%).

Across all of 2021, GDI accelerated significantly (+4.0% after +1.0% in 2020), a consequence of the strong rebound in earned income and a moderate decline in social benefits. Taking into account the rise in consumer prices, household purchasing power per consumption unit increased by 1.9%, having been at a standstill in 2020 (0.0%).

In Q1 2022, household GDI looks set to remain stable (0.0%). Earned income is expected to increase by 1.0%, driven by wage increases in the private sector and employment which is again likely to be buoyant as a quarterly average. Benefits are expected to decline (–2.4%), an automatic reaction after the payment of the inflation allowance in the previous quarter. In fact, even without this after-effect, benefits would still increase slightly, supported by old-age allowances (increase in basic old-age pensions from 1st January) and many people absent on sick leave, and for childcare, but with a decline in unemployment benefit (affected by several factors including the fall in the number of jobseekers and the reform of unemployment insurance). Property income, which has been supported for several quarters by the rebound in dividends received, looks set to be particularly dynamic (+3.2%) due to the increase in the Livret A interest rate, from 0.5% to 1% on 1st February. All in all, taking into account the rise in consumer prices (+1.3% after +0.8% as a quarterly variation), the purchasing power of household GDI per consumption unit is expected to fall back sharply (–1.4%).

The overhang at the end of Q1 for annual change in purchasing power per consumption unit is therefore expected to be –0.9% for 2022 (this is the annual change that would be forecast if purchasing power per consumption unit were to remain frozen at its Q1 level for the next three quarters). It is likely that this overhang will be affected by an increase in inflation and by the automatic reaction in Q1 2022 to the inflation allowance, which supported household income in accounting terms in late 2021. Nevertheless, the overhang at the end of Q1 does not anticipate change in purchasing power across the whole of 2022 since, by construction, it does not take into account possible shifts in income and prices after the end of Q1. ●

¹ The “inflation allowance” refers to the payment of €100 to French residents whose earned income or replacement income is less than €2,000 net per month, the aim being mainly to compensate for the impact of the recent increase in fuel prices on purchasing power. This payment concerned about 38 million people. The allowance was paid at the end of 2021 or early 2022, depending on the situation. However, the right to the payment was established at the end of 2021 (eligibility is based on people's situation as of October 2021), and therefore the allowance is recorded for accounting purposes in Q4 2021, in accordance with the principle of recording on accrual basis.

► 1. Components of household gross disposable income

variations in %

	Quarterly changes								Annual changes				
	2020				2021				2022	2019	2020	2021	2022
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1				ovhg
Gross disposable income (100%)	-0.9	-1.0	2.2	2.2	0.3	0.6	0.8	1.6	0.0	3.4	1.0	4.0	1.7
including:													
Earned income (72%)	-2.7	-9.7	12.3	0.5	0.9	0.4	3.4	0.8	1.0	3.1	-3.7	6.5	3.4
Gross wages and salaries (64%)	-2.8	-10.4	12.9	-0.6	1.0	0.6	4.5	1.2	1.1	3.2	-4.1	7.0	4.4
GOS of sole proprietors* (8%)	-2.4	-4.3	7.9	9.0	0.0	-1.5	-4.4	-2.0	0.0	2.3	-0.6	5.2	-4.1
Social benefits in cash (35%)	3.5	12.9	-9.8	2.7	-0.6	0.1	-2.6	2.4	-2.4	2.9	9.5	-1.4	-1.9
GOS of "pure" households (14%)	0.0	-1.6	2.8	0.4	0.7	0.7	0.7	1.1	0.0	3.2	1.1	3.2	1.3
Property income (6%)	-5.2	-3.6	-1.3	0.6	3.0	2.4	2.0	1.7	3.2	-2.3	-12.6	5.1	6.1
Social contributions and taxes (-27%)	-0.3	-6.0	8.0	-2.7	1.5	-0.2	3.2	0.2	0.3	0.5	-3.2	3.2	2.0
Household consumer prices	0.2	-0.1	0.2	0.0	0.8	0.3	0.8	0.8	1.3	0.8	0.6	1.7	2.4
Purchasing power of gross disposable income	-1.1	-0.9	2.0	2.2	-0.5	0.3	0.0	0.8	-1.3	2.6	0.4	2.3	-0.7
Household purchasing power by consumption	-1.2	-0.9	1.9	2.0	-0.6	0.2	-0.1	0.7	-1.4	2.0	0.0	1.9	-0.9

■ Forecast

How to read it: after an increase of 1.6% in Q4 2021, household gross disposable income is expected to be stable in Q1 2022 (0.0%). The overhang for annual change is then expected to be 1.7%.

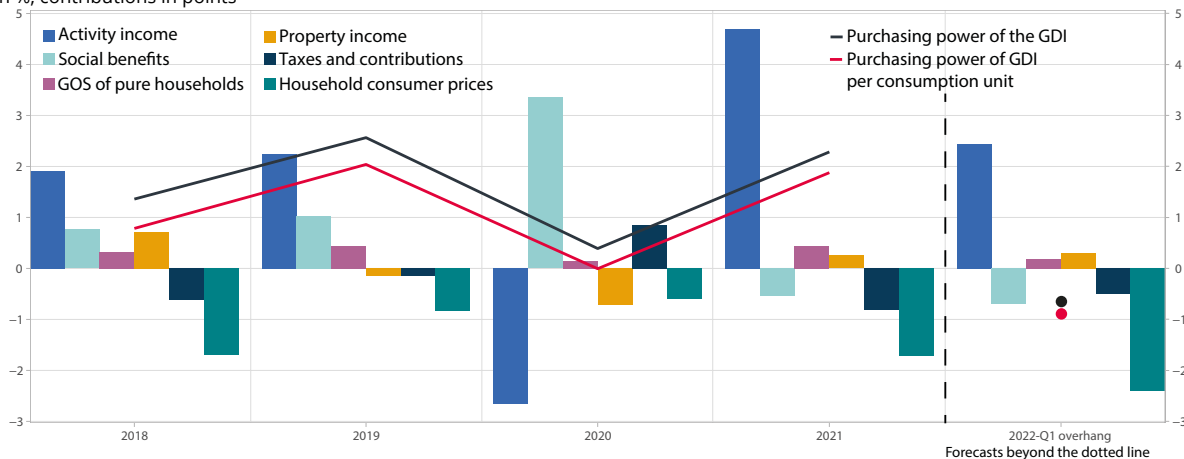
Note: figures in brackets give the structure for 2019.

* the gross operating surplus (GOS) of sole proprietors is the balance of the operating account of sole proprietorships. This is mixed income as it remunerates work carried out by the owner of the sole proprietorship, and possibly members of their family, but it also contains profit made as a sole proprietor.

Source: INSEE

► 2. Annual variation in purchasing power of household gross disposable income (GDI) and its main contributions

changes in %, contributions in points

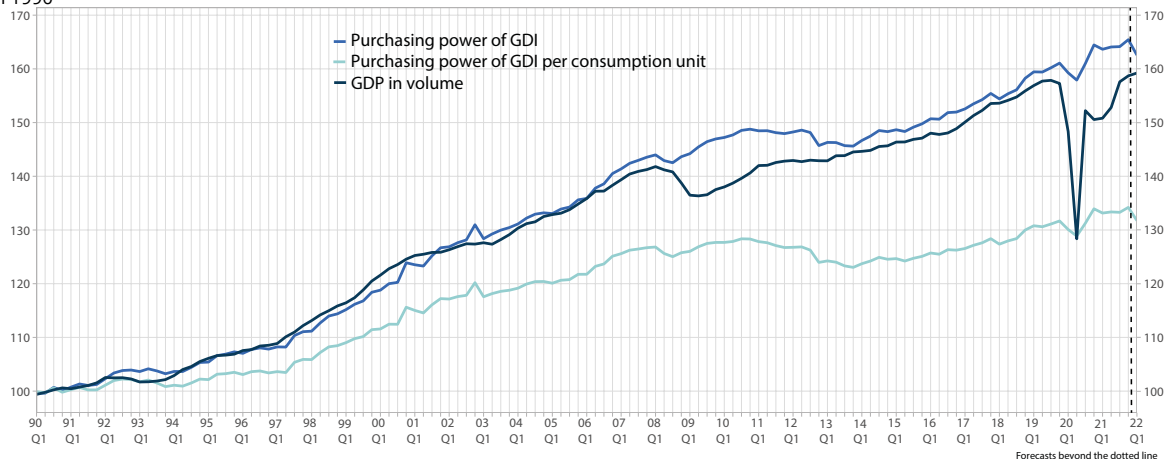


How to read it: the growth overhang of household GDI purchasing power is expected to be -0.7% at the end of Q1 2022. The main contribution to this change is expected to be that of household consumer prices, which is likely to stand at -2.4 points.

Source: INSEE

► 3. Change in purchasing power of household gross disposable income (GDI) and of GDP since 1990

base 100 in 1990



Source: INSEE

Household consumption and investment

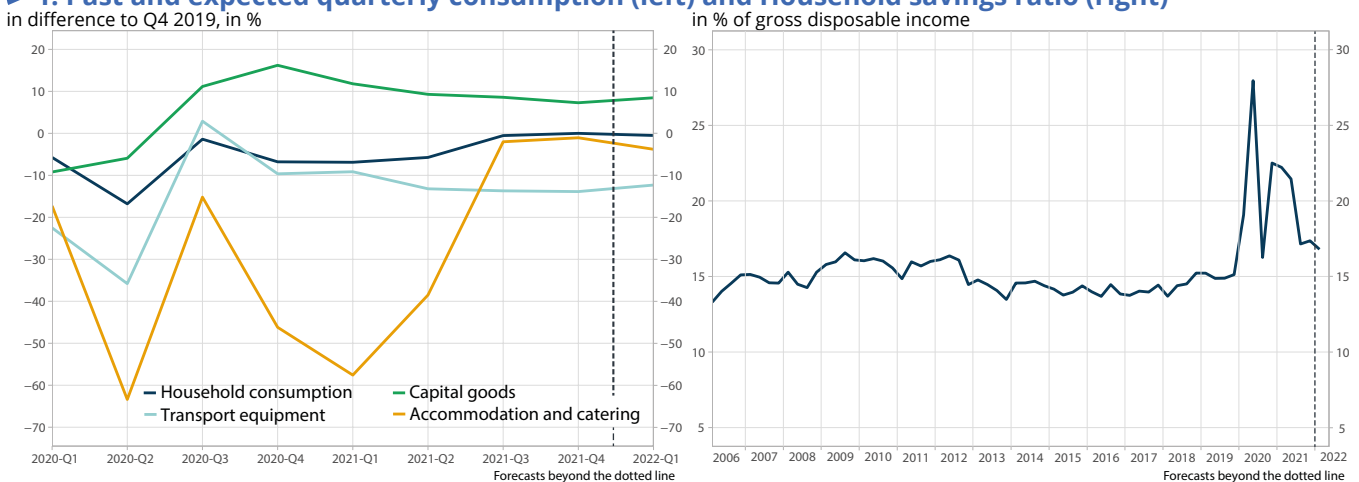
In Q4 2021, household consumption increased by 0.5%, returning to its overall pre-health crisis level (that of Q4 2019). Catch-up continued in leisure activities and transport services, despite consumption in these branches remaining well below the pre-health crisis level. In accommodation-catering, consumption remained stable in the context of the Delta wave then the arrival of the Omicron variant at the end of the year. Purchases of goods slipped back slightly, focusing less on capital goods and fuel, and continuing to decline in vehicle purchases.

In Q1 2022, household consumption by volume is expected to weaken, affected by the deterioration in the health situation in January. This is likely to be the case in transport services, accommodation-catering and leisure activities especially, but also, regarding goods, in other industrial products. The winter 2022 sales, which took place from the beginning of January to the beginning of February, seem to have been less buoyant than those of winter 2020 (just before the start of the health crisis; ► **Focus**). The extra spending observed since the start of the health crisis is expected to continue for capital goods, whereas purchases of vehicles look set to remain at a lower level compared to pre-health crisis. All in all, consumption is expected to get back to a level almost equivalent to that of last summer. The war in Ukraine could in fact affect household consumption in Q2, or even from March onwards, due to increased prices and a possible wait-and-see attitude linked with less favourable prospects for standard of living (► **Focus** on early analysis of the business tendency surveys, linked to the France Economic Outlook Sheet).

Despite the expected weakening of consumption in Q1, after a substantial increase during the lockdowns, households' savings ratio is likely to continue to decline, in a context of declining purchasing power. It is expected to settle at 16.7% in Q1 2022 (against 15.0% in 2019).

Meanwhile, having stagnated towards the end of 2021, household investment looks set to increase again in Q1. This momentum is expected to be driven by the construction of individual homes (significant rise in the number of building permits in 2021) and to a lesser extent by major maintenance work (linked to the MaPrimeRénov' renovation aid scheme). ●

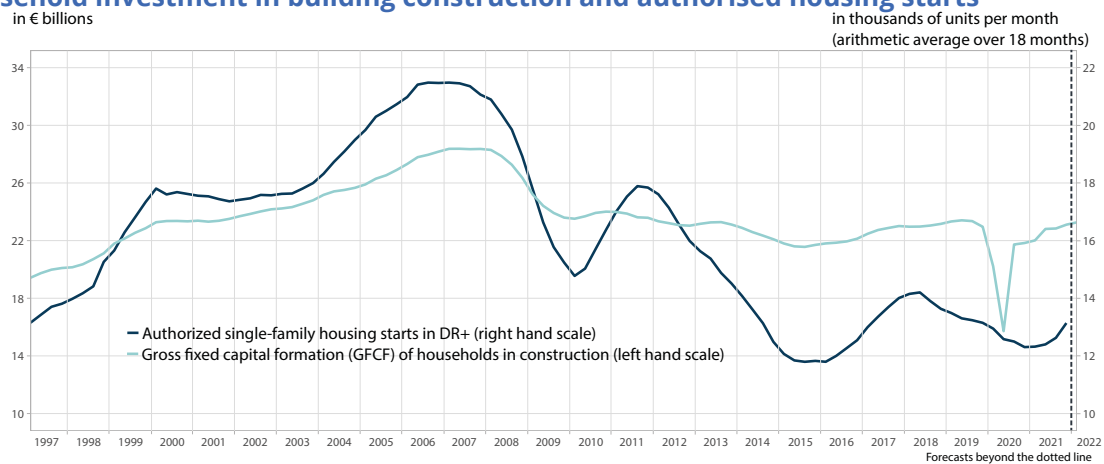
► 1. Past and expected quarterly consumption (left) and Household savings ratio (right)



How to read it: in Q1 2022, household consumption would be 0.5% below its level in Q4 2019, and the household savings ratio would be 16.7% of their gross disposable income.

Source: INSEE

► 2. Household investment in building construction and authorised housing starts



Note: DR+ corresponds to real estimated dates
Source: INSEE, SDES

► 3. Estimated and projected quarterly household consumption levels

difference to the Q4 of 2019, in %

Products	weight*	2020				2021				2022
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Agriculture, forestry and fishing	3 %	3.9	-1.1	-0.1	-1.1	-0.1	-2.2	-7.1	-5.2	-4.9
Industry	44 %	-6.6	-12.9	2.6	-1.8	-0.9	-3.4	-1.2	-1.0	-1.4
Manufacture of food products, beverages and tobacco-based products	15 %	3.4	5.3	2.3	3.2	3.5	1.9	-0.9	0.1	0.3
Coke and refined petroleum	4 %	-6.2	-28.5	-4.4	-13.0	-6.1	-7.7	2.1	1.6	-0.8
Manufacture of electrical, electronic, computer equipment; manufacture of machinery	3 %	-9.2	-5.9	11.2	16.2	11.8	9.3	8.6	7.3	8.5
Manufacture of transport equipment	6 %	-22.5	-35.8	2.9	-9.6	-9.1	-13.2	-13.7	-13.9	-12.3
Manufacture of other industrial products	12 %	-11.8	-22.8	3.9	-5.3	-3.6	-9.5	1.0	0.4	-1.8
Extractive industries, energy, water, waste treatment and decontamination	5 %	-2.2	-3.7	0.7	1.5	1.5	6.3	2.5	3.3	2.9
Construction	2 %	-10.6	-24.5	0.4	1.1	-2.4	6.5	6.0	5.6	5.6
Mainly market services	47 %	-6.1	-21.8	-6.3	-14.0	-15.1	-10.8	-0.6	1.0	0.6
Trade; repair of automobiles and motorcycles	1 %	-12.3	-24.7	1.6	-4.6	-2.3	-3.4	-2.2	1.7	0.9
Transport and storage	4 %	-16.2	-73.4	-31.8	-53.2	-51.5	-45.5	-20.1	-14.0	-13.8
Accommodation and catering	8 %	-17.3	-63.4	-15.2	-46.2	-57.6	-38.5	-2.0	-1.0	-3.8
Information and communication	3 %	-2.8	-2.3	-0.4	-0.6	0.7	1.5	4.0	7.2	7.8
Financial and insurance activities	5 %	-2.5	-6.4	-1.7	-0.3	0.7	1.2	1.8	1.9	2.2
Real estate activities	19 %	0.2	0.2	0.8	0.8	1.6	2.2	2.6	3.1	3.4
Scientific and technical activities; administrative and support services	2 %	-6.4	-18.9	-10.2	-8.7	-8.5	-5.5	0.0	2.3	3.4
Other service activities	4 %	-12.1	-42.1	-13.1	-25.4	-25.0	-21.7	-3.6	-0.6	-2.4
Mainly non-market services	5 %	-7.7	-24.4	1.2	-2.3	-0.3	1.2	1.4	3.1	2.8
Territorial correction	-1 %	-46.0	-75.7	-31.9	-63.8	-58.7	-65.4	-30.1	5.4	13.1
Imports of tourism services		-8.4	-70.8	-52.1	-53.2	-54.9	-48.5	-26.7	-23.3	-23.4
Exports of tourism services		-17.7	-72.0	-47.1	-55.8	-55.9	-52.6	-27.5	-16.2	-14.4
Total	100 %	-5.7	-16.8	-1.4	-6.8	-6.9	-5.7	-0.5	0.0	-0.5

* weight in household final consumption expenditure in current euros in Q4 2019

■ Forecast

How to read it: in Q1 2022, the level of household consumption of accommodation and food services would be 3.8% lower than in the Q4 of 2019.

Source: INSEE calculations from various sources

French economic outlook

► 4. Household consumption and investment

quarterly changes and difference in Q4 2019, in %

	2020				2021				2022	2020*	2021*	2022* ovgh
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1			
Consumption: quarterly changes	-5.7	-11.7	18.5	-5.5	-0.1	1.2	5.5	0.5	-0.5	-7.2	4.7	2.9
<i>difference in Q4 2019</i>	-5.7	-16.8	-1.4	-6.8	-6.9	-5.7	-0.5	0.0	-0.5	-	-	-
Investment: quarterly changes	-12.5	-18.1	30.0	6.9	-1.9	5.0	0.7	0.0	0.3	-12.2	15.6	1.8
<i>difference in Q4 2019</i>	-12.5	-28.3	-6.8	-0.4	-2.3	2.5	3.3	3.3	3.5	-	-	-

■ Forecast

* Annual variations (or carry-over for 2022) for the last three columns.

Source: INSEE

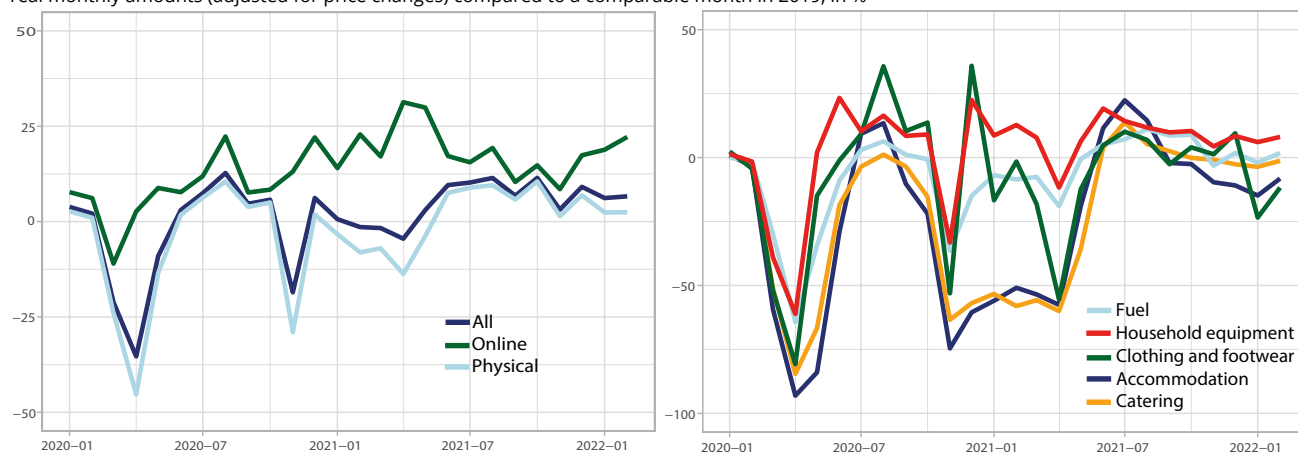
Bank card transaction amounts at a standstill since the start of 2022

Aggregated bank card transaction amounts, available up to 6 March 2022, can be used for advanced analysis of household consumption behaviour. In January and February, total monthly amounts, compared year-on-year with 2019 and adjusted for price changes, show a profile that is becoming stable (► Figure 5, left). This total does indeed appear to be well above its January 2019 level, but this is partly due to the fact that the use of bank cards has increased over the last two years. At the beginning of March, analysis of bank card transactions does not give a clear signal at this stage, especially since, in a context of high inflation and in the absence of observed price data, it is difficult to adjust bank card amounts according to prices.

In catering and accommodation, real transaction amounts deteriorated at the end of 2021, then even further at the start of 2022 in accommodation, probably linked to the health situation (► Figure 5, right). In clothing-footwear, bank card transaction amounts fell in January then stabilised in February, but interpretation of this shift is disrupted by the dates of the winter sales, which differ slightly from year to year. Finally, for fuel and household equipment, real bank card transaction amounts seem to have held up. ●

► 5. Real monthly bank card transaction amounts per type of transaction (left) and for various points of sale (right)

real monthly amounts (adjusted for price changes) compared to a comparable month in 2019, in %



How to read it: during February 2022 (1-21 February), total bank card transaction amounts were 8% higher than the total for February 2019.

Note: amounts are adjusted for inflation using aggregated monthly consumer price indices specific to each item. As each amount is compared to a comparable month in 2019, for the differences shown for December 2021 and January 2022 there is therefore a break in the reference month (December 2019 then January 2019). Note that the dynamism of the real bank card transaction amounts from March 2020 onwards may reflect a higher use of payment by bank card. This trend has been taken into account in the forecast for losses or increases in consumption compared to the pre-health crisis level.

Last point : week of 20 to 27 February 2022.

Source: Cartes Bancaires CB, INSEE calculations

Once again, households were less enthusiastic about the winter sales than before the health crisis this year

This year's winter sales took place from 12 January to 8 February. They certainly managed to encourage household consumption, but to a lesser degree than before the health crisis: for the main spending items, additional bank card transactions were at the 2021 level but less than in 2020, especially in clothing-footwear and household appliances.

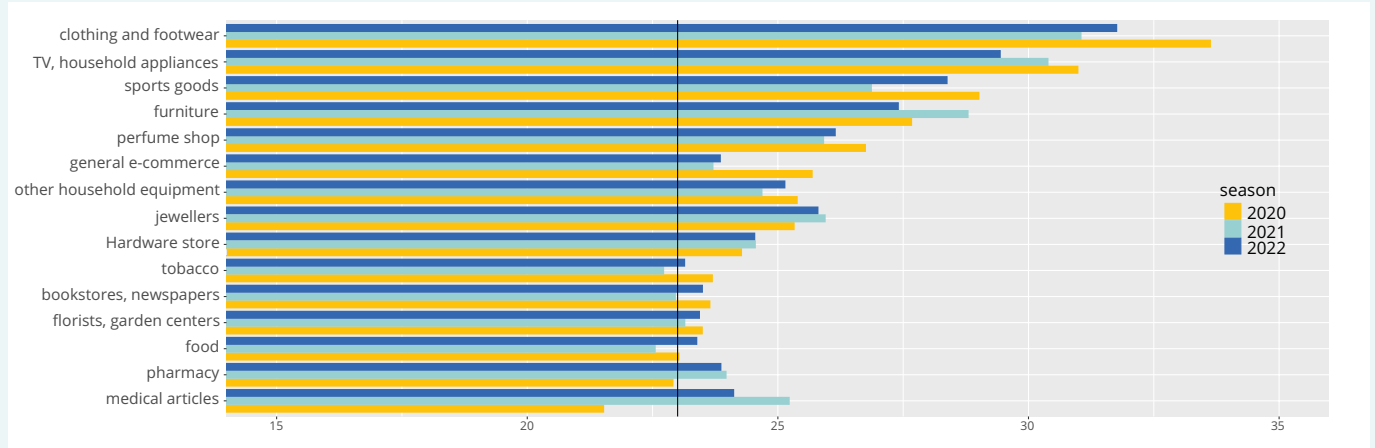
Additional bank card transactions associated with the first week of the 2022 winter sales were more restrained than in 2020 for all the most popular items

The winter sales, especially the early days, are an important time for several sectors in the retail trade to sell their goods. Bank card transactions certainly suggest that in January 2022, for certain types of purchase, the first week of the sales did account for a major share of bank card transactions for the month. This was the case

for clothing-footwear (around 32% of the amount spent in January was spent during the period 12 to 18 January –to be compared with the proportion of working days, i.e. 23%), appliances (29%), sports goods (28%) and furniture (27%) (► **Figure 1**).

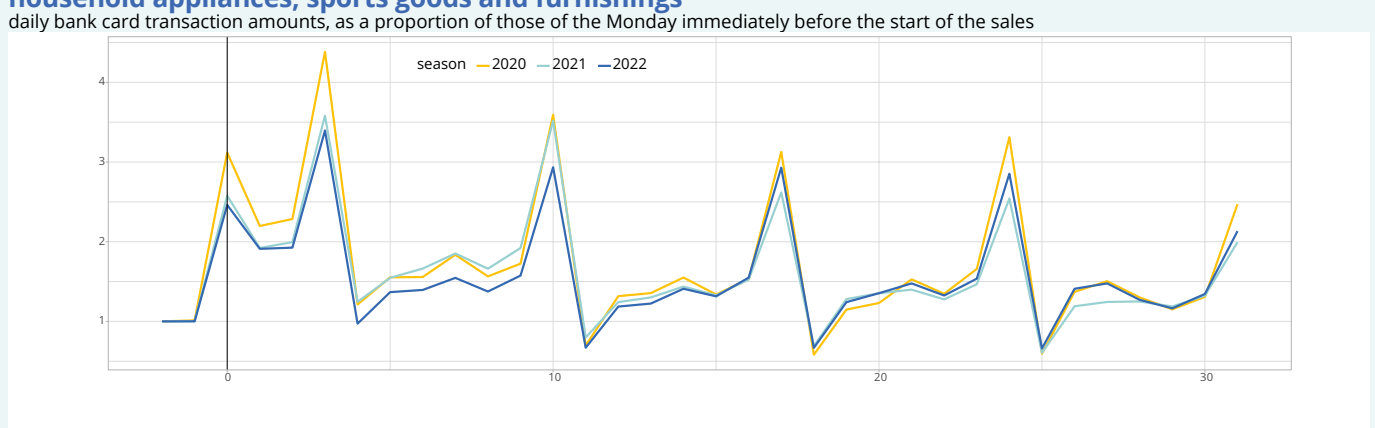
For these four types of purchase (clothing-footwear, household appliances, sports goods and furnishings), it was specifically on the day that the sales started (the Wednesday) then the following Saturday that the largest number of additional bank card transactions was

► 1. Importance of the first week of the sales



Note: the black line indicates 23%, level that corresponds to one week's share in relation to the number of working days in the month.
Source: Cartes bancaires CB, INSEE calculations

► 2. Daily profile of bank card bank card transaction amounts for all items including clothing-footwear, household appliances, sports goods and furnishings



Note: day 0 indicates the start of the sales.
How to read it: in 2022, bank card transactions on the first day were 2.4 times greater than on the previous Monday.
Source: Cartes bancaires CB, INSEE calculations

French economic outlook

recorded, both in 2022 and in previous years (► **Figure 2**).¹ In the first week of the 2022 sales, additional spending appears to be significantly less than in 2020, perhaps reflecting the deteriorating health context at the start of 2022, affected specifically by the compulsory return to teleworking. Nevertheless, these amounts are comparable to those of 2021: the context at that time was more constrained in other ways, due to the general curfew and the closure of some major shopping centres, but the lockdown in autumn 2020 may perhaps have led to a postponement of consumption until the 2021 winter sales.

Reduced additional consumption linked to the 2022 winter sales affected clothing-footwear and household appliances more, although overall, the last week of the sales was as favourable as in 2020

Across the entire period, the overall assessment of the winter sales confirms what was observed during the first week, although it may differ slightly depending on

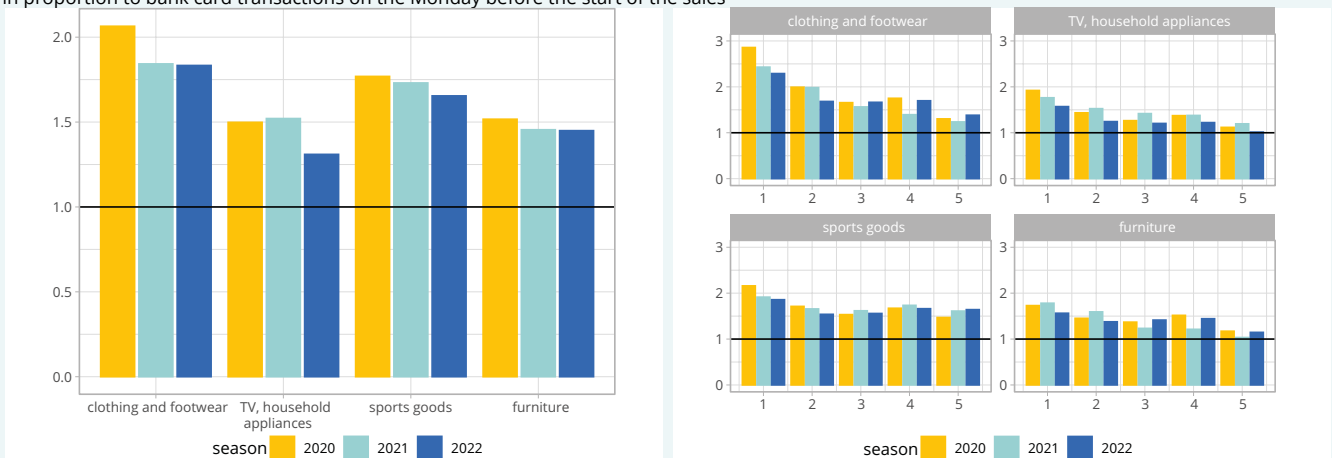
the type of purchase. Over the four weeks of sales in 2022, the additional bank card transactions for clothing-footwear were similar in scale to 2021 but significantly less compared to 2020 (► **Figure 3**, left). This was also the case for household appliances, whereas for sports goods and furnishings, the 2022 winter sales would appear to have been the same level as in 2020, or just below.

In clothing-footwear and household appliances, the later weeks of the sales did not make up for this poorer “performance” in the first week. Bank card transaction amounts declined sharply during the second week, as was the case in 2020 or 2021, then stabilised in weeks 3 and 4 (► **Figure 3**, right). For sports goods and furnishings, bank card transaction amounts did not decline in the following weeks as much as they did for clothing-footwear and household appliances. Overall, the fourth and last week of the 2022 winter sales, when compulsory teleworking was lifted and when the last markdowns can usually be had, saw bank card transactions held at the same level as the previous week, before returning closer to normal in the following week. ●

Charles-Marie Chevalier

¹ In this Focus, additional bank card transaction amounts are measured by comparing them to the Monday immediately preceding the start of the sales. In this way we avoid those factors which automatically increase bank card transaction amounts from one year to the next (changing prices, bank cards used more for making payments, etc.).

► 3. Average daily amounts of bank card transactions for the entire sales period (left) and per week (right) in proportion to bank card transactions on the Monday before the start of the sales



Note: the graph on the left covers the entire sales period (four weeks in 2020 and 2022, six in 2021). The graph on the right shows additional bank card transaction amounts week by week. How to read it: in 2022, in clothing-footwear the average daily amount during the first week was 2.3 times higher than on the Monday before the start of the sales. Source: Cartes bancaires CB, INSEE calculations

Enterprises' earnings

In H1 2021, the margin rate of non-financial corporations (NFC) reached unprecedented levels, at 35.2% of value added, especially in some market services where activity had previously been hampered by the health restrictions (accommodation-catering, transport, etc.). In fact, the decline in their gross operating surplus was limited by the support measures put in place (Solidarity Fund, short-time working, help with payment of contributions, etc.). In Q3, the margin rate fell back sharply, to 32.9% of value added: the rebound in economic activity was accompanied by a reduction in the take-up of short-time working and a gradual decline in the other support measures (subsidies). Then in Q4, the margin rate remained virtually stable: the decline in subsidies received during the health crisis continued, but this effect was partly offset by a slight decline in the real cost of labour per capita, as wages had risen less rapidly than prices this quarter.

During Q1 2022, the margin rate is expected to fall back again, although more moderately. Subsidies should gradually return to their 2019 level, excluding the Competitiveness and Employment Tax Credit (CICE), but this trend is likely to be slightly lessened with the targeted return of specific support measures in January and February, in connection with the Omicron wave. As in the previous quarter, productivity is expected to have virtually no effect on margin rate, with the value added of NFCs almost as buoyant as employment. In a context of strong inflation, real wages are likely to decline slightly, thus supporting the margin rate in accounting terms. Regarding the terms of trade, they are likely to impact the margin rate, as at the beginning of 2021: with the new rise in commodity prices, heightened at the end of the quarter by the outbreak of war in Ukraine, the price of intermediate consumptions for NFCs looks set to continue to increase more quickly than their production price, with the result that the price of value added is likely to be less buoyant than the consumer price.

As an annual average over 2021, the margin rate stood at 34.0%. Thus compared to 2020, it picked up by 2.3 points, supported by the ramping up of the Solidarity Fund from December 2020, the reduction in taxes on production at the start of the year, and a stronger rebound in value added than in remunerations paid (the reverse of what happened in 2020). At the end of Q1 2022, the margin rate is expected to be 32.4%. ●

► 1. Decomposition of margin rate of non-financial corporations (NFC)

margin rate and variation in %, contributions in points

	2020				2021				2022 Q1	2019	2020	2021	2022 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4					
Margin rate	30.3	31.0	31.0	34.3	35.2	35.3	32.9	32.8	32.4	33.4	31.7	34.0	32.4
Variation in margin rate	-2.9	0.7	0.0	3.3	0.9	0.2	-2.4	-0.1	-0.4	1.8	-1.7	2.3	-1.6
Contributions to variation in margin rate:													
productivity gains	-4.2	-8.7	12.2	-1.0	0.1	0.6	1.5	0.0	-0.1	0.7	-6.2	3.7	0.8
real cost of labour per capita	2.2	8.1	-11.7	1.5	-0.1	0.2	-2.4	0.2	0.3	0.9	3.6	-3.1	-0.7
ratio of price of value added to consumer prices	0.3	1.1	-0.6	0.6	-0.3	-0.2	-0.1	0.0	-0.3	0.6	1.1	-0.1	-0.4
other factors (including subsidies and taxes on production)	-1.2	0.2	0.1	2.2	1.3	-0.5	-1.4	-0.3	-0.3	-0.4	-0.3	1.8	-1.4

■ Forecast

Note: the margin rate (*MR*) measures the share of value added that remunerates the capital.

This variation can be broken down additionally into:

- changes in productivity (Y/L), where Y is value added and L is employment, and in the ratio of the price of value added to consumer prices, or terms of trade (P_{va}/P_c), which have a positive effect;
- changes in the real cost of labour (W/P_c , where W represents the cost of labour per capita), which have a negative effect on the margin rate.
- other factors: these are mainly taxes on production net of subsidies, including the Solidarity Fund.

This breakdown can be synthesised in the equation:

$$TM = \frac{EBE}{VA} \approx 1 - \frac{WL}{Y P_{va}} + \text{autres facteurs} = 1 - \frac{L}{Y} \frac{W}{P_c} \frac{P_c}{P_{va}} + \text{autres facteurs}$$

Source: INSEE

French economic outlook

► 2. Margin rate of non-financial corporations (NFC)

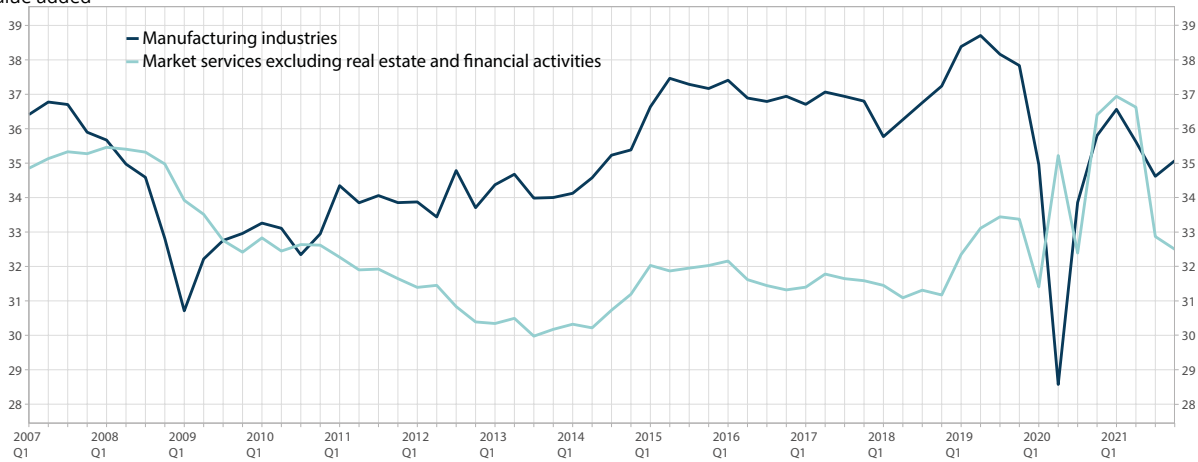
in % of value added



Source: INSEE

► 3. Margin rate in industry and services

in % of value added



Note: the margin rates calculated here are for all institutional sectors combined. However, a very large majority of the branches considered are composed of non-financial enterprises (NFE), i.e. non-financial corporations and sole proprietorships.

Source: INSEE

Corporate investment

Investment by non-financial enterprises (NFE) accelerated in Q4 2021 (+1.1% after +0.1%, ► **Figure 1**), exceeding its Q4 2019 level by 3.4%. First of all, investment in manufactured products rebounded slightly (+0.3% after -1.8%). This was therefore 3.5% below its pre-crisis level, in a context of major supply chain difficulties. This difference is mainly due to investment in transport equipment, which was 17.5% down on its Q4 2019 level as a result of poor automobile production. Secondly, investment in building construction picked up in Q4 (+0.7% after a downturn in Q3), settling at 1.1% above its pre-health crisis level. Lastly, investment in services continued to be dynamic (+1.9% in Q4, exceeding its pre-health crisis level by almost 10%), driven by investment in information and communication services.

In Q1 2022, corporate investment looks set to slow slightly (+0.8%). Investment in manufactured products is expected to slip back again, driven down by investment in transport equipment. Corporate investment in construction should increase moderately (+0.7% in Q1), probably driven by the upturn in industrial building starts, which until now have been well below their 2019 level. However, the volume of activity in major building maintenance excluding housing (mainly improvement work), which was already very high, is scarcely likely to contribute much to growth in corporate investment in construction. And investment in collective housing is expected to fall, as it has done since mid-2021. Lastly, investment in services looks set to slow, to +1.5% in Q1, after its strong momentum in previous quarters.

In Q1, corporate investment overall is expected to be more than 4.2% higher than it was before the health crisis (► **Figure 2**), bringing its growth overhang at the end of Q1 to 2% for 2022. Its momentum is likely to be much more uncertain in Q2: the economic consequences of the war in Ukraine could result in a wait-and-see-attitude regarding investment decisions, especially as they are already proving costly due to the rising cost of commodities, especially energy.

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

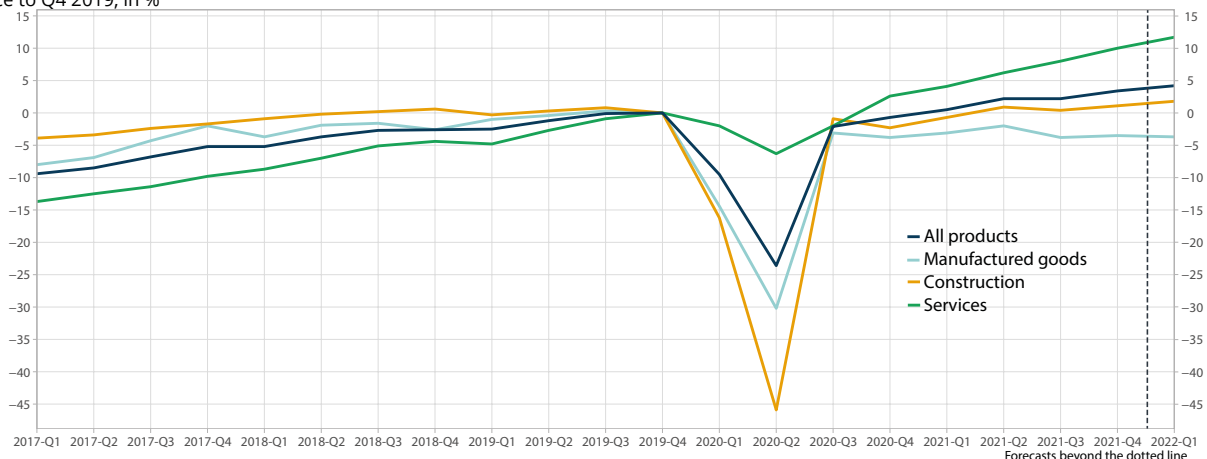
at previous year's prices, chain-linked, seasonally adjusted, in %

	Quarterly changes								Annual changes			
	2020				2021				2022 Q1	2020	2021	2022 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Manufactured product (31%)	-14.4	-18.4	38.8	-0.7	0.7	1.1	-1.8	0.3	-0.2	-12.6	11.2	-0.6
Construction (24%)	-16.2	-35.5	83.4	-1.5	1.6	1.6	-0.4	0.7	0.7	-16.5	20.0	1.4
Services (45%)	-2.0	-4.4	4.6	4.7	1.5	2.0	1.7	1.9	1.5	0.2	9.2	4.3
All NFEs (100%)	-9.5	-15.6	28.1	1.4	1.3	1.6	0.1	1.1	0.8	-8.1	12.1	2.0

■ Forecast
Source: INSEE

► 2. Investment of non-financial enterprises by product

difference to Q4 2019, in %



Source: INSEE

International economic outlook



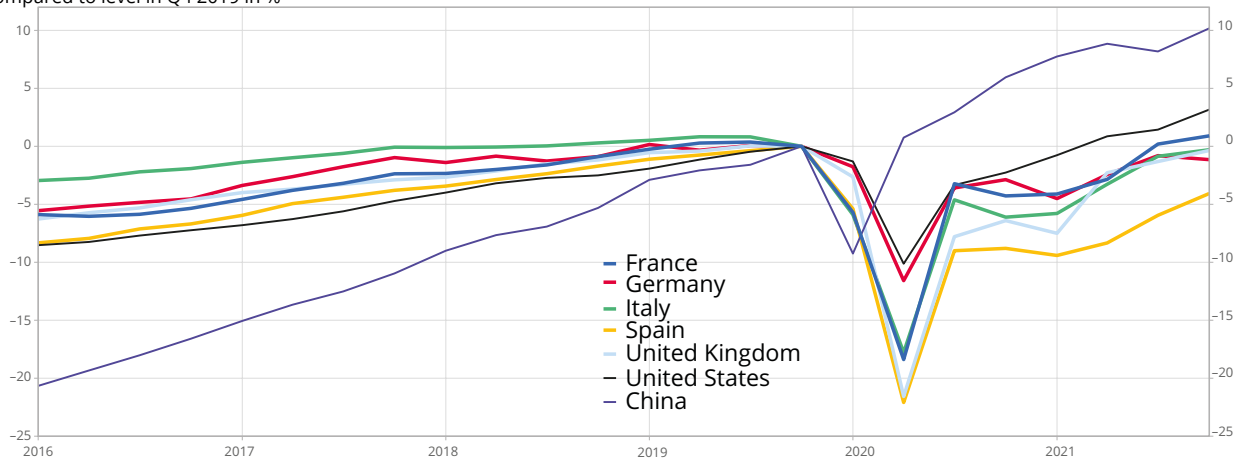
Synthesis international

In Q4 2021, economic activity slowed in Europe, particularly in France and Italy, while in Germany it even fell back (► **Figure 1**). This slowdown suggests fewer catch-up effects after the dynamism of activity in the previous quarter, while new waves of the epidemic, linked to the Delta and Omicron variants, have affected household consumption, notably in Germany. Most of the main European countries have nevertheless returned to their level of activity in Q4 2019, with the exception of Spain, which is still well below this level (► **Focus** trajectories for exiting the health crisis in Europe). In addition, after a sluggish Q3, GDP bounced back in the United States, Japan, China and several of the emerging economies, hence stimulating the recovery of world trade. In fact, world trade in goods and services accelerated significantly in Q4 2021 (+2.3% after +0.9%, ► **Figure 2**), despite continuing supply chain difficulties. In particular, the buoyancy of imports combined with less vigorous domestic demand meant that the United States and the Eurozone countries were able to reconstitute part of their inventories.

At the beginning of Q1 2022, it would appear that the deterioration in the health situation was not only hampering household consumption of services (► **Figure 3**), but also extending disruptions to world supply chains, notably as a result of the closure of factories and ports in China. From February onwards, geopolitical tensions in Ukraine, then the war and economic sanctions against Russia, are likely to increase these production difficulties for the European economies, in particular by disrupting the value chains of certain industries.

► 1. In Q4 2021, activity slowed in Europe but accelerated in China and the United States

GDP compared to level in Q4 2019 in %



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

2. World trade accelerated sharply in Q4 2021

quarterly variations in % (annual variations in % for the last three columns)

	2020				2021				2022	2020	2021	2022 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1			
World trade	-2.9	-14.9	12.8	4.9	3.2	1.7	0.9	2.3	0.5	-7.5	11.4	3.1
Imports by advanced economies	-3.0	-16.9	13.5	5.1	1.4	2.5	1.1	2.7	1.0	-9.4	10.2	4.3
Imports by emerging economies	-2.8	-10.7	11.5	4.4	6.9	-0.1	0.4	1.6	-0.6	-3.5	13.8	0.7
World demand for French products	-2.7	-16.4	12.8	4.9	2.1	2.8	1.0	1.9	0.7	-8.6	10.5	3.3

Note: the scope considered here is goods and services. The category "advanced economies" includes the main Eurozone countries, the United Kingdom, the United States, Canada, and South Korea. The category "emerging economies" includes China, India, Turkey, the OPEC countries, Russia, Poland, Brazil, and Mexico

Source: INSEE

International economic outlook

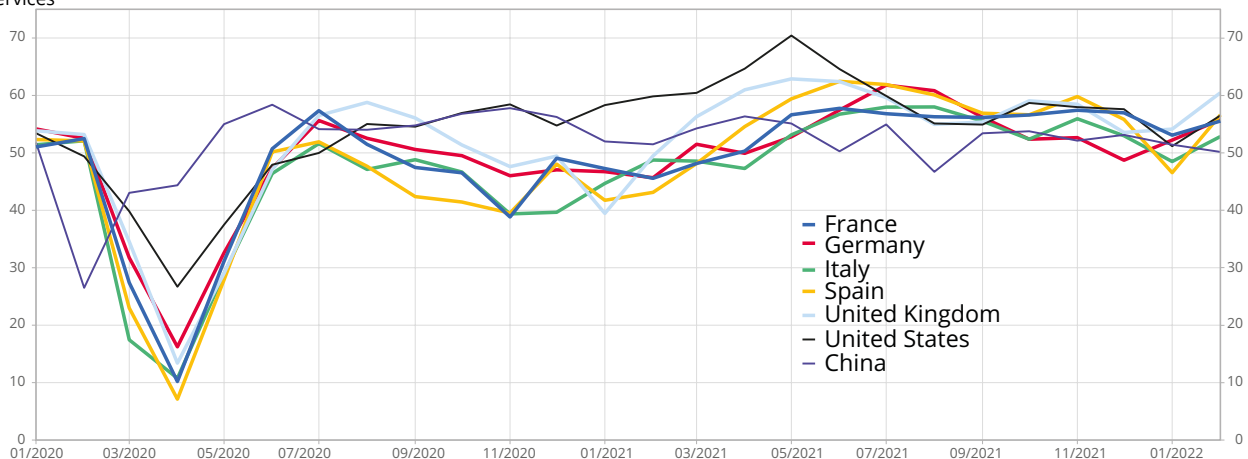
Another consequence of the war in Ukraine is that inflation is expected to continue to rise in March, after having already reached particularly high levels early in the year in the western economies (► **Figure 4** and **Focus** inflation in the Eurozone). On the one hand, commodity prices increased substantially, especially oil, which, after weakening in December with the emergence of the Omicron variant, shot up after the start of the conflict (► **Focus** oil and commodities). On the other hand, in 2021, when supply constraints came up against dynamic demand, this pushed prices upwards in the main western economies. This high inflation could be detrimental to household consumption in H1 2022, especially in Europe, with the depreciation of the euro against the dollar, a safe haven currency in times of uncertainty. To stem this inflation, the central banks have begun to tighten their monetary policies, despite keeping them accommodative since the start of the health crisis, with notably a reduction in the pace of net asset purchases for the ECB and a potential increase in interest rates in mid-March for the Fed.

Developments in economies in Q2 still depend to some extent on the health situation (especially in China), and above all on developments in the war in Ukraine and its economic consequences. The increase in energy prices, in particular, is imposed on all economies given the global nature of the energy markets. Concerning the European economies, this shock affects them primarily in terms of their net imports¹ of energy products. In France, the share of net imports of energy products in GDP was not as high in 2018² as in the other main Eurozone economies (► **Figure 5**). A rise in energy prices, as we have seen since the start of the conflict, could therefore affect Germany and Italy more than France, especially since in those countries the share of net imports from Russia is relatively large. In addition, among these net imports of energy products, the share of net imports of gas is variable, and could lead to Italy's being exposed to soaring gas prices. In the United Kingdom and the United States, countries that both produce and export fossil fuels, their trade deficit for energy products is lower than in the Eurozone. ●

¹ Net imports correspond to the difference between imports and exports of a given product.
² Last year available for the data used.

► 3. Services were affected by the upturn in the epidemic in December and January in the western countries, but they picked up in February

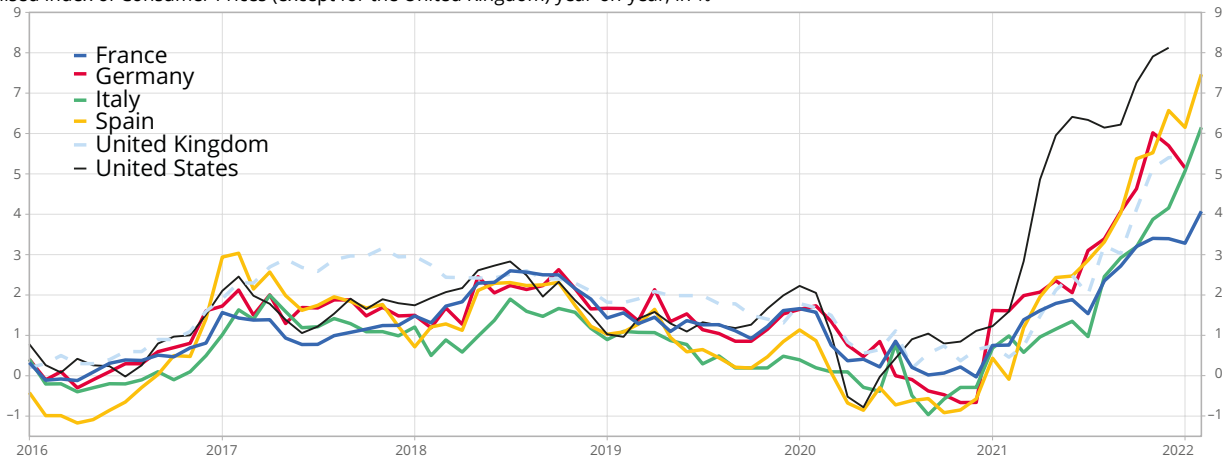
PMI Services



Note: in February 2022, PMI Services in France stood at 55.5, above the expansion threshold of 50.
Source: Purchasing Manager's Index, IHS Markit

► 4. Inflation reached some particularly high levels in the western countries

harmonised Index of Consumer Prices (except for the United Kingdom) year-on-year, in %

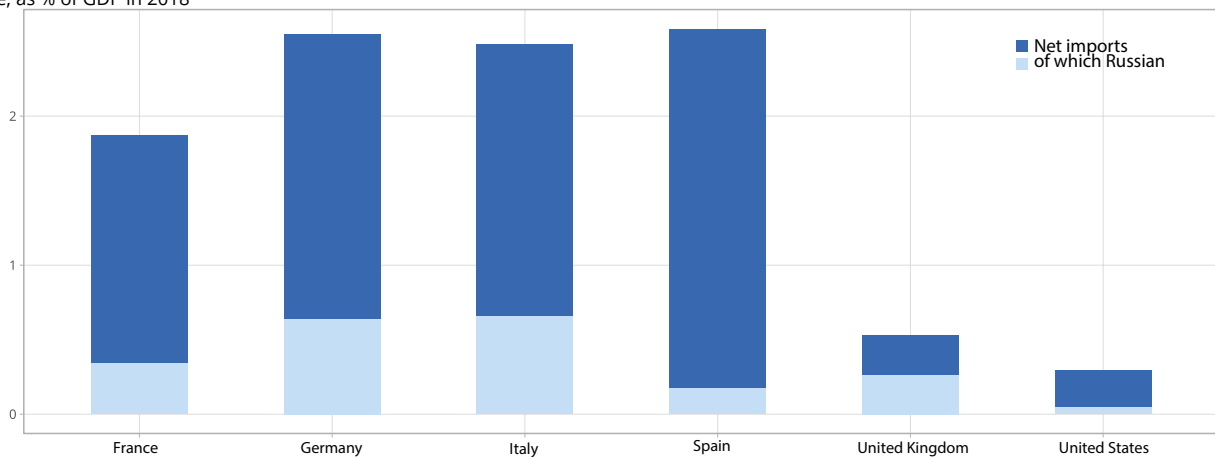


Note: Eurostat provides the Harmonised Index of Consumer Prices (HICP), an indicator for countries of the European Union and the United States, but data for the United Kingdom stop at the end of 2020. For the United Kingdom, therefore, the index is the non-harmonised CPI provided by the UK ONS. Data for the most recent months are not available for all countries, in particular, the last point for the United States is December 2021. How to read it: in February 2022, in France, consumer prices (within the meaning of the HICP) were 4.1% higher per year than their level in February 2021. Last point: February 2022.

Source: Eurostat, ONS

► 5. Net imports in the energy sector are not as high in France as in the other main Eurozone economies

by value, as % of GDP in 2018



Note: net imports in the sectors "Extraction of energy materials", "Mining and exploitation of non-energy-producing products", "Extraction support activities", "Coke and refined petroleum" and "Production and distribution of electricity, gas, steam and air conditioning". The latest available data in the inter-country table date from 2018. Net imports correspond to the difference between imports and exports of a given product.

Source: OECD (2021) OECD Inter-Country Input-Output Database, <http://oe.cd/icio>

International economic outlook

Energy and commodity prices under very strong pressure

In a particularly volatile world market, the war in Ukraine has exacerbated an already clearly upward trend in the prices of energy and some commodities.

The outbreak of war in Ukraine at the end February markedly increased the upward trend, which began in early 2021, in the prices of energy commodities (oil, gas, coal). As Russia is one of the main producers and exporters of these fossil fuels, the strong geopolitical tensions caused by the conflict and the imposed sanctions raise fears of a depletion in supply: thus in February 2022 the price of a barrel of oil (Brent) stood at \$96.8 on average, increasing throughout the month to reach \$129 (€118.40) at the beginning of March after the United States announced an embargo on oil imports originating from Russia. It is true that in 2011-2012, prices had already been close to this in dollars,

but the exchange rate with the euro at that time was more favourable (► **Figure 1**). At the same time, after an initial historic peak in December 2021 at €180 per MWh, the price of gas exceeded €200/MWh on the reference market in Europe (► **Figure 2**), or more than 10 times its level of a year ago. As the entire European continent is heavily dependent on Russian gas, the gas supply chain for next winter is raising concerns. Finally, the price of coal also rebounded strongly, reaching over \$400 per tonne. Meanwhile, carbon prices on the European market fell sharply, which could be due to arbitrages by investors in need of liquidity in a difficult period on the equity markets.

► 1. Price of oil (Brent) in dollars and euros

daily values



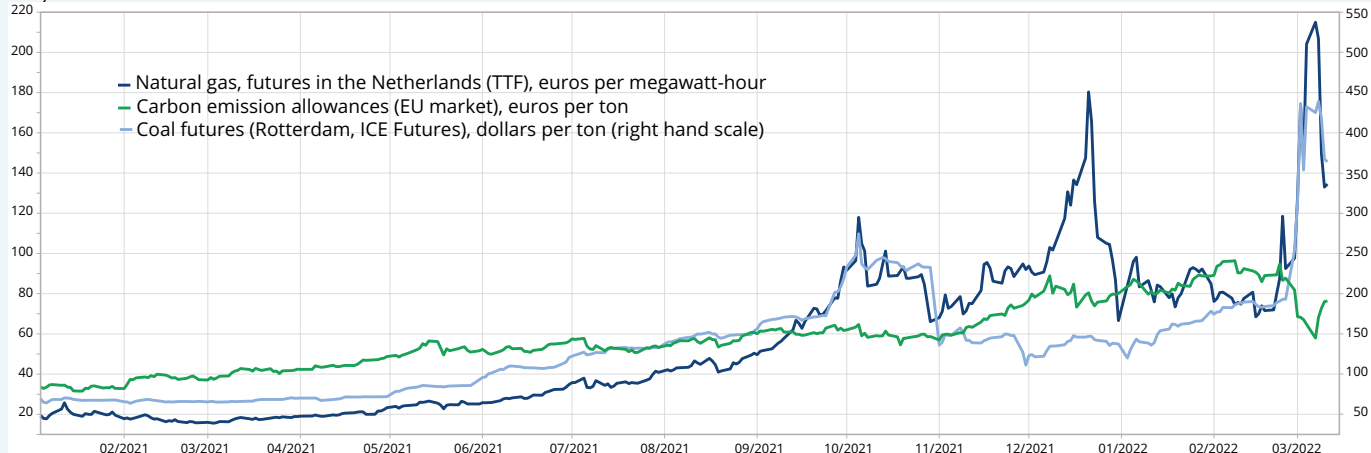
Last point: 11 March 2022.

How to read it: on 11 March 2022, the price of a barrel of Brent was \$ 112,2.

Source : Commodity Research Bureau

► 2. Prices of natural gas, coal and tonnes of CO₂

daily values



Last point: 11 March 2022.

How to read it: on 11 March 2022, the value of natural gas contracts at the next expiry date in th Netherlands (TTF) is €134,5 per megawatt hour.

Source : ICE Futures Europe

The prices of some mineral commodities have also increased significantly as a result of the war. Among the metals used in French industry, the prices of aluminium and titanium have risen substantially since the end of February. The price of nickel, of which Russia is the world's leading exporter,¹ has exploded (► **Figure 3**).

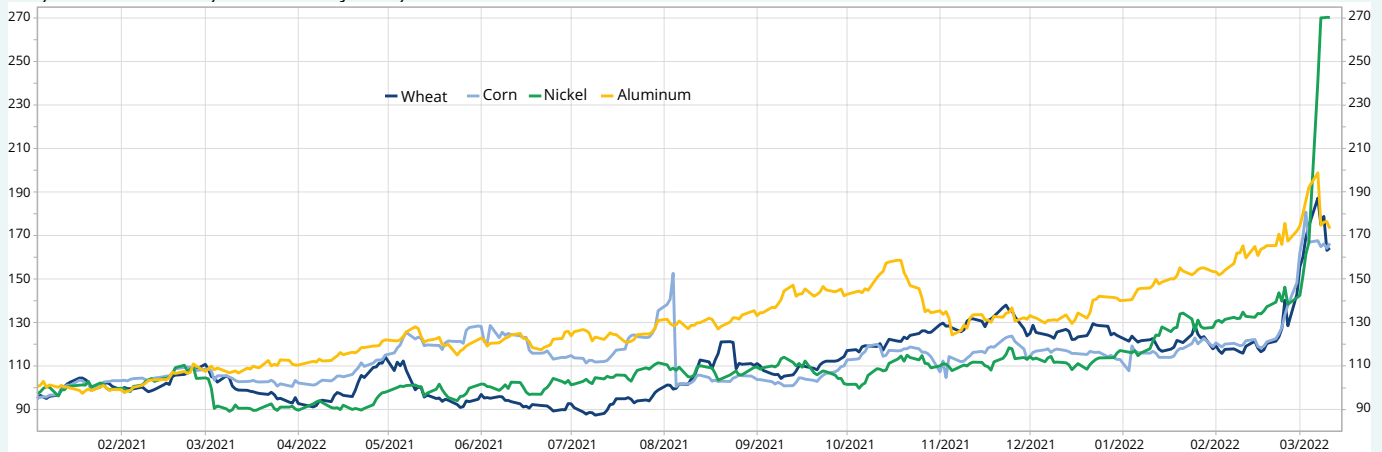
Concerning agricultural commodities, the price of wheat has notably risen sharply since the end of February, with Russia and Ukraine representing 25% of world exports. Fears of a shortage are worrying many countries, particularly in North Africa and the Middle East, which are very dependent on these basic products for their food. Both corn, of which Ukraine is the world's fourth largest exporter, and especially sunflower oil, for which the two countries account for 70% of exports, are also under great pressure on the markets. ●

Alexandre Wukovits

1 Source: Observatory of Economic Complexity based on BACI data (2019 values for nickel, wheat, corn and sunflower oil)

► 3. Prices of wheat, corn, nickel and aluminium

daily index – in currency – base 100 in January 2021



Last point: 11 March 2022.

How to read it: on 11 mars 2022, the wheat price index in euros stood at 164.3

Source: Euronext, London Metal Exchange, Insee

International economic outlook

Inflation in the Eurozone

Since the start of 2021, inflation has risen sharply in the main Eurozone economies, and in January 2022, the harmonised index of consumer prices (HICP) increased by 6.2% year-on-year in Spain, 5.1% in Germany and Italy, and 3.3% in France (► **Figure 1**). In these four countries, the rise in energy prices was the main contributor both to the high level of inflation reached in January and to its upward momentum over the last year (► **Focus** in *Economic Outlook* of 14 December 2021). In addition, energy inflation¹ also accounts to a large extent for the differences in inflation from one country to another, even though the other consumer items may also contribute. The rise in energy prices is much more marked in Italy

and Spain, the two countries with the highest HICP in January 2022. In Germany and Spain, this imported inflation is spreading to the rest of the economy, with core inflation at +3.1% and +2.6% respectively in January 2022. In France and Italy, this transmission phenomenon seems to be less advanced.

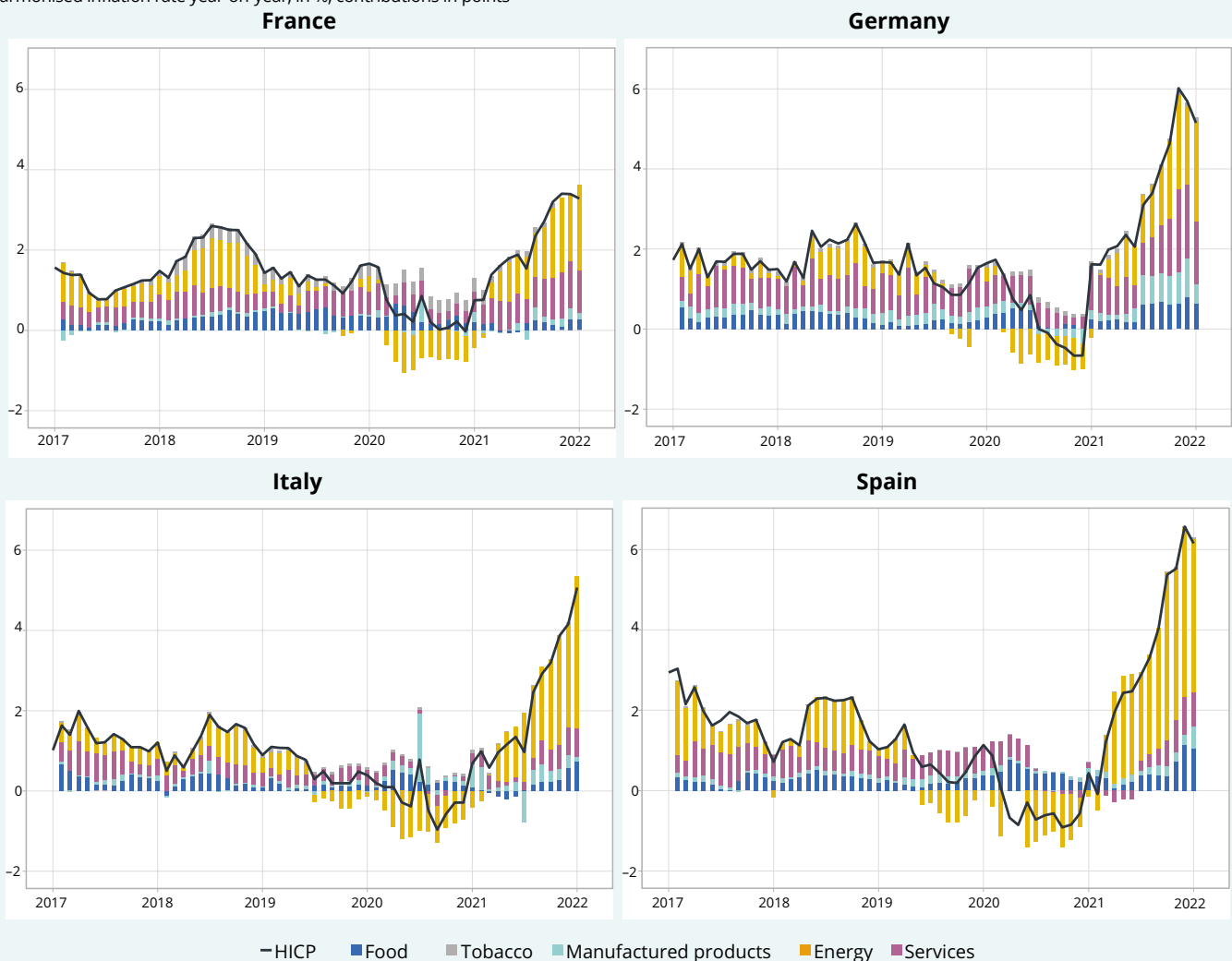
Energy made a strong contribution to inflation in each country, but with marked differences

In Spain and Italy, the contribution of energy to inflation reached +3.8 points in January 2022, whereas it was only +2.5 points in Germany and +2.1 points in France

¹ Total HICP is broken down here into five major consumption items: food, tobacco, manufactured products, energy and services. To make comparison with France easier, these aggregates have been constructed from detailed HICP data to correspond as closely as possible to the consumption items presented in the Consumer Prices Sheet.

► 1. Contribution to the HICP of its major aggregates for the four main Eurozone economies

harmonised inflation rate year-on-year, in %, contributions in points



How to read it: in France in January 2022, harmonised inflation was 3.3% as an annual rate with food contributing 0.3 points.
Source: Eurostat

► **Figure 2**). These differences reflect the differing trends in energy prices between countries. Thus, in January 2022, energy inflation reached 39% year-on-year in Italy and 33% in Spain, compared to about 20% in Germany and France. These differences are mainly related to electricity. Electricity prices rose sharply in Italy and Spain (+62% and +46% respectively year-on-year in January) while increases remained contained in Germany and France (+11% and +4% respectively). In Spain and Italy, regulated electricity tariffs are reviewed at least quarterly and have therefore had time to adjust to the increases in production prices in recent months. Such adjustments are only made twice a year in France (in February and August) and in Germany, the majority tariff system (for both electricity and gas) corresponds to contracts with prices fixed for a year.

The price of gas has also evolved differently, but is less contrasted than that of electricity. It grew strongly in Italy and France (+59% and +45% respectively year-on-year in January) and a little more moderately in Germany and Spain (+20% and +17% respectively). In France, the monthly adjustment of the regulated tariff first drove the year-on-year increase in prices, but since autumn, a “tariff shield” has been in place (► **Box** on the “Tariff shield”). In Germany, the increase in gas prices in January suggests that this month corresponds to the renewal date for several contracts. Year-on-year gas

prices remain low in Germany, compared to France and Italy, but as contracts are renewed, the rise in energy production prices is expected to be more reflected in consumer prices.

Finally, there was a substantial price rise in fuels on a similar scale in all four of the countries studied, with contributions to the total HICP of around one point in January (and up to +1.4 points for Spain, where fuel plays a significant role, ► **Figure 3**).

In France, inflation has at this stage spread slightly less to food and manufactured products than in Germany, Italy or Spain

In Germany, Spain and Italy, food prices were dynamic year-on-year in January 2022 (+4.3%, +4.5% and +3.5% respectively year-on-year). Similarly, prices of manufactured goods increased quite markedly year-on-year in Spain (+3.1%) and Germany (+2.8%). In France, price trends for those two aggregates were more contained in January (+1.5% for food and +1.0% for manufactured goods).

All in all, these two aggregates contributed significantly to the total HICP in Germany and Spain (+1.1 points and +1.6 points respectively). In France and Italy, their contribution was more limited (+0.5 points and +0.8 points respectively).

► 2. Price changes of the different aggregates and some of their components and their contributions to total HICP in the four main Eurozone economies in January 2022

harmonised inflation year-on-year, in %, point contributions

January 2022	France		Germany		Italy		Spain	
	Evolution (%)	Contribution	Evolution (%)	Contribution	Evolution (%)	Contribution	Evolution (%)	Contribution
Food	1.5	0.3	4.3	0.6	3.5	0.7	4.5	1.1
Tobacco	-0.1	0.0	4.8	0.1	0.6	0.0	2.4	0.0
Manufactured goods	1.0	0.2	2.8	0.5	0.6	0.1	3.1	0.5
<i>of which sale of vehicles</i>	2.2	0.1	6.7	0.3	2.7	0.1	3.4	0.1
Energy	20.3	2.1	20.5	2.5	38.7	3.8	32.5	3.8
<i>of which gas</i>	45.4	0.9	19.9	0.6	59.0	1.4	17.3	0.3
<i>of which electricity</i>	3.9	0.1	11.0	0.3	62.0	1.5	46.4	1.9
<i>of which fuels</i>	21.8	0.9	24.7	1.0	19.8	1.0	24.5	1.4
Services	2.0	1.0	2.9	1.6	1.6	0.7	1.8	0.8
<i>of which rent and maintenance of housing</i>	1.3	0.1	2.2	0.4	0.7	0.0	1.0	0.1
<i>of which vehicle maintenance</i>	2.7	0.1	6.9	0.2	3.4	0.1	1.6	0.0
<i>of which transports</i>	4.2	0.1	3.5	0.1	-0.2	0.0	-1.1	0.0
<i>of which recreation and culture</i>	1.6	0.1	4.4	0.4	1.6	0.1	1.6	0.1
<i>of which communications</i>	1.0	0.0	0.0	0.0	-4.0	-0.1	-0.6	0.0
<i>of which restaurants and hotels</i>	2.6	0.2	4.5	0.2	4.4	0.4	3.3	0.5
IPCH	3.3		5.1		5.1		6.2	

How to read it: in France in January 2022, harmonised food inflation was 1.5% as an annual rate and contributed around 0.3 points to total HICP.

Source: Eurostat

International economic outlook

These differences partly reflect those observed in the Industrial Product Price Indices (IPPI) for the domestic market. For example, with regard to processed food (excluding tobacco), the IPPI has risen sharply in the four countries studied, but particularly in Spain and Germany where the year-on-year change in January was 9.4% and 8.6% respectively, against 5.6% for France.²

In services, price rises remain fairly moderate at this stage. Services in Germany nevertheless showed slightly greater buoyancy (+2.9% against about +2% in France, Spain and Italy). ●

Hugues Ravier et Meryam Zaiem

² At the time of writing, the January figure was not available for Italy but it was 6.8% in December 2021;

► 3. Weighting in the HICP of the different aggregates and some of their components in the four main Eurozone economies in 2022

weighting as % of household consumption

Weight (%)	France	Germany	Italy	Spain
Food	19	15	21	23
Tobacco	2	2	2	2
Manufactured goods	16	18	23	18
of which sale of vehicles	4	4	4	3
Energy	10	12	10	12
of which gas	2	3	2	2
of which electricity	3	3	2	4
of which fuels	4	4	5	6
Services	53	53	45	46
of which rent and maintenance of housing	11	17	7	8
of which vehicle maintenance	6	4	4	3
of which transports	2	2	2	1
of which recreation and culture	8	10	6	5
of which communications	3	3	3	3
of which restaurants and hotels	7	4	10	14

How to read it: in France in 2022, the weighting of food in the consumer basket considered for the French HICP was 19%

Source: Eurostat

Measures to limit the rise in energy prices in Germany, Italy and Spain¹

For France, the “tariff shield” measures taken to limit the rise in energy consumption prices have been covered in a specific analysis (► **Focus** attached to the Consumer Prices Sheet). Germany, Italy and Spain have also implemented measures to limit the rise in energy prices for consumers.

In Germany, the main measure is a reduction in taxes on electricity, introduced on 1st January 2021 and strengthened in 2022. This is also the case in Spain, with a reduction in electricity tax from summer 2021, and in Italy with a drop in the tax on gas since September 2021. In addition, from the last quarter of 2021, Spain has capped any increase in gas prices and Italy has reduced network charges for electricity and gas.² Italy has added the possibility of staggering payment of energy bills, with no interest. These measures have mainly targeted consumers, households and businesses whose energy consumption is not too high.

As in France, these price measures can be combined with income transfers to the most vulnerable households (energy vouchers in Spain and Italy, increase in housing allowance in Germany). ●

¹ Source: <https://www.bruegel.org/publications/datasets/national-policies-to-shield-consumers-from-rising-energy-prices/>.

² In Italy, a reduction in the electricity transmission charge was put in place for small consumers, excluding households, from Q2 2021.

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Exit trajectories from the health crisis in Europe: between structural effects and sectoral momentum

In Q4 2021, value added for all branches of the French economy exceeded its pre-health crisis level (Q4 2019) by almost 1%. This was not yet the case for France's main neighbours. This Focus breaks down these disparities between countries, in an attempt to find the right balance between what is the result of differences in sectoral structure and what comes from dynamics specific to each economy – nevertheless, this division depends basically on the granularity of the analysis.

France appears to be the country where those sectors affected little or not at all by the health crisis have exceeded their pre-crisis level the most

At the end of 2021, in most of the countries considered, three sectors¹ remained well below their pre-crisis level of activity (► **Figure 2**). The first consisted of trade, transport services, accommodation and catering, and the second was services to households, both sectors directly concerned by the restrictive measures still in force at the end of 2021 and dependent to some extent on international tourism. In Spain in particular, where the importance of these sectors is greater, at the end of 2021 they represented the main contribution to loss of activity in the economy (► **Figure 1**). The third sector, manufacturing industry, had also not returned to its 2019 pre-crisis level by the end of 2021, except in Italy. Value added in this sector increased little in 2021, and in Germany it even declined, as a result of increased supply

chain difficulties. In Germany, where the manufacturing industry is of greater importance, it was the main contribution to loss of activity at the end of 2021. Apart from these three sectors, contributions by the others were smaller with often major disparities between countries in terms of their situation compared to pre-crisis. The reason for the positive trend in French value added is the momentum in these last sectors, most of them having returned to their pre-crisis level, whereas in neighbouring countries they are often below this level.

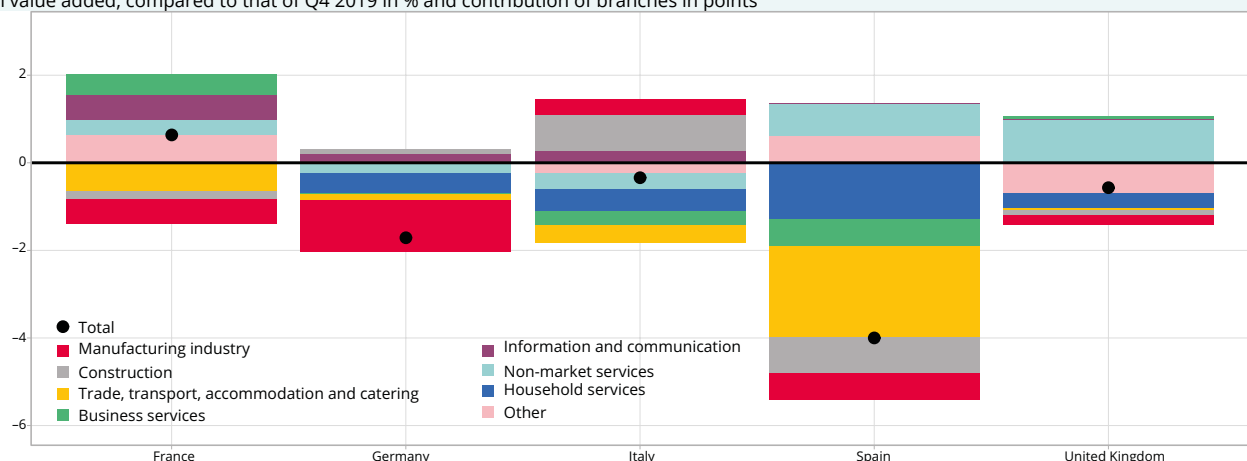
Differences in activity between neighbouring countries and France are due just as much, if not more so, to differences in sectoral activity as to structural effects

The more favourable trend in French total value added between the end of 2019 and the end of 2021 could be because its sectoral structure was more resistant to the crisis and/or because of more dynamic growth

¹ Here we are at the level of disaggregation available in the quarterly national accounts data published on Eurostat, i.e. disaggregation into 11 branches of activity, within which we have grouped together into a branch labelled "Other" the sectors of agriculture, industry excluding manufacturing, financial and insurance activities and real estate activities.

► 1. In France, sectors affected little or not at all by the health crisis had far exceeded their pre-crisis level by the end of 2021

total value added, compared to that of Q4 2019 in % and contribution of branches in points



How to read it: in Q4 2021, the services to households branch contributed 1.3 points to the difference in Spanish value added compared to its level in Q4 2019. Note: The "Other" category includes the branches of agriculture, financial and insurance activities and real estate activities. This breakdown was carried out assuming the additivity of volumes of sectoral activity, which is not the case given that they are chained to the prices of the previous year. However, the accounting errors resulting from this assumption are limited and do not call into question the overall message.

Source: Eurostat

International economic outlook

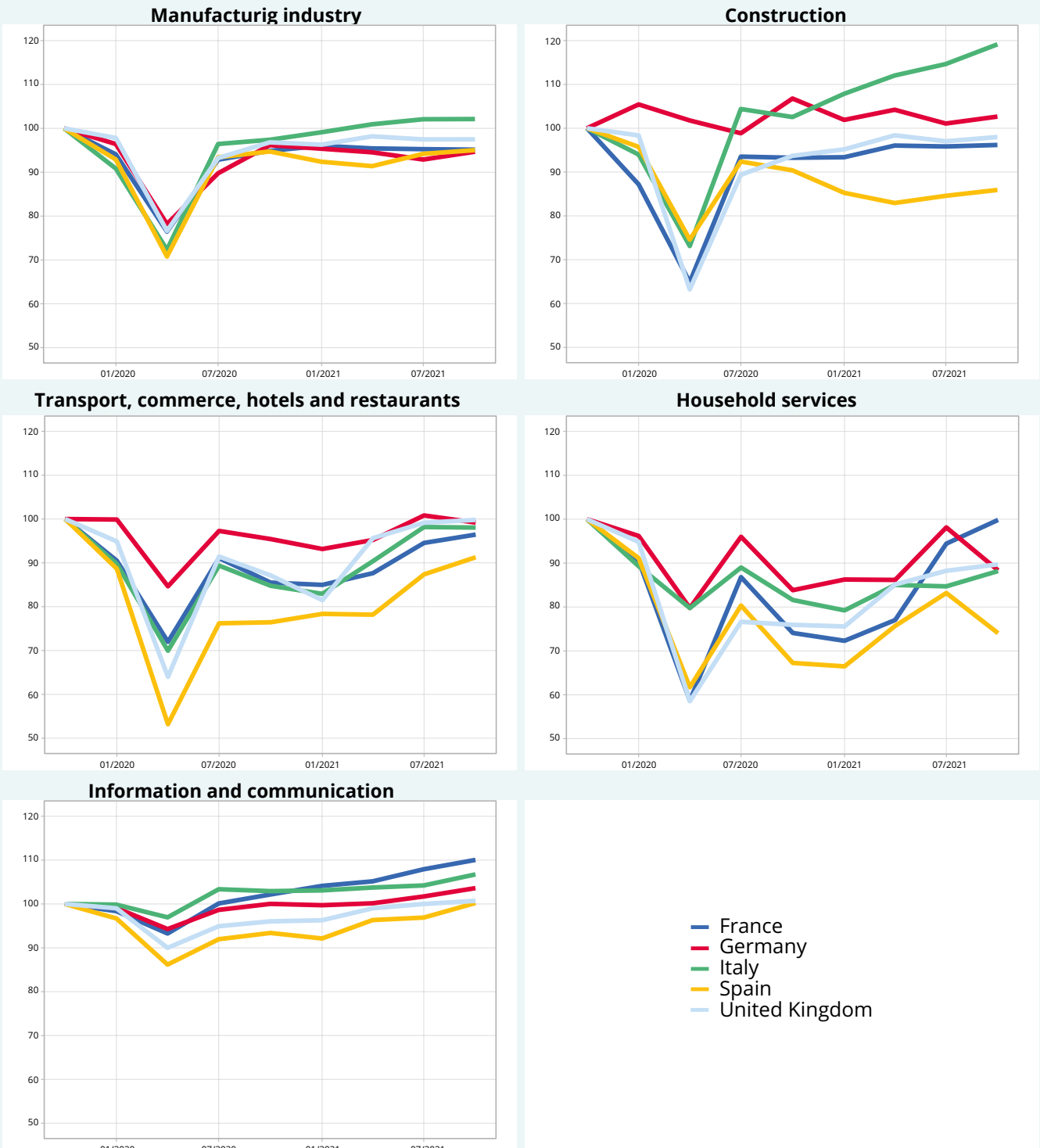
in its sectors. To try and separate what relates to the effects of changes by branch from what relates to structural effects, we built two simulations for France's neighbouring economies.

In the first, we applied the sectoral structure of the French economy in Q4 2019 to each country, and to each sector we applied its own change in activity,

observed between the end of 2019 and the end of 2021. In the second simulation, we applied to each country the sectoral changes in activity observed between the end of 2019 and the end of 2021 in the French economy, with each country keeping its own sectoral structure. It emerged that change in activity seems to be slightly more favourable in the scenario where the

► 2. The information and communication branch exceeded its pre-crisis level in all European countries, but it is most dynamic in France

total value added, compared to that of Q4 2019 in % and contribution of branches in points



How to read it: in Q4 2021, in France, activity in the communication and information branch was 11.1% above its pre-crisis level in Q4 2019. Source: Eurostat

countries have the same structure as France but the improvement seems to be on a moderate scale (red bars in ► **Figure 3**). In the second simulation, activity would appear to have recovered its pre-crisis level in Spain, Germany and Italy and to have exceeded it considerably in the United Kingdom (blue bars in Figure 3).

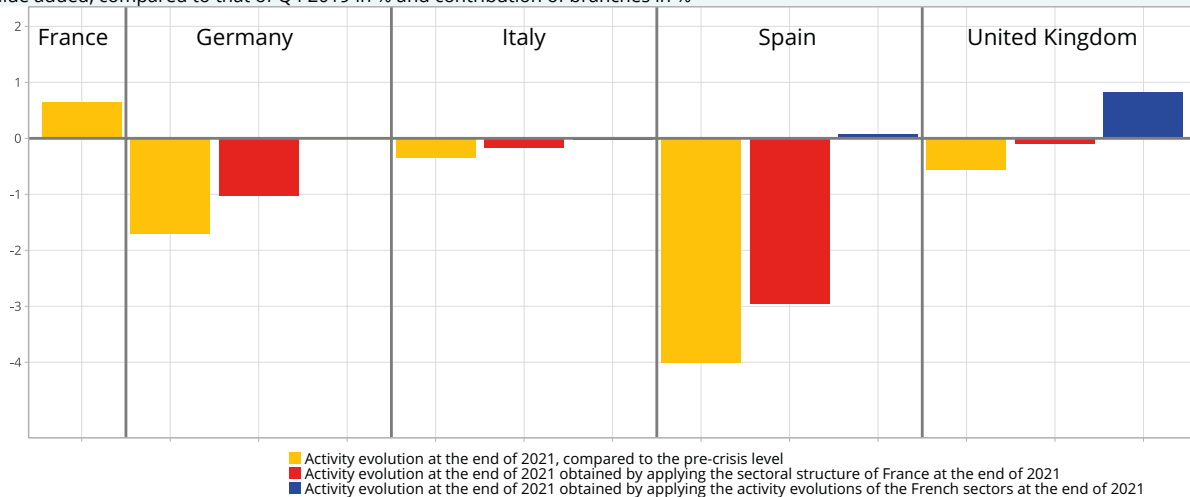
In view of these two simulations, it would seem that the differences between France and its neighbouring countries resulted more from an effect of changes by branch than from a structural effect. However, the analysis is carried out here at a relatively aggregated sectoral level and the effects of changes by branch could reflect composition effects at more detailed levels. For example, the negative change in activity in

German industry between the end of 2019 and the end of 2021 partly reflects the importance of the automobile sector compared to the other countries studied, as the automobile industry suffered particularly badly with supply chain difficulties for certain products (► **Box**). Another example, in Spain, negative change in the trade, transport, accommodation and catering, and services to households sectors is partly due to the greater weight of tourism there. In comparison, in France, domestic demand contributed more strongly to the activity of these two sectors and since the start of the health crisis, consumption by residents has often replaced the declining consumption by foreign tourists (without compensating for it entirely, ► **Focus** on tourism in the *Economic Outlook* of 6 October 2021). ●

Robin Navarro

► 3. At the end of 2021, the difference in the activity gap between Spain and France was more the result of sectoral losses of activity in the Spanish economy than of its sectoral structure

total value added, compared to that of Q4 2019 in % and contribution of branches in %



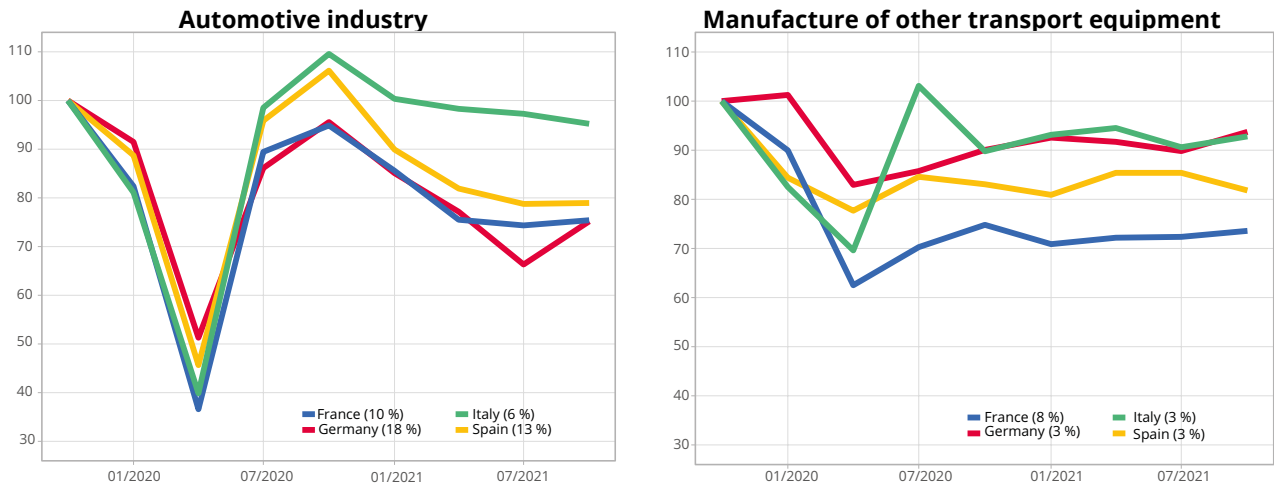
How to read it: in Q4 2021, in Spain, total value added was -4.1% below its pre-crisis level. By applying France's sectoral variations to the Spanish sectoral structure (in Q4 2019), this difference would be +0.1%.
 Source : Eurostat

The automobile industry in particular is hampering manufacturing output in Germany

Within the scope of the manufacturing industry, the availability of detailed and harmonised production indices in the different countries enables us to analyse results in further depth.

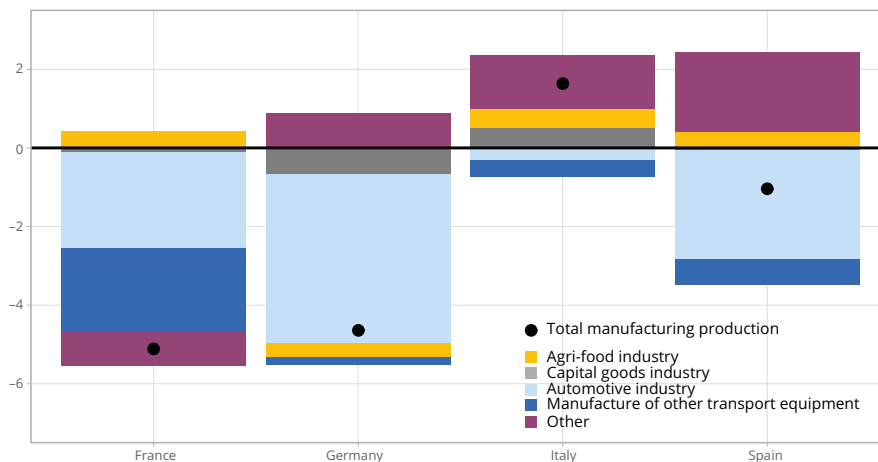
At the end of 2021, in the automobile industry and the manufacture of other transport equipment, output remained well below its pre-crisis level¹ (► **Figure 4**). In the automobile industry, output at the end of 2021 was more than 20% below its pre-crisis level in Spain, France and Germany, leading to a significant drop in manufacturing output between 2019 and 2021, especially in Germany and Spain where the automobile industry has more importance (► **Figure 5**). In Italy, this industry affected the trend in manufacturing output less, in line with the change in production being less unfavourable, and its relatively lesser importance. The manufacture of other transport equipment, a branch that includes aeronautics, deteriorated most in France (almost 30% below its pre-crisis level, against 5 to 20% below in other countries). It was also in France that this output was greatest, hence a significantly negative contribution to the decline in manufacturing output between the end of 2019 and the end of 2021. ●

► 4. At the end of 2021, output in the automobile industry and in other transport equipment was still largely below its pre-crisis level in the main Eurozone economies



How to read it: in Q4 2021, in Spain, output in the automobile branch, which represents 13% of manufacturing industry, was –20.8% below its pre-crisis level. Source: Eurostat

► 5. The automobile industry particularly hampers output within the Eurozone



How to read it: in Q4 2021, in Spain, manufacturing output was –1.0% below its pre-crisis level.

Note: the “Other” sector includes manufacture of coke and refined petroleum products, other manufacturing branches (textiles, chemical products, metallurgy, etc.) and the accounting error associated with the breakdown applied.

Source: Eurostat

¹ The industrial production index used in this Box is a measure of output and not of value added, the concept used in the body of the Focus. However, the differences between the two concepts are not on a scale to invalidate the qualitative results established here.