

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.

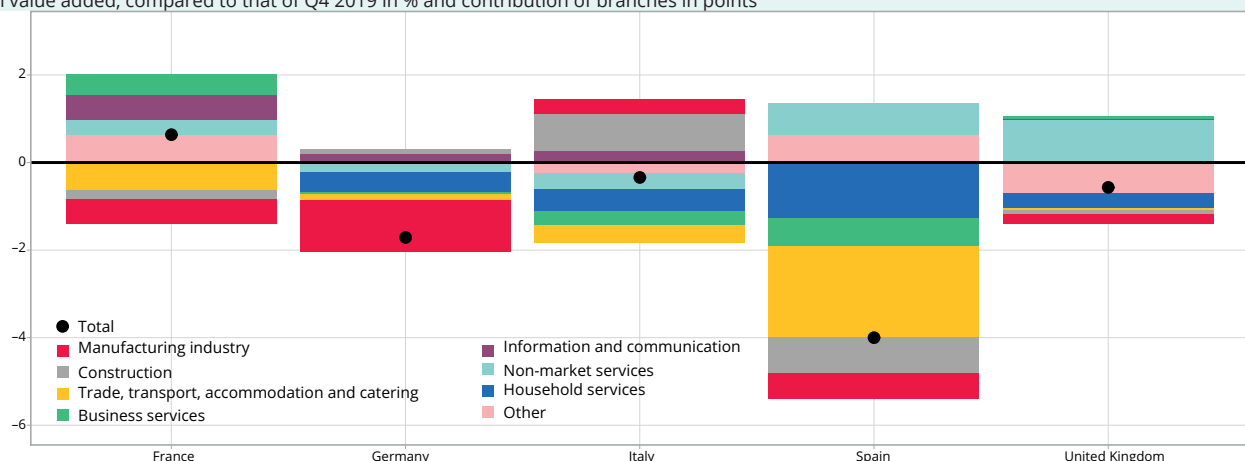
Differences in activity between neighbouring countries and France are due just as much, if not more so, to differences in sectoral activity as to structural effects

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).

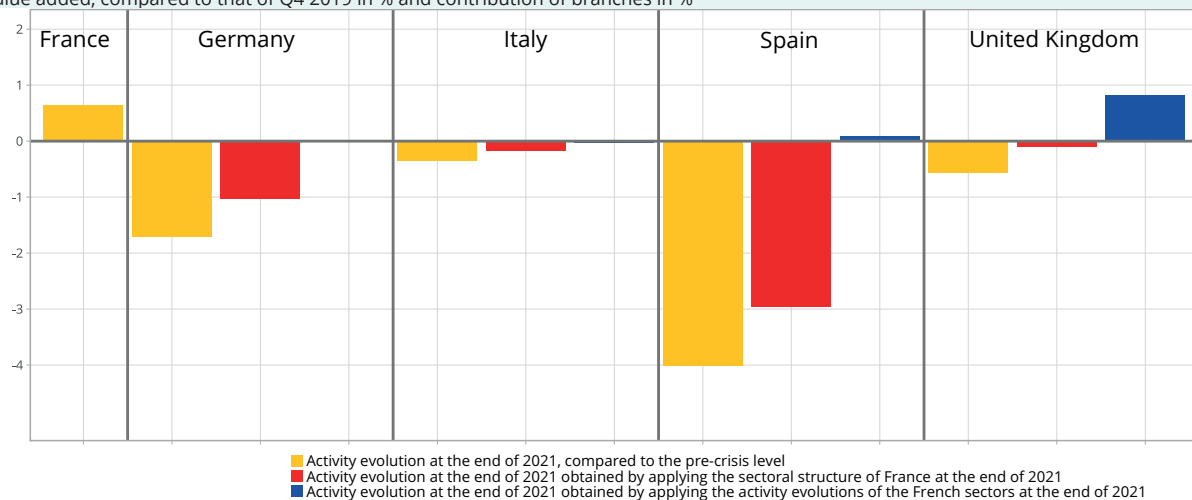
In view of these two simulations, it would seem that the differences between France and its neighbouring countries resulted more from an effect of changes by branch than from a structural effect. However, the analysis is carried out here at a relatively aggregated sectoral level and the effects of changes 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). ●

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► 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 %



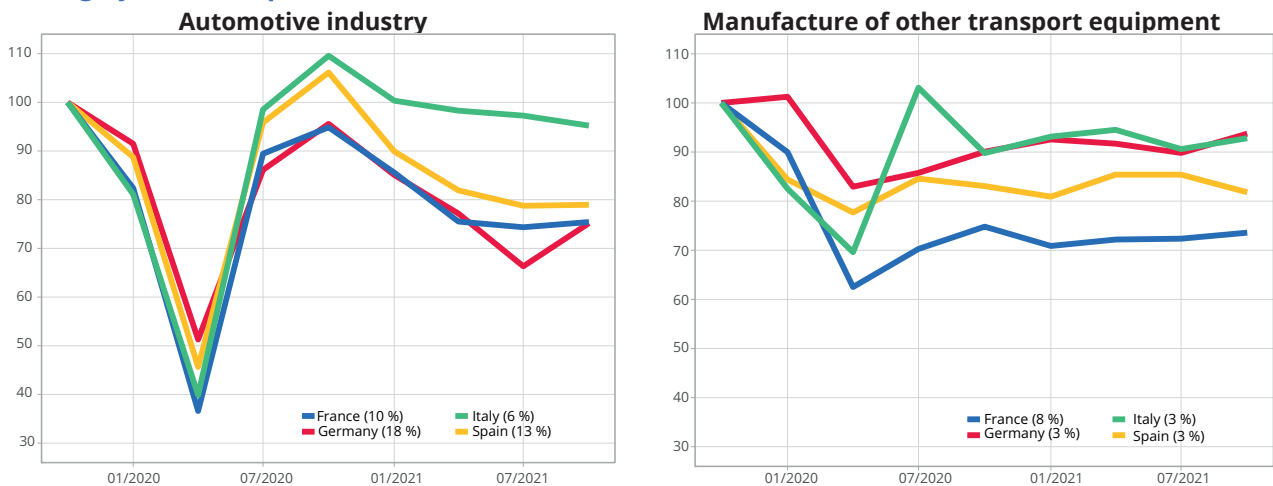
How to read it: in Q4 2021, in Spain, total value added was -4.1% below its pre-crisis level. By applying France's sectoral variations to the Spanish sectoral structure (in Q4 2019), this difference would be +0.1%.
 Source : Eurostat

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.

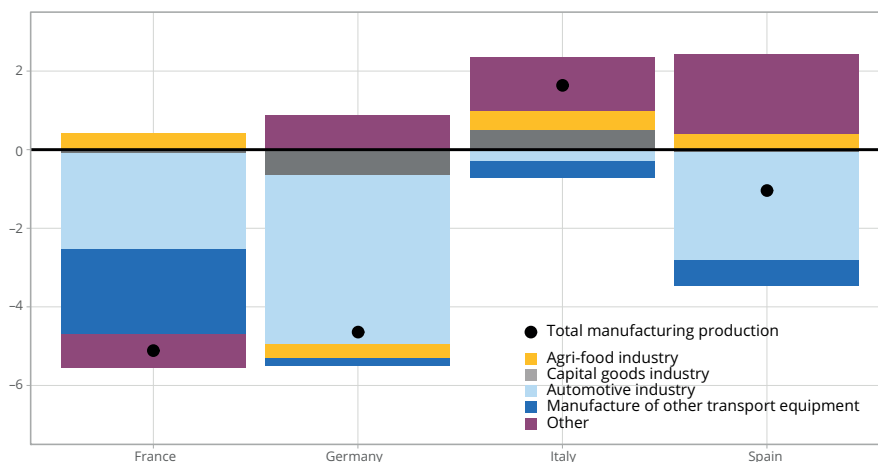
At the end of 2021, in the automobile industry and the manufacture of other transport equipment, output remained well below its pre-crisis level¹ (► **Figure 4**). In the automobile industry, output at the end of 2021 was more than 20% below its pre-crisis level in Spain, France and Germany, leading 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.