

# International economic outlook

## Eurozone

In the main Eurozone economies, activity slowed in Q1 2022, in a context of a deteriorating health situation and high inflation, accentuated by the start of the war in Ukraine at the end of February. Household consumption in particular declined in France, Germany, Italy and Spain. However, it should rise again in Q2, driven by a dynamic labour market and the return to normal of the health situation. Nevertheless, GDP is expected to remain modest until the end of 2022 in the four main Eurozone economies, all of them faced with similar problems, whether related to difficulties with supply chains or the high level of inflation.

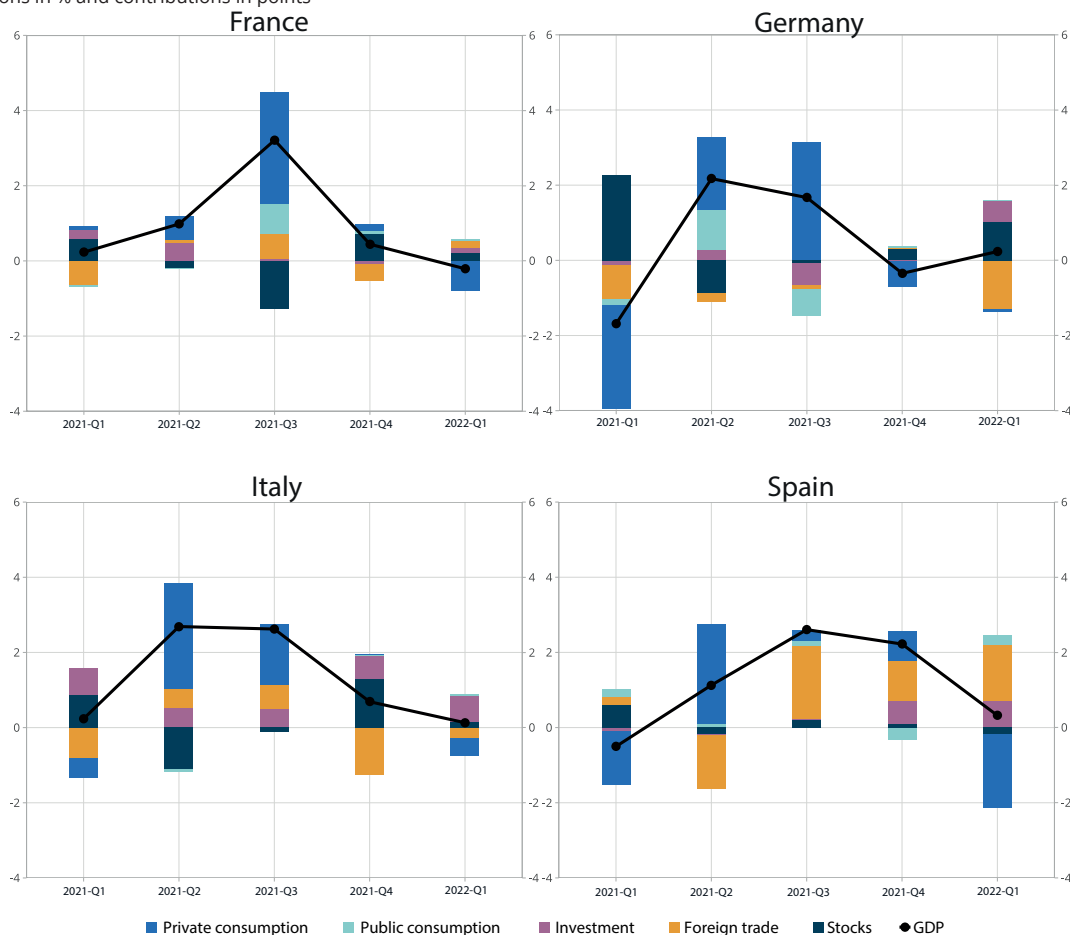
### In Q1 2022, the continuing health crisis and the deteriorating geopolitical context hampered growth in the Eurozone

In Q1 2022, activity slowed in the Eurozone, excluding Ireland: +0.3% (after +0.5% in Q4 2021).<sup>1</sup> The Omicron wave appeared in late 2021 and hampered activity, due to the restrictions that it imposed (isolation of those infected, large-scale uptake of teleworking, etc.), while the war in Ukraine, which began at the end of February, resulted in a sharp rise in fossil energy prices coupled with a shock of uncertainty. In this context, activity slowed significantly in Spain (+0.3% after +2.2% in Q4 2021, ► **Figure 1**) and Italy (+0.1% after +0.7%), and declined in France (-0.2% after +0.4%). In Germany, after shrinking in late 2021 (-0.3%), activity picked up slightly (+0.2%).

<sup>1</sup> The figure presented here excludes Ireland whose GDP has experienced some major fluctuations over the last few quarters. When Ireland is included, activity in the Eurozone grew by +0.6% in Q1 2022 after +0.2% in Q4 2021.

### ► 1. Quarterly variations in GDP and contributions of demand items

quarterly variations in % and contributions in points



How to read it: in Q1 2022, GDP declined compared to Q4 2021 (-0.2 %), and private consumption contributed -0.8 points.

Source: Eurostat

Household consumption impacted on GDP in the four main Eurozone economies. It declined sharply in Spain (-3.6%) and France (-1.5%), and less markedly in Italy (-0.8%) and Germany (-0.1%), two countries where consumption had been sluggish in Q4 2021. Health restrictions associated with the Omicron wave penalised consumption of services in particular. In addition, inflation, as measured by year-on-year change in the index of consumer prices harmonised quarterly, reached 4.2% in Q1 2022 in France and 7.9% in Spain: in the four countries considered, this is the highest level this indicator has seen since its introduction in 1996 (► **Focus** Inflation). The rise in inflation penalised household purchasing power, despite positive movement in the labour market, where payroll employment was back to its pre-crisis level at the end of 2021 and continued to pick up in early 2022 (► **Focus** Purchasing power). Lastly, and specifically in Spain, March was disrupted by a strike by farmers and hauliers, which affected the production and consumption of goods.

Investment was particularly dynamic in Italy (+3.9%), Spain (+3.4%) and Germany (+2.7%), thus providing a major boost to domestic demand. In Italy and Germany, it was above all investment in building construction that drove this momentum (especially in the case of Germany, due to mild weather conditions). In Spain, it was investment in equipment (excluding transport equipment) that increased strongly, after several already dynamic quarters.

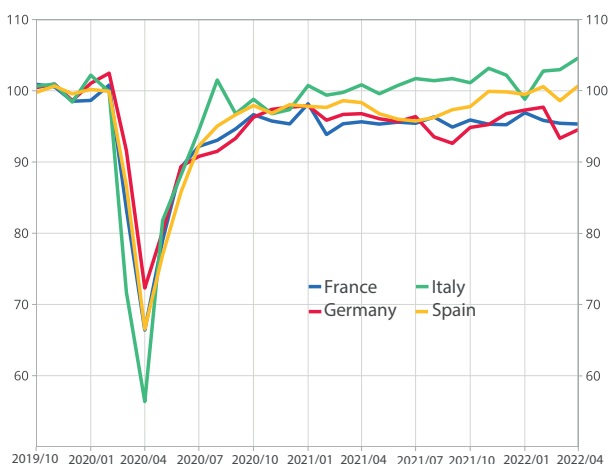
Finally, in the four main Eurozone economies, foreign trade contributed in contrasting ways to changes in activity in Q1 2022. In Germany, where imports were up slightly (+0.9%) stimulated by services, exports fell back significantly (-2.1%) in line with a decline in industrial production (see below). Imports were very buoyant in Italy (+4.3%, against +3.5% for exports). In both these countries, the contribution of foreign trade to change in GDP was negative. Conversely, its contribution was positive in France, driven by exports (+1.2%), and in Spain, with the sharp increase in spending by foreign tourists and a corresponding decline in spending by Spanish tourists abroad.

## Supply chains continue to be disrupted while prospects in services are improving along with the health situation

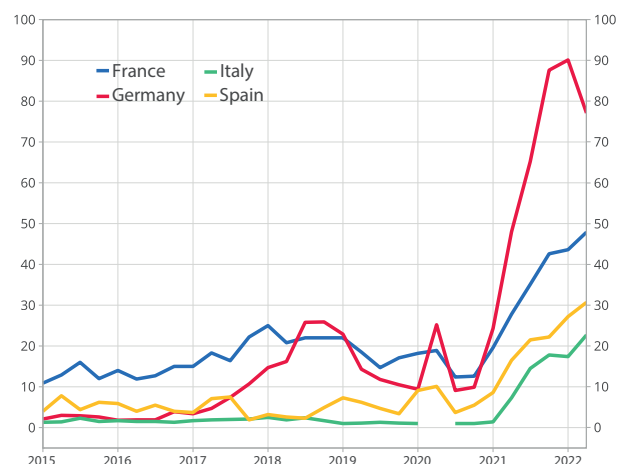
In April, industrial production (excluding construction) improved in Germany and Spain (+1.3% and +2.1% respectively, ► **Figure 2**), after a sharp downturn in March (-4.5% and -2.0% respectively). With this increase, Spanish production returned to its pre-crisis level. Industrial production in Germany, on the other hand, remains more than 5 points below this level, penalised by the automobile branch. In France, production has been decreasing since January, and in April was more than 4 points below its pre-crisis level. Italian production improved for the third consecutive month, and in May was more than 4 points above its Q4 2019 level.

## ► 2. The war in Ukraine and supply chain difficulties hamper industrial production (excluding construction) in the main Eurozone economies

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



share of manufacturing companies giving supply chain difficulties as a factor limiting production, in %, SA data



Note: data on supply chain difficulties come from business tendency surveys of companies. These are the proportions of manufacturing companies that identified supply difficulties as a factor limiting production. In April 2020, the surveys were not carried out in Italy. These statistics correspond to European surveys centralised and harmonised by DG ECFIN, particularly in terms of seasonal adjustment. Their values may therefore differ from those disseminated by INSEE from the same source; the trends are similar nevertheless.

Source: Eurostat et DG ECFIN

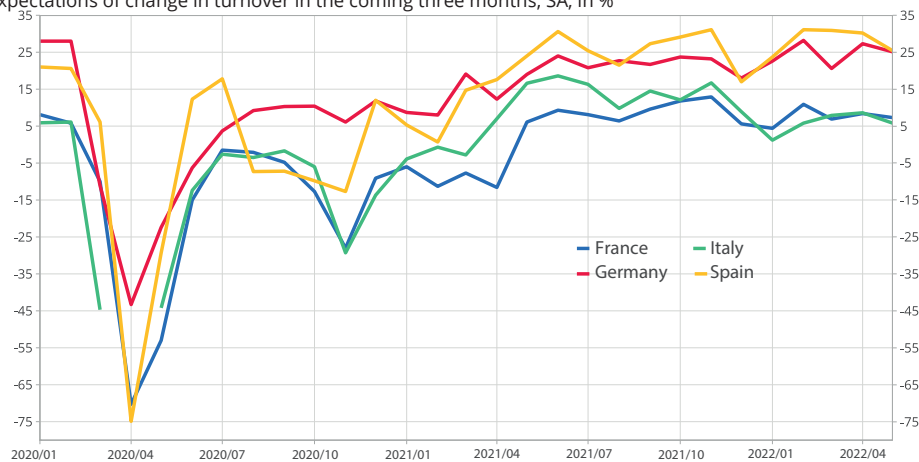
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Despite the increase in production observed in April, supply chain difficulties and increased commodity prices, both of which have been heightened by the war in Ukraine, are likely to hamper industry. The proportion of manufacturing companies saying that their production is limited due to supply chain difficulties continued to increase in April (except in Germany, where this percentage remains very high, at almost 80%).

Conversely, at the start of spring the economic outlook improved in the services sector, which is less exposed than industry to disruptions in supply chains. Activity here is more sensitive to changes in the health situation: after a winter affected by health restrictions introduced to cope with the Omicron wave, activity is expected to be able to continue its recovery this spring. In May, and according to the business tendency surveys, the majority of business leaders anticipate an increase in turnover over the next three months, although they are a little less optimistic than in March, as we came out of the last wave of the epidemic (► **Figure 3**).

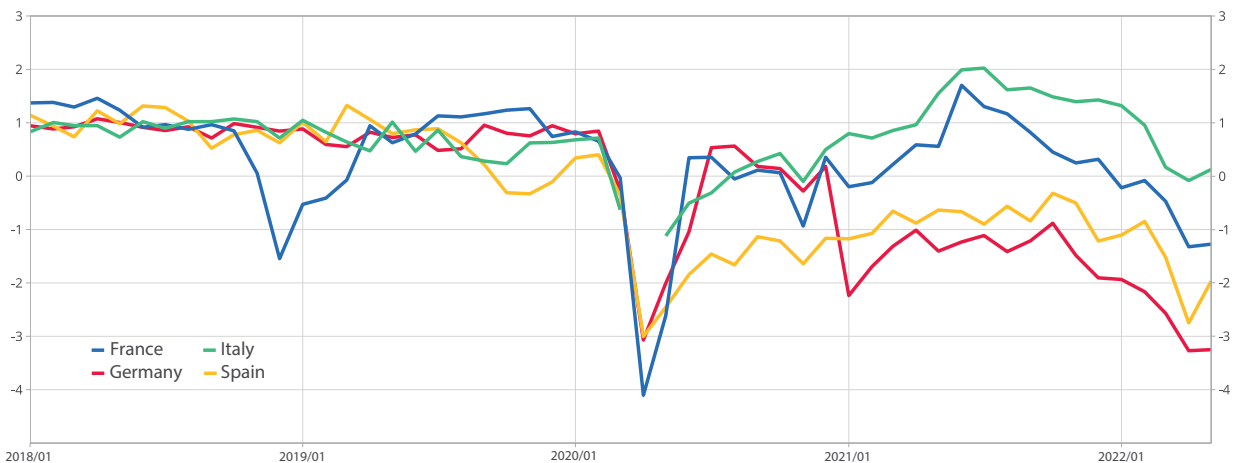
### ► 3. In May 2022, after the health restrictions of the winter, business leaders in the services sector are slightly more optimistic about activity in the next three months

balances of opinion on expectations of change in turnover in the coming three months, SA, in %



How to read it: in May 2022, in Spain, the balance of opinion of business leaders in the services sector on their turnover dropped slightly to 25.4 points  
 Note: data are from business tendency surveys of companies. These statistics correspond to European surveys centralised and harmonised by DG ECFIN, particularly in terms of seasonal adjustment. Their values may therefore differ from those disseminated by INSEE from the same source; the trends are similar nevertheless. Italian data were not collected during the first 2020 lockdown.  
 Source: DG ECFIN

### ► 4. In May 2022, after months of decline, the balances of opinion of households on the opportunity to make major purchases picked up slightly in the four main Eurozone economies



How to read it: in May 2022, in Spain, the centred-reduced balance of opinion associated with the opportunity currently to make major purchases was 2.0 standard deviations below its average long-term level (average of balance between January 2010 and May 2022).  
 Note: The data are taken from household surveys. The balance of opinion is monthly. These statistics correspond to European surveys centralised and harmonised by DG ECFIN, particularly in terms of seasonal adjustment. Their values may therefore differ from those disseminated by INSEE from the same source; the trends are similar nevertheless. Italian data were not collected during the first 2020 lockdown.  
 Source: DG ECFIN

## Faced with rising inflation, household confidence is waning

On the demand side, household confidence surveys show that they are not very optimistic about their expected consumption (► [Figure 4](#)). In May, the balance of opinion on the opportunity to make major purchases picked up slightly in the four main Eurozone economies, after a sharp deterioration in March. The steady decline since autumn 2021 is of course related to the inflationary context that currently prevails across the entire Eurozone. It may also be a reflection of the uncertainty over geopolitical developments in Eastern Europe.

However, there are several factors that could sustain household consumption in Q2. The improvement in the health situation provides the potential for a rebound in consumption in the sectors concerned, after the decline in the previous quarter. New support measures for household purchasing power have been put in place in the different European countries (► [Focus Purchasing power](#)). In addition, at the end of 2021, the savings ratio remained above its pre-crisis level in the main Eurozone economies. If it declines this could help to support consumption in the coming months.

## Growth in the Eurozone is expected to remain modest for the rest of 2022, given the level of inflation and disruptions to value chains

In Q2 2022, growth could therefore pick up slightly in the four main Eurozone economies (► [Figure 5](#)).

Domestic demand is expected to drive GDP growth in all four countries. Benefiting from the factors mentioned previously and an effective labour market, household consumption is expected to pick up again. Investment should continue to increase in Q2, notably with spending linked to European recovery plans in Italy and Spain. Exports are likely to suffer as industrial production is still disrupted by supply chain difficulties, and foreign trade looks set to make a negative contribution to GDP growth. Growth in Q2 is expected to be a little higher in Spain (+0.6%), than in France (+0.2%), Germany (+0.3%) and Italy (+0.3%).

In H2, growth in the Eurozone is expected to remain modest, in a context where inflation is likely to remain high, still with considerable disruptions to supply chains. In addition, the tightening of monetary policy announced by the ECB is expected to hamper investment. However, growth looks set to be a little more dynamic in Germany and Spain, where household consumption has a greater potential for catch-up than in France or Italy.

There are several uncertainties surrounding this scenario: development of the geopolitical context, especially regarding sanctions against Russia and retaliatory measures by that country, likely to result in significant movement in the price of energy and other commodities, as well as intensifying companies' supply chain problems; change in the health situation, especially in China, with possible consequences once again for the intensity of supply chain difficulties, but also for Chinese demand; and lastly, monetary policy decisions, with the ECB facing some difficult challenges (► [Focus Monetary policy](#)). ●

## ► 5. Past and forecast growth of GDP in the main Eurozone economies

quarterly changes in GDP, in %

	2020				2021				2022				2019	2020	2021	2022	2019 fin 2022
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4					
France	-5.7	-13.7	19.4	-1.4	0.2	1.0	3.2	0.4	-0.2	0.2	0.3	0.3	1.9	-7.9	6.8	2.3	1.2
Germany	-1.8	-10.0	9.0	0.7	-1.7	2.2	1.7	-0.3	0.2	0.3	0.5	0.5	1.1	-4.9	2.9	1.9	0.4
Italy	-5.9	-12.6	16.0	-1.6	0.2	2.7	2.6	0.7	0.1	0.3	0.1	0.1	0.5	-9.1	6.6	2.9	0.5
Spain	-5.4	-17.7	16.8	0.2	-0.5	1.1	2.6	2.2	0.3	0.6	0.3	0.3	2.1	-10.8	5.1	4.3	-2.3

■ Forecast

Source: INSEE, Destatis, Istat, INE