

## Eurozone

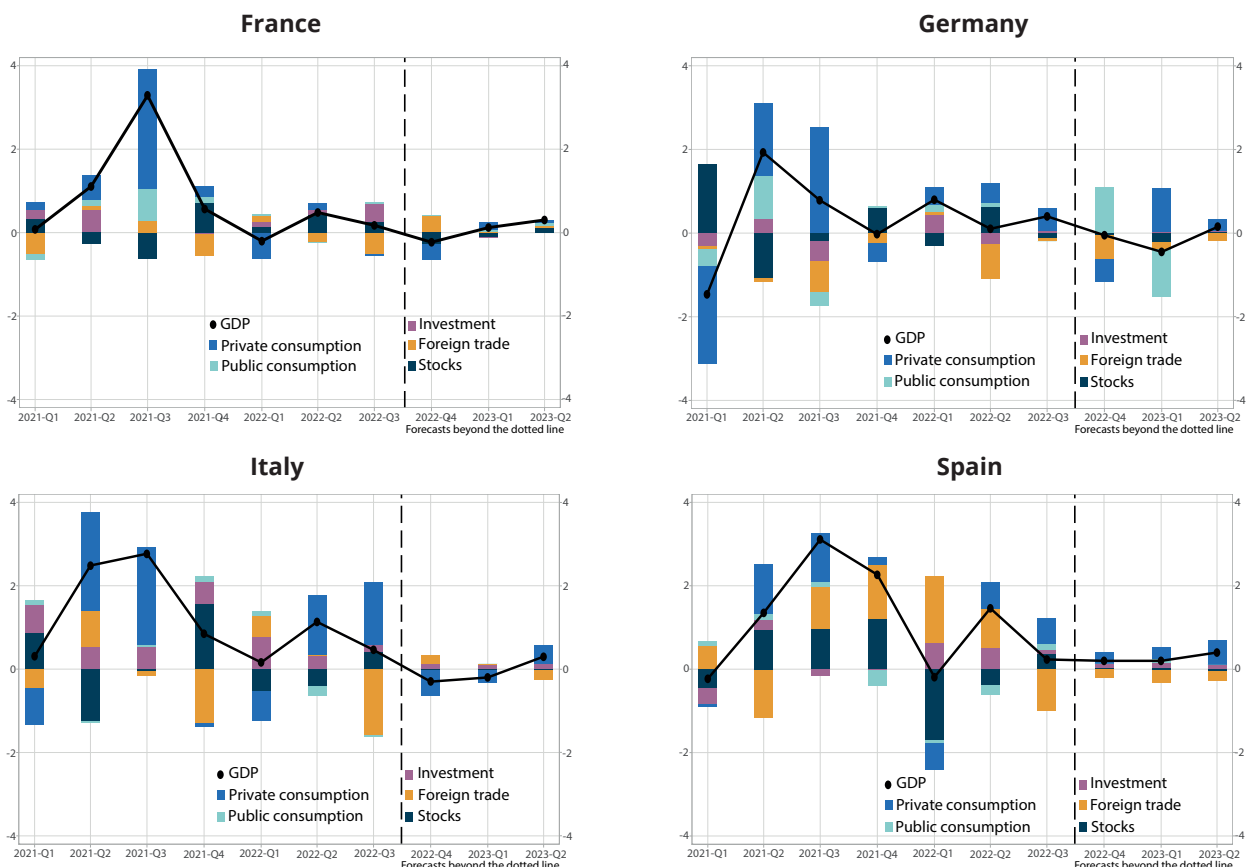
### In Q3 2022, economic activity in the Eurozone was generally sustained by domestic demand, but slowed down nonetheless

In Q3 2022, post-health crisis catch-up effects in the Eurozone lessened and activity slowed sharply (+0.3%, after +0.8% in Q2 2022), while inflation continued to rise. This economic slowdown affected Spain (+0.2% after +1.5%), Italy (+0.5% after +1.1%) and France (+0.2% after +0.5%), after a relatively vigorous Q2, coming as it did after the start to the year was affected both by the Omicron wave and the outbreak of war in Ukraine (► **Figure 1**). In Germany, on the other hand, activity accelerated this summer (+0.4% after +0.1%). Within these four economies, domestic demand was the main contributor to the increase in activity in Q3, while foreign trade affected GDP growth.

Despite the high level of inflation (► **Box 1**), in most countries household consumption had the benefit of support measures to help with purchasing power (tariff shields, fuel discounts, increases in social minima, etc.). Residual catch-up effects may also have had a positive impact. Thus, consumption was dynamic in Italy (+2.5% in Q3), Spain (+1.1%) and Germany (+1.0%). At the end of Q3, consumption returned to its pre-crisis level in Germany and Italy but remained 5% below in Spain. In France, where household consumption has exceeded its pre-crisis level over several quarters, it remained almost stable in Q3 and the increase in domestic demand was therefore mainly the result of investment (+1.7%, of which +3.1% for corporate investment). In Germany, Spain and Italy, investment also contributed to the increase in activity but to a much lesser extent (+0.2%, +0.6% and +0.8% respectively), with investment in equipment being dynamic, but investment in construction in decline.

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

quarterly variations in % and contributions in points



How to read it: in France, on Q3 2022, GDP improved compared to Q2 2022 (+0.2%), and investment contributed around +0.4 points to this increase. Source: INSEE, Destatis, Istat, INE, INSEE calculations

Exports accelerated in France and Germany, driven by exports of goods. In Italy and Spain, however, they slowed after an especially buoyant Q2 thanks to tourism. However, imports were more dynamic than exports in all four economies. In Spain, Italy and France, they were sustained in particular by spending by residents abroad.

### Support measures partly mitigate the effects of higher prices on households

Since the end of the summer, the four main Eurozone countries have continued to face high levels of inflation, although recent developments are varied: sharp fall in Spain since August in the wake of gas prices, strong rise in Italy in October, driven by electricity prices (► **Box 1**). The provisional estimate for inflation in November reveals a degree of stability in the consumer price index year-on-year, except in Spain where it continues to decline. This year-on-year stability does not mean that prices are expected to be stable: consumer prices are set to continue to rise in Q4 in France, Germany and even Italy, despite a further reduction in prices at the pump from December (lower fuel tax). In Spain, however, year-on-year variations in the price index, like the level of the index itself, could decrease after the peak reached this summer.

Changes are also expected in household income but these will vary from country to country, according to the scale and the nature of aid provided by the authorities. In Germany, wages are expected to increase substantially, driven by a rise of around 14% in the minimum wage on 1<sup>st</sup> October which is likely to affect over 7 million employees, and by several wage negotiations that have resulted in major wage increases.

In Spain, the labour market is expected to continue in the right direction, with notably a sizeable increase in permanent employment: the numbers registered with social security who have an open-ended employment contract increased by 20% year-on-year in September 2022 while the number of temporary contracts fell back by almost 40% over the same period. In Italy, household income is expected to be supported, as in previous quarters, by the payment of a new form of aid in December (150 euros per person for around 22 million employees and retired people on low incomes). In France, income looks set to be supported in Q4 by measures that include reductions in tax contributions (housing tax relief, television and radio licence fee).

Given these factors, household purchasing power in Q4 2022 is expected to demonstrate contrasting developments according to country. It is expected to be preserved in Germany, given the income support and despite the rise in prices. In Spain, it is likely to be dynamic, driven by the good performance of the labour market and declining prices. In France, it should continue to take advantage of support measures. In Italy, however, it looks set to fall back, penalised by the sharp acceleration in prices.

### Industrial output is still expected to be hampered by high energy prices

Regarding businesses, industrial activity appears disappointing since the summer, since the PMIs are below their threshold level of 50 in the four main Eurozone countries (► **Figure 2 left-hand side**).

In fact, energy-intensive branches are particularly vulnerable to issues involving both energy supply chain risks (especially gas) and price increases for electricity and gas. In September, output in these branches in the four main Eurozone countries appeared to be well below its level at the end of 2021 (► **Box 2**). It has fallen particularly sharply in Germany since the beginning of the year (► **Figure 3**) in the chemical industry, paper and cardboard, and the non-metallic mineral products industry (which importantly includes the glass industry). In the metallurgical industry, output has declined particularly in Spain and Italy. In France, downturns in production in these branches appear to be a little less pronounced.

Conversely, the slight easing in supply chains (► **Figure 2 right-hand side**) means that production could be supported in certain branches. This is particularly the case for the German automobile industry, where production remains well below its pre-health crisis level and which could still benefit from a strong catch-up effect.

# International economic outlook

## In the last quarter of 2022, activity is likely to be depressed in the main Eurozone economies and remain in a deteriorated state at the start of 2023

In Q4 2022, activity is expected to fall back not only in Italy, but also in Germany and France. In Germany, support for purchasing power and the public authorities taking on part of household gas bills (aid payment of over €300 on average per household) should enable both public and private consumption to hold out. German production capacity, however, is expected to be penalised by the rise in energy prices and the weakness of world trade, which is likely to lead to a decline in exports. In Italy, a decline in activity is the likely result of a decline in domestic demand, with the downturn in purchasing power leading to a sharp drop in household consumption. Spain is likely to be the only one of the main Eurozone countries where activity is expected to improve at the end of the year, with the expected drop in prices encouraging household consumption. Investment is likely to slow in all four countries, against a backdrop of monetary tightening and higher energy prices.

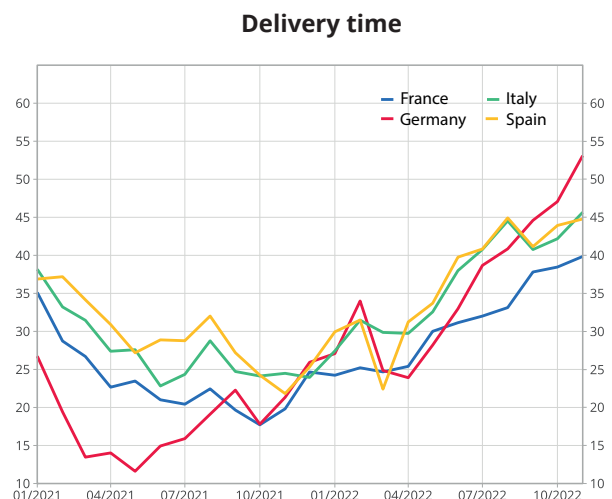
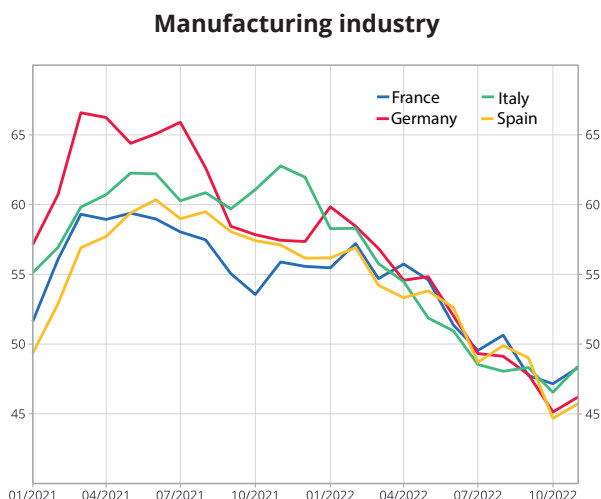
In H1 2023, year-on-year consumer prices could fall back, due to strong base effects and also to specific measures aimed at containing the rise in energy prices. This will be the case in Germany in particular, where a tariff shield will be put in place from January 2023 to protect both households and businesses, with a price cap on electricity until April 2024, as well as on 80% of households' gas consumption (70% for businesses). Nevertheless, prices are still likely to increase overall, especially those of non-energy goods and services.

In this context, activity is expected to decline once again in Germany and Italy in early 2023. These trends are likely to reflect primarily those of domestic demand. They are also likely to reflect the production difficulties that businesses are experiencing, especially in industry, where companies are affected by the increased cost of their energy inputs. In Spain, however, which is less exposed to these constraints and has more potential to catch-up in consumption than its neighbours, activity should continue to improve, if modestly.

In Q2, the end of winter should ease energy constraints somewhat, at least for households, resulting in a slight upturn in domestic demand and hence in activity. ●

## ► 2. PMIs in the manufacturing industry and PMIs of input delivery times in the manufacturing industry

PMI indices (in levels)



Last point: November 2022.

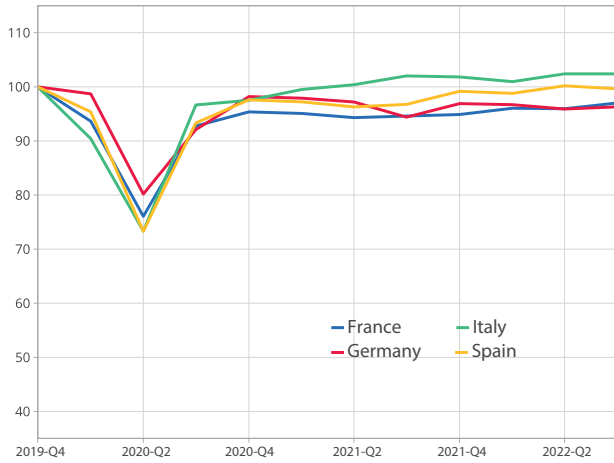
How to read it: in Germany in November, the PMI of input delivery times in the manufacturing industry was 53, above the expansion threshold of 50, indicating a reduction in input delivery times.

Source: Purchasing Manager's Index, IHS Markit

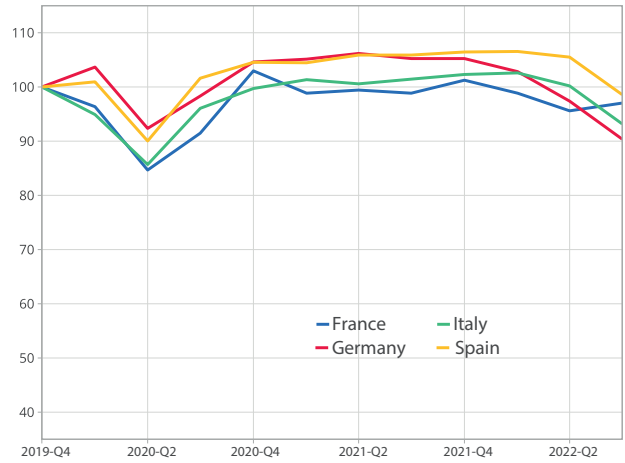
## ► 3. Output in the manufacturing industry and in some energy-intensive industrial branches

industrial production indices as a quarterly average, difference from Q4 2019 level (SA-WDA)

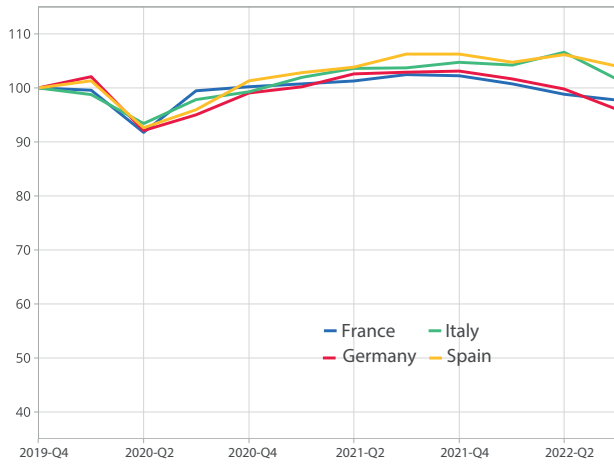
### Manufacturing industry



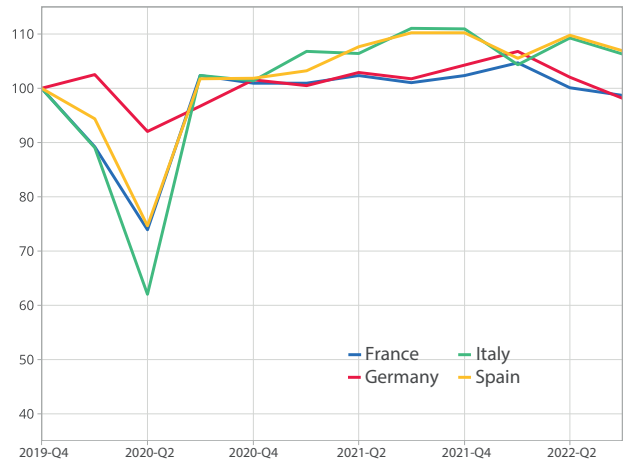
### Chemical industry



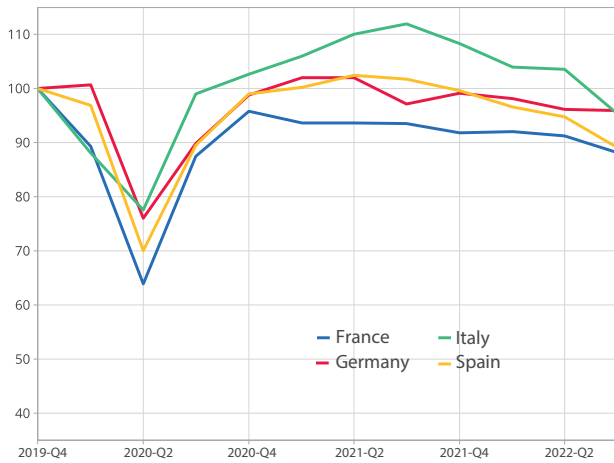
### Paper and board industry



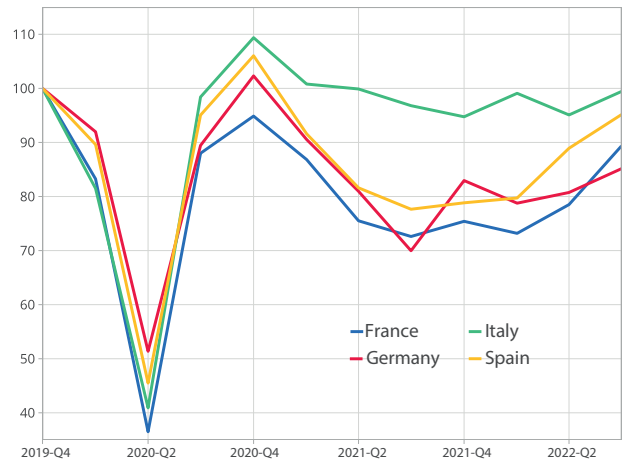
### Manufacture of other non-metallic mineral products



### Metallurgy industry



### Automobile industry



Last point: Q3 2022.

How to read it: in Italy, in Q3 2022, Output in the manufacturing industry was 2.4% above its Q4 2019 level.

Source: INSEE, Destatis, Istat, INE, INSEE calculations

## Box 1: Inflation in the main Eurozone economies

Inflation in the main European economies remains at levels that are not only high but also contrasted between countries (► **Figure 1**). To support household purchasing power, the authorities have put different measures in place, the aim being either to limit price rises, or to support incomes. The diversity of the measures taken, the differences between the energy pricing methods and between the average consumer shopping baskets, account for most of the variations in inflation between the four countries considered here (Germany, France, Italy, Spain).

Although energy inflation was at very high levels in the four main Eurozone countries in July (between +29% year-on-year in France and +43% year-on-year in Italy), since then it has followed some very diverging trajectories (► **Figure 2**). In France, it decreased significantly (+20% year-on-year in October) affected by the drop in oil prices during the summer and the increase in the reduction at the pump in September, despite the rise in fuel prices in October in the context of strikes in the refineries. In Spain, the downturn was even more pronounced, with energy inflation reaching over 8% year-on-year in October: the drop in oil prices contributed to this but even more significant was the price of electricity. The contribution of gas also fell, in line with the reduction in VAT on gas from 21% to 5.5%.

In Germany, energy inflation increased in September, with the end of the reduction at the pump, while gas and electricity prices increased gradually, as contract tariff clauses were renewed. In Italy, after decreasing during the summer following fuel prices, energy inflation surged in October (+71% year-on-year), with the review of regulated electricity tariffs and, to a lesser extent, gas tariffs.

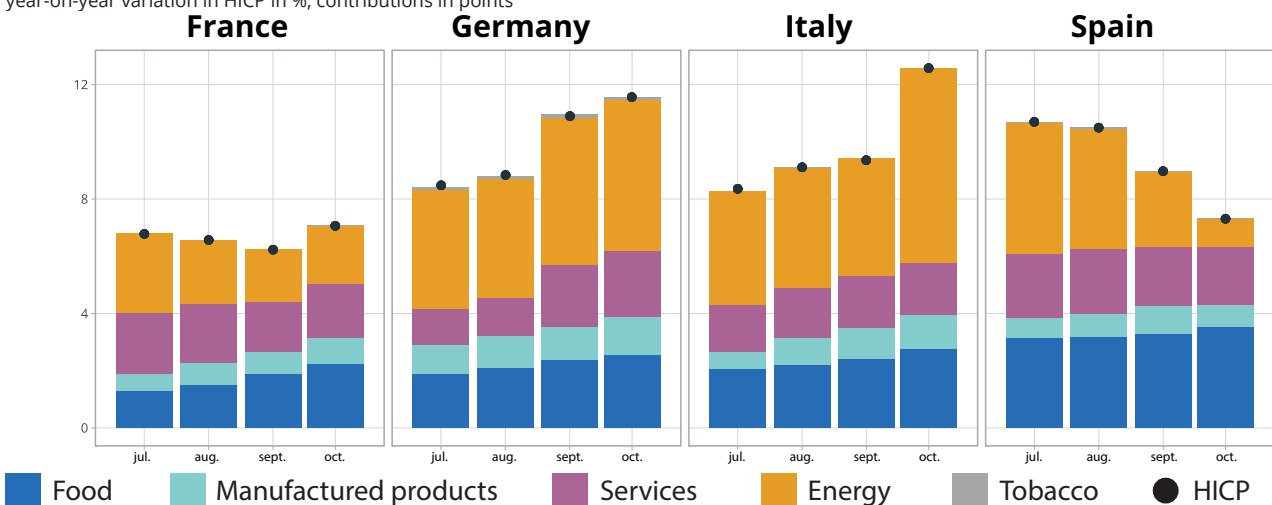
Nevertheless, the prices of energy products are no longer necessarily the main driver of inflation. Price rises are spreading to more and more products, and since this autumn, food products have made the largest contribution to headline inflation in France and Spain (► **Figure 3**). The contribution of manufactured goods has also increased while that of services is stable overall, except in Germany in September with the end of the regional transport ticket at €9 per month, which was introduced during the summer.

In November, according to initial estimates from national institutes, the year-on-year variation in the HICP looks set to stabilise in France, Germany and Italy, and is expected to fall back further in Spain (► **Figure 3**). In these four countries, the stability of price rises over a year is due mainly to base effects: prices, especially energy prices, rose sharply in November 2021. Prices therefore continue to increase in a dynamic way at the end of this year and core inflation (excluding energy and food) would appear to have increased everywhere in November, except in Germany. ●

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### ► 1. Breakdown of year-on-year variation in the HICP in European countries

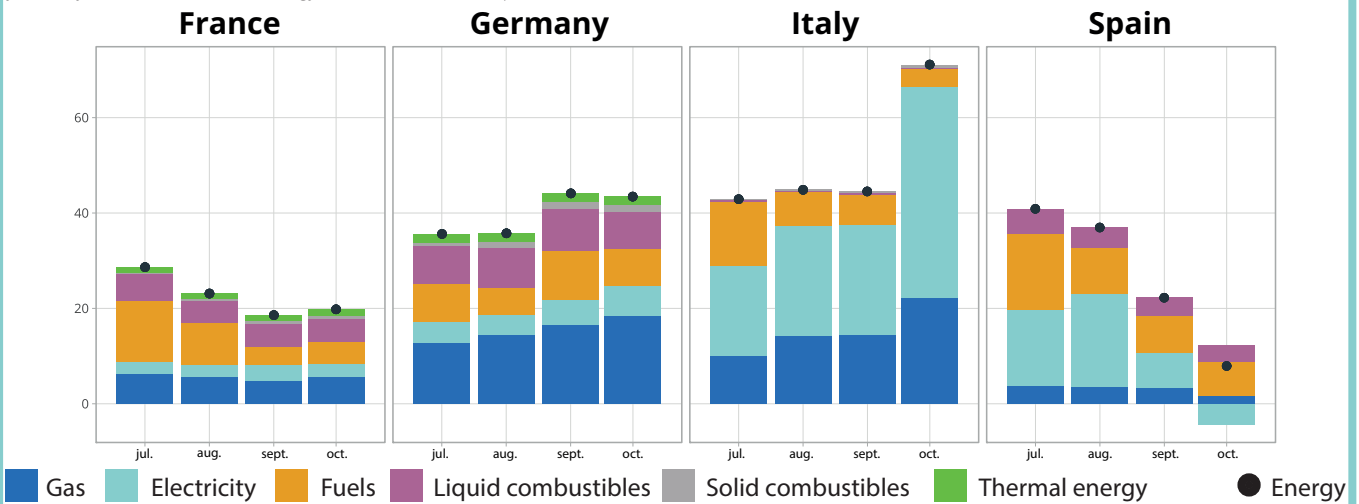
year-on-year variation in HICP in %, contributions in points



How to read it: in France, in October 2022, the harmonised consumer price index rose by 7.1% year-on-year, with a 2.2 point contribution from food.  
Source: INSEE, Destatis, Istat, INE, INSEE calculations

## ► 2. Breakdown of year-on-year variation in the HICP Energy sub-sector in European countries

year-on-year variation in HICP Energy in %, contributions in points



How to read it: in France, in October 2022, HICP Energy increased by 19.8% year-on-year, with gas contributing 5.6 points.

Source: INSEE, Destatis, Istat, INE, INSEE calculations

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

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

October 2022	France		Germany		Italy		Spain	
	yoy (in %)	Contribution (in points)	yoy (in %)	Contribution (in points)	yoy (in %)	Contribution (in points)	yoy (in %)	Contribution (in points)
<b>Food</b>	<b>12.0</b>	<b>2.2</b>	<b>17.3</b>	<b>2.5</b>	<b>13.2</b>	<b>2.7</b>	<b>15.1</b>	<b>3.5</b>
of which fresh food	17.3	0.5	15.2	0.3	14.0	0.6	0.0	0.0
of which non-fresh food	10.4	1.0	16.7	1.4	13.0	1.2	15.1	1.5
<b>Tobacco</b>	<b>0.3</b>	<b>0.0</b>	<b>4.6</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>0.6</b>	<b>0.0</b>
<b>Manufactured good</b>	<b>5.5</b>	<b>0.9</b>	<b>7.4</b>	<b>1.3</b>	<b>5.3</b>	<b>1.2</b>	<b>4.6</b>	<b>0.8</b>
of which vehicle sales	6.5	0.2	9.0	0.4	7.2	0.3	9.8	0.3
<b>energy</b>	<b>19.8</b>	<b>2.1</b>	<b>43.5</b>	<b>5.3</b>	<b>71.1</b>	<b>6.8</b>	<b>7.9</b>	<b>1.0</b>
of which gas	31.7	0.6	78.0	2.2	90.7	2.1	13.3	0.2
of which electricity	8.8	0.3	26.0	0.8	199.0	4.2	-15.4	-0.4
of which fuels	11.4	0.5	22.0	0.9	7.6	0.4	14.0	0.8
<b>Services</b>	<b>3.6</b>	<b>1.9</b>	<b>4.4</b>	<b>2.3</b>	<b>4.1</b>	<b>1.8</b>	<b>4.4</b>	<b>2.0</b>
of which housing	2.1	0.2	3.3	0.6	2.0	0.1	2.5	0.2
of which transport	11.5	0.2	5.2	0.1	17.0	0.3	-11.6	-0.2
of which recreation and culture	4.0	0.3	6.4	0.6	2.7	0.2	4.1	0.2
of which communications	-1.6	0.0	-0.2	0.0	-2.4	-0.1	-1.9	-0.1
of which hotels and restaurants	5.0	0.4	8.8	0.3	7.5	0.8	8.8	1.3
<b>HICP total (in %)</b>	<b>7.1</b>		<b>11.6</b>		<b>12.6</b>		<b>7.3</b>	
<b>HICP flash November 2022 (in %)</b>	<b>7.1</b>		<b>11.3</b>		<b>12.5</b>		<b>6.6</b>	

How to read it: in France, in October 2022, food inflation was 12.0% year-on-year and the contribution of food to harmonised inflation was 2.2 points.

Source: INSEE, Destatis, Istat, INE, INSEE calculations

# International economic outlook

## Box 2: Energy intensity and industrial production in the four main Eurozone economies

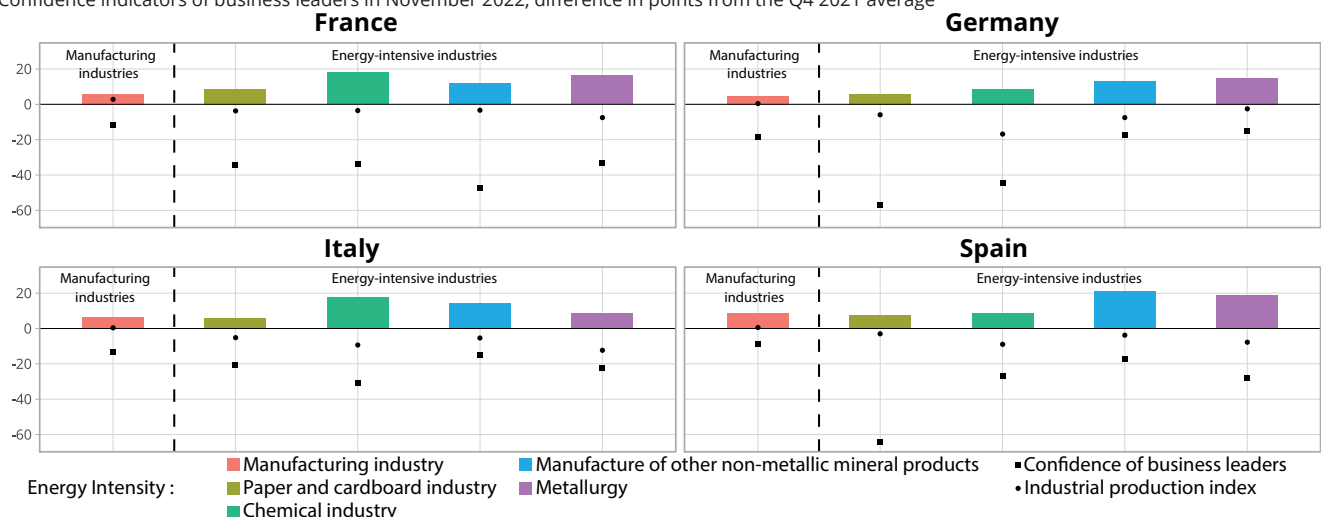
In 2018,<sup>1</sup> intermediate energy consumptions<sup>2</sup> represented about 4% of the production value of all French, German, Italian and Spanish branches of activity. However, there are some significant disparities between branches. Thus, on average, industry consumes more energy inputs than services. Even within industry, the energy branches (coke and refined petroleum, electricity and gas production, etc.) are much more energy intensive<sup>3</sup> than the other manufacturing branches. Nevertheless, these last include some that do consume particularly high levels of energy, such as metallurgy, the manufacture of non-metallic mineral products (which importantly includes the glass industry), the chemicals industry or the primary wood industry.

At the end of 2022, the economic situation in these energy-intensive branches (excluding energy-producing branches) appeared to have deteriorated further than that of the manufacturing industry overall (► **Figure 1**). In September, production in these branches in the four countries followed here was therefore down compared to Q4 2021. Conversely, manufacturing production as a whole was at a higher level than in the last quarter of 2021 in France, Italy and Spain, while in Germany, production had fallen back slightly (-0.2%). In October, the confidence of business leaders in industry<sup>4</sup> was more pessimistic than in autumn 2021, and this mood was more pronounced in the four branches identified as major energy consumers.

Nevertheless, energy intensity does not seem to be the only factor accounting for variations in production: within each country, the loss of production or confidence is not necessarily proportional to the energy intensity of the branches. First of all, the chosen point of reference, in this case the last quarter of 2021, may have a role to play: a branch in which the situation was still in decline or had already deteriorated at the end of 2021 may report a smaller decline in production in autumn 2022. A smaller loss of production or of confidence in a branch can also be explained by a greater ability on the part of the branch to pass on the price increases of these energy inputs to the price of the finished products. In addition, measures that the authorities put in place to support businesses may benefit some branches more than others. Finally, some branches may find it easier than others to substitute a costly or scarce energy for another in their production processes, thus reducing their exposure to energy price rises and securing production. ●

### ► 1. In energy-intensive branches, both the confidence of business leaders in industry and production deteriorated in 2022

Energy intensity in 2018 (share as % of intermediate energy consumptions compared to production)  
 Industrial production indices (IPI) in September 2022, as a % difference from the Q4 2021 average  
 Confidence indicators of business leaders in November 2022, difference in points from the Q4 2021 average



Note: the manufacturing industry includes coke production and refining.  
 How to read it: in France, in 2018, intermediate consumptions in the manufacturing industry in France represented about 6% of production. In September 2022, production in this branch was 3.4% above its level at the end of 2021. The confidence of business leaders in November was 11.7 points below its level at the end of 2021.

Source: INSEE, Destatis, Istat, INE, DG ECFIN, INSEE calculations

1 Detailed data for intermediate consumptions are taken from input-output tables (TES) of the different countries (2018 version).  
 2 Intermediate consumptions of products from the extractive industries, coke and refined petroleum production and production and distribution of electricity, gas and air conditioning.  
 3 The energy intensity of a branch is the ratio of its intermediate energy consumptions to its output.  
 4 The confidence indicator, published by DG-ECFIN, corresponds to the average of the balances of opinion on the level of orders and on expected production and the opposite of the balance on inventories of finished products.