

Economic outlook

8 February 2022

In Q4 2021, the French economy continued to recover, exceeding its end-2019 level by around 1%. As an annual average, French GDP rebounded by 7% in 2021 (after -8% in 2020), with health restrictions affecting H1, followed by sharp growth, particularly in the middle of the year.

The beginning of 2022 has been marked by both a new wave of the epidemic (Omicron) and a new rise in oil prices, in a context of persistent geopolitical tensions. In Q1, French economic activity is expected to keep growing, but at a slower pace (+0.3% forecast, after +0.7% in Q4 2021), before accelerating in Q2 (+0.6% forecast). The mid-year growth overhang should stand at +3.2%.

In January 2022, the consumer price index increased by 2.9% over 12 months according to the provisional estimate. Assuming a Brent price of \$90 per barrel until the end of our forecasting period (June 2022), inflation could stand at between 3% and 3.5% year-on-year in the coming months, even though the government's energy «price shield» measures are expected to curb its growth to a significant extent.

At the end of 2021, French quarterly GDP was quite significantly above its pre-crisis level, although sectoral contrasts persist

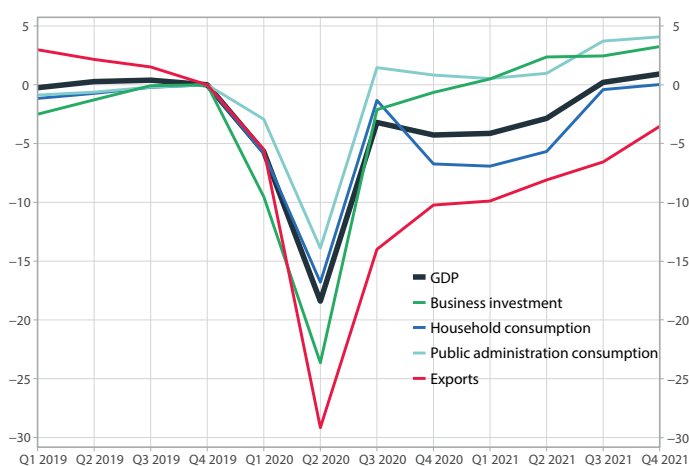
Q4 2021 was mixed in the Eurozone. The Spanish economy – amongst those hit hardest by the pandemic – has improved significantly but remains well below its pre-crisis level. German GDP fell, notably due to a deterioration of the health situation and the persistence of supply chain problems, which were particularly acute in German industry. Finally, the Italian and French economies have grown at roughly the same rate. Of the four major Eurozone countries, only France has exceeded – quite significantly – its Q4 2019 level of activity (► **Figure 1**), although French GDP has not returned to the level it would have reached had it maintained its pre-crisis trajectory. At

the same time, private salaried employment which, thanks to massive recourse to short-time working, had declined much less sharply than GDP, exceeded its end-2019 level by 1.5% (i.e. around 300,000 jobs) by the end of 2021.

In part, the contrasts between countries probably reflect differences in structure, because the sectoral repercussions of the crisis remain strong, impacting those sectors that continue to suffer from the health situation (e.g. accommodation and food services) or supply chain problems (manufacturing industries, and the automotive sector, in particular, although French production in this sector bounced back sharply in November and December 2021). IT services continued to grow strongly, due to dynamic digital investment by French enterprises (► **Figure 2**).

► 1. Changes in French GDP and some demand-side components

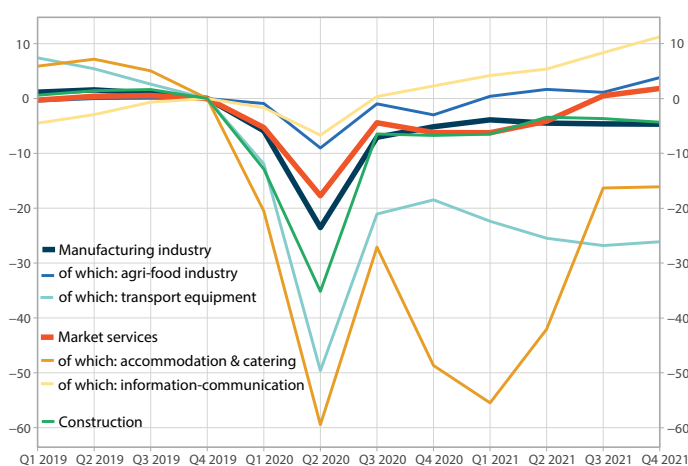
difference to Q4 2019 (seasonally adjusted volume - YTD), in %



Source: INSEE, National accounts

► 2. Changes in value added for certain branches (France)

difference to Q4 2019 (seasonally adjusted volume - YTD), in %



Source: INSEE, National accounts

The Omicron wave has plunged the economy into a new pocket of turbulence, but its impacts should be limited and temporary

At the turn of the year, the health situation deteriorated with the arrival of the Omicron variant. New containment measures were put in place in January (attendance limits, compulsory teleworking, a specific protocol in schools, extension of the closure of discotheques, the vaccination pass, etc.). The high number of infections may have increased absenteeism. This new pocket of turbulence is therefore likely to have some economic consequences, but they appear to be quite limited and mainly temporary, with some restrictions already being lifted. In fact, over the past two years, the economic effects of the successive waves have been progressively diminishing, due to behavioural adaptation and vaccination.

Although the business climate remains generally favourable according to the business surveys, it has recently deteriorated in the retail trade and services, particularly in the accommodation and food services sector. Certain high-frequency indicators, reflecting household behaviour, also point towards a slowdown in some consumption segments in early 2022.

The momentum observed for the aggregate amounts of bank card transactions, available up to 30 January, appears to have stalled at the beginning of the year with the total amounts, compared to 2019, remaining similar to the

level recorded last December (► **Figure 4**). Admittedly, the total amounts are well above those for 2019, but this observation should be put into perspective, given the factors that have been mechanically driving the amounts of transactions upwards for the past two years (price trends and the increased use of bank card payments, particularly since the start of the health crisis). Moreover, these amounts do not include expenditure in France by foreign tourists.

More specifically, in food services and accommodation, the amounts of transactions related to accommodation declined at the end of 2021, and even more so at the beginning of 2022, probably in connection with the health situation. In household equipment, the interpretation of these data was disrupted in January by the dates of the winter sales, which differ slightly from one year to the next. Finally, a rise in expenditure on fuel was recorded at the beginning of the year, which was mainly due to the price rises.

Household consumption by volume is therefore likely to stall at the beginning of the year, and in Q1 2022 it should remain at around its pre-crisis level, to which it had returned by the end of 2021. In January in particular, the health context is likely to depress household spending, especially on accommodation and food services, transport services and leisure. In Q2, consumption is expected to grow more strongly, assuming that the health situation improves.

► 3. Past and projected economic activity (GDP)

in %

Gross domestic product	2020				2021				2022		2020	2021	2022 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Quarterly variation	-5.7	-13.5	18.6	-1.1	0.1	1.3	3.1	0.7	0.3	0.6	-8.0	7.0	3.2
Difference to Q4 2019	-5.7	-18.4	-3.2	-4.3	-4.1	-2.9	0.2	0.9	1.2	1.8			

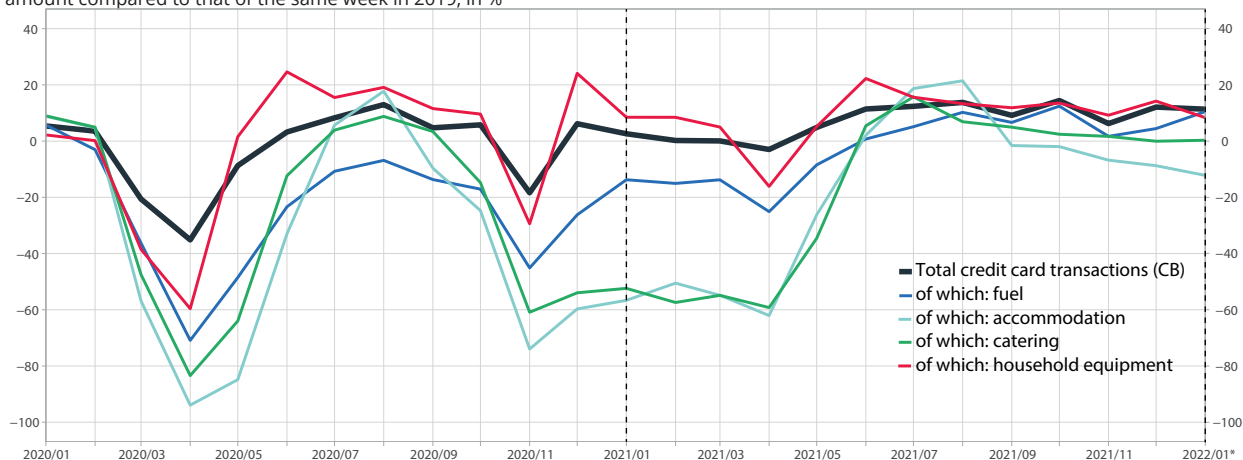
■ Forecast

How to read it: in Q1 2022, GDP should increase by 0.3% compared to Q4 2021, standing at 1.2% above its level in Q4 2019. The mid-year growth overhang is expected to be 3.2% in 2022, after annual growth of +7.0% in 2021.

Source: INSEE

► 4. Monthly bank card transaction amounts, for various points of sale

monthly amount compared to that of the same week in 2019, in %



* for the month of January 2022; the data is available until 30 January.

Note: each amount is compared to that for the comparable month in 2019. December 2020 and December 2021 are therefore compared to December 2019, while January 2021 and January 2022 are compared to January 2019. This chronological break in the reference month is shown by a vertical dotted line in January 2021 and January 2022. In addition, the dynamism of these bank card transaction amounts from March onwards may reflect a higher proportion of payments by bank card, a trend that was corrected in the estimate of losses or increased consumption in relation to the pre-crisis level.

How to read it: in December 2021, the total amount of bank card transactions was 12% higher than in December 2019.

Source: Cartes Bancaires CB, INSEE calculations

Mainly as a result of the health situation, activity is expected to slow in early 2022, before accelerating in the spring

Calibrations derived from business surveys suggest that French GDP will grow by +0.3% in Q1 2022 (after +0.7% in Q4 2021, ► **Figure 3**), a slightly sharper slowdown than that envisaged in last December's *Economic Outlook*. In Q2, activity should pick up (+0.6% forecast), bringing the annual growth overhang for mid-2022 to +3.2%; this is the annual growth rate that would be obtained for 2022 if economic activity were to remain static in Q3 and Q4 at the level forecast for Q2. The level of GDP in Q2 is expected to be 1.8% above that for Q4 2019, a difference that has been revised upwards since the last *Economic Outlook*, taking account of the minor adjustments made to the national accounts and a slightly better-than-expected end to the year.

According to the business surveys, supply chain difficulties remain acute but are easing somewhat; hiring difficulties are reaching unprecedented levels

The recovery is therefore expected to continue, even though most of the catching up has already been done in France. Some market-sector services (accommodation and food services, transport services, leisure activities) still have the potential to rebound and thus contribute to the increase in growth in Q2, after a disappointingly slow start to the year. In industry, the assumption of a slow dissipation of supply chain difficulties is maintained, which would enable the hardest-hit sectors (land transport and aeronautical equipment) to keep catching up.

According to the business surveys, supply chain difficulties have indeed eased somewhat at the beginning of 2022. In industry, 45% of companies attested to this situation in October 2021, the highest proportion recorded since the start of the series, driven in particular by the disorganisation of global value chains in response to strong demand. In January, 35% of industrial enterprises still reported such difficulties, a share that remains well above the long-term average observed (around 10%). At the same time, demand-side difficulties remain at their lowest level since the beginning of the series (► **Figure 5**), with 20% of industrial enterprises reporting such difficulties (half of them combining demand-side and supply-side difficulties).

At the same time, hiring difficulties are now reaching record levels (► **Figure 6**), and now concern 61% of manufacturing enterprises (against 30% on average over the long term), 54% of service enterprises (against 29% on average) and 77% of enterprises in the construction sector (compared with 59%). These difficulties have occurred relatively early in the recovery, in conjunction with a faster-than-expected rebound in employment.

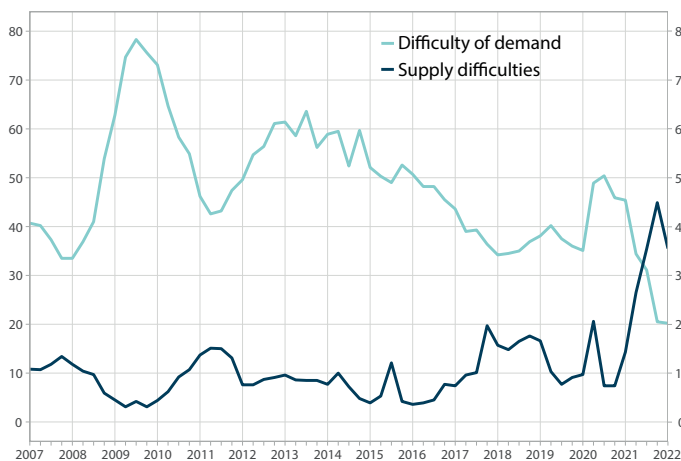
Producer price rises are likely to be partly passed on to consumer prices

In line with these major supply-side difficulties in a context in which demand-side difficulties are considered minor, the balances of opinion on the probable trend for sales prices have remained very high for several months in the business surveys.

First of all, producer prices rose throughout 2021, in France as in the other European countries. In December 2021, the year-on-year variation in French industrial

► 5. Supply- and demand-side difficulties in industry

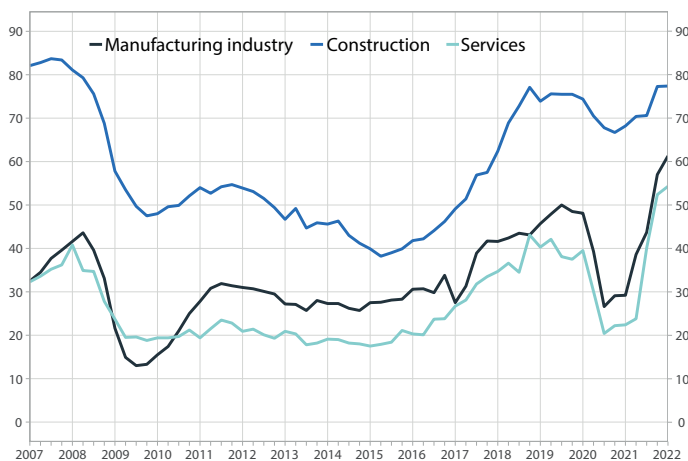
% of companies involved



Note: the demand-side difficulties correspond to the share of companies reporting demand-side difficulties alone or in combination with supply-side difficulties. The results are weighted according to turnover. Last point: January 2022. Source: INSEE, business surveys

► 6. Hiring difficulties in manufacturing, construction and services

% of companies involved



Note: the results are weighted according to workforce size. Last point: January 2022. Source: INSEE, business surveys

producer prices reached +16.9%. The same order of magnitude was reached for agricultural producer prices (+17.6% over 12 months in December). Producer prices for services, measured quarterly, increased less sharply (+2.9% year-on-year in Q3 2021), but this average masks significant disparities: the producer prices for maritime and coastal freight transportation rose by 85% year-on-year last autumn, for example.

In H1 2022, these past producer price rises are expected to be partially and gradually passed on to consumer prices, particularly for food products and manufactured goods. In addition, in a context of high geopolitical tensions, oil prices rose in January, leading to an upward revision of the assumption adopted until the end of the forecasting period (June 2022). The price of Brent is now assumed to be set at \$90 per barrel, compared to \$75 in last December's *Economic Outlook*. However, the €/€ exchange rate hypothesis remains stable at \$1.13/€. Given these assumptions and the slightly higher-than-expected provisional estimate of inflation in January 2022, the year-on-year rise in consumer prices looks set to exceed 3% in February 2022, and remain at between 3% and 3.5% until the end of the forecasting period (► **Figures 7 and 8**).

► 7. Past and projected headline inflation

year-on-year, in % in consumer price index

	December 2021	January 2022	February 2022	March 2022	June 2022	2021 (annual average)
Headline inflation	2.8	2.9	3.3	3.2	3.4	1.6

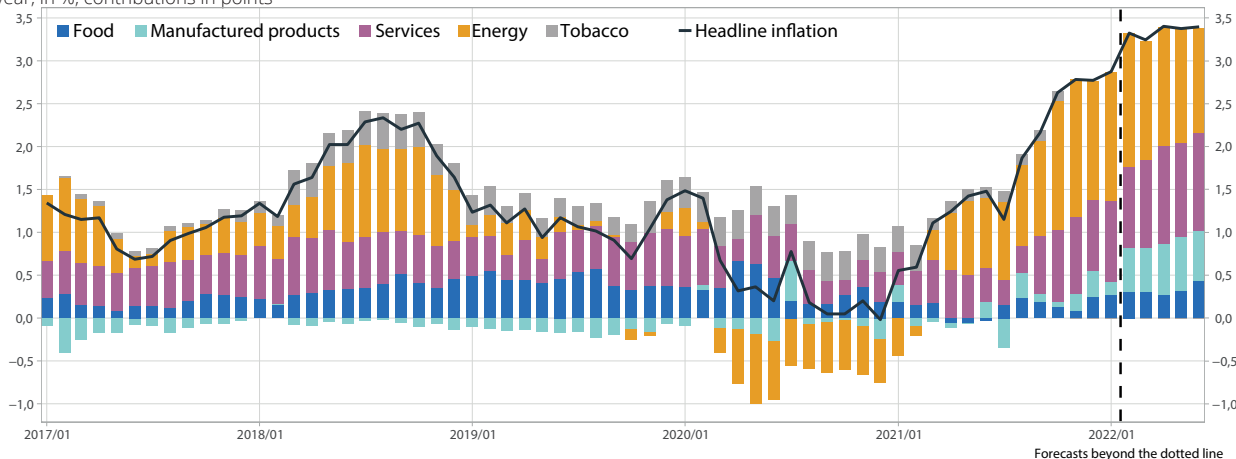
Provisional
Forecast

How to read it: between January 2021 and January 2022, the consumer price index rose by 2.9%, according to the provisional estimate.

Source: INSEE

► 8. Headline inflation and contributions by item

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



How to read it: consumer prices rose by 2.9% year-on-year, according to the provisional estimate. They are expected to increase by 3.4% year-on-year in June 2022.

Source: INSEE

The «tariff shield» measures on gas and electricity prices should curb inflation to a significant extent; without them, the inflation forecast for February would be at least one percentage point higher. In addition, they are combined with other measures implemented this autumn in order to support household incomes (the energy voucher and the «inflation allowance»).

A number of contingencies could affect these GDP and inflation forecasting considerations. In particular, the health situation continues to influence the continuing recovery in certain sectors, either directly, or indirectly *via* supply chain problems, originating from Asia in particular. Nevertheless, it is possible that the scale of the Omicron wave during the winter, combined with vaccination, will finally provide long-term respite from the health threat from the spring onwards. At the same time, new uncertainties have emerged at the beginning of this year, whether linked to geopolitical tensions whose deterioration would trigger a further rise in energy prices, the consequences of the tightening of monetary policies, or – and perhaps more structurally – the capacity to satisfy recruitment needs. ●

