

A rapid recovery after the ordeal, but tensions already showing

Economic outlook



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A rapid recovery after the ordeal, but tensions already showing

In terms of economic activity, and the labour market in particular, the shock wave has mainly been cushioned

Having followed the epidemiological curve for a year and a half, French economic activity shifted away from this profile this summer as a result of the vaccination campaign. The totally unanticipated nature of this crisis, combined with the scale of the emergency and support measures put in place, contributed to its uniqueness: a recession that was certainly unprecedented in its intensity, but during which income and the productive fabric were largely protected, safeguarding the potential for a rebound in the economy.

Specifically, the shock wave was very well cushioned in terms of the labour market, with payroll employment exceeding its pre-crisis level from Q2 2021 onwards. The pace of job creations is likely to slow a little towards the end of the year, but all in all about 500,000 net salaried job creations are expected, after the 300,000 net destructions recorded in 2020. The active population should be back to its trend trajectory by the end of 2021 and the unemployment rate is expected to drop sharply from Q3 onwards, to 7.6%, or almost one point less than two years earlier.

At the same time, economic activity overall is expected to return to its pre-crisis level by the end of year, but unlike employment it is unlikely to exceed it. Apparent labour productivity at the end of 2021 is therefore likely to remain below its Q4 2019 level, despite the return of short-time working to its normal level. It is difficult at this stage to determine whether or not this decline will be long-lasting, as it could be offset by the sectoral reallocation of jobs and the increased adoption of digital technologies.

The good performance of employment is expected to help support the purchasing power of households' gross disposable income. Measured in consumption units, this is nevertheless likely to remain at a standstill in Q3 with the effect of inflation and despite the buoyancy of earned income, before rebounding at the end of the year. As an annual average, purchasing power per consumption unit looks set to increase by 1.5% in 2021 (after stability in 2020).

On the corporate side, the margin rate settled at a particularly high level at the start of 2021, as a result of the combined effect of support measures introduced to cope with the crisis and the reduction in taxes on production. It is expected to fall back in H2, but by the end of the year it will probably be slightly above its 2018 average (as 2019 saw the switch from the CICE to lower contributions, resulting in a "double payment" in that year in accounting terms).

By the end of 2021, consumption should just about return to its level of two years earlier, while investment should exceed it and exports remain in decline

As has been the case since the start of the crisis, the granularity of observations is of considerable importance. On a month-by-month basis, acceleration in economic activity was strongest in May-June, with the effect of the reopening of businesses. As a quarterly average, however, this acceleration will in fact appear in Q3 (+2.7% forecast), before a slowdown late in the year (+0.5% forecast in Q4). Similarly, the sharp decline in the unemployment rate (measured as a quarterly average) expected for Q3 2021 owes a great deal to the acceleration in employment measured between March and June.

As an annual average, the forecast for growth in 2021 (around +6¼%, after -8.0% in 2020) therefore remains unchanged compared to the previous *Economic Outlook*. Nevertheless, the probable picture of the economy at the end of 2021 is beginning to take shape, based on the latest available short-term indicators ("hard" data, business tendency surveys, high-frequency data). At this stage, we continue to compare the situation forecast for the end of 2021 to that measured pre-crisis two years earlier, although obviously this measurement will gradually lose its relevance if the recovery continues. At a time when the economy is generally returning to its pre-crisis level, it should also be remembered that Q4 2019, taken as a benchmark for comparisons, also had a few peculiarities, and that if there had been no crisis, the economy would probably have grown at its trend pace over those two years.

Like employment, corporate investment reflects the unprecedented nature of the crisis, exceeding its Q4 2019 level by spring 2021, after falling less than expected given its usual determinants. The unanticipated nature of the crisis, the favourable financial conditions, support measures and composition effects probably account for this resistance. In H2, investment looks set to slow but it should nevertheless be more than 3% above its pre-crisis level.

Household consumption picked up sharply in May-June, with the gradual lifting of health restrictions. An analysis of aggregated CB bank card transaction amounts suggests that it held up relatively well during the summer (at 2% below its pre-crisis level), although it did not shoot up. By the end of the year, it is expected that consumption will manage to return to its level of two years earlier. After increasing sharply at the height of the crisis, the savings ratio is likely to decline substantially. In Q4 2021, however, it looks set to remain above its 2019 level.

The contribution of foreign trade to change in GDP is likely to remain negative throughout the whole of 2021. Imports are expected to follow the dynamics of consumption, returning to a level very close to that of Q4 2019 by the end of the year. At the same time, however, exports look set to continue to lag behind (at 7% below their pre-crisis level) despite their rebound, as they are still affected by international tourism and aeronautics.

Sectoral contrasts certainly seem likely to persist into H2. Industry is expected to grow only slowly: it is probable that some branches, the automobile industry in particular, will still be penalised by acute sourcing difficulties. In services, activity should increase at trend rate in those branches that have already exceeded their pre-crisis level (information-communication, services to businesses). But it is expected to remain below this level in accommodation-catering, leisure and transport, where some factors have a longer-lasting effect on demand (uneven recovery in international tourism and business travel, more frequent use of teleworking, etc.).

Global recovery under pressure, causing sourcing difficulties and inflation

As autumn begins, the international environment appears more uncertain than during the summer. Notably, the Chinese and United States economies, which had rebounded ahead of Europe, now seem to be slowing. The speed of the recovery, spurred on by factors like the massive budget support measures in the United States, caused severe sourcing pressures, with the result that it was difficult to disentangle the global knock-on effects of this stimulus package and, conversely, its contribution to the problems. China, meanwhile, is facing renewed outbreaks of the epidemic and electricity shortages which hamper the country's industrial production and increase risks to global supply chains.

Against this backdrop, energy and commodity prices soared in H1. Energy prices quickly impacted on inflation, which in France reached 2.1% year-on-year in September: the outlook survey of households suggests that for several months residents in rural areas, who are more dependent on their cars for their journeys, have felt the rise in inflation rather more than those living in urban areas. For the moment, the prices of other commodities are mainly affecting production prices, where the year-on-year increase is now into double figures: around +10% for production prices in industry and in the agricultural sector.

Assuming price stability until the end of the year, inflation in France looks set to remain a little above 2% until December. This would be imported inflation for the most part: if there were to be any "second round" effects *via* wages, these would not show up until after our forecasting period. Such effects cannot be excluded, however, even though at this stage the signals sent out by the survey data remain moderate.

The forecasts given in this *Economic Outlook* are based on the assumption that there will be no new health restrictions, nor any further worsening of supply pressures. Sourcing difficulties (particularly high in Germany) and, to a lesser extent in the short term, problems related to workforce shortages (exacerbated in the United Kingdom by the effect of *Brexit*, for example) are just some of the uncertainties that may affect this scenario. Conversely, if the rebound in consumption were to continue or even increase, this could result in a more vigorous recovery than forecast, especially if it were accompanied by a rapid reduction in sourcing difficulties. ●

French economic outlook



Economic activity

After stability in Q1, GDP grew in Q2 2021 (+1.1%), reflecting the rebound in activity in May and June after the April lockdown. If we assume that there will be no further health restrictions now that the vaccination campaign is underway, our scenario remains one of a continuing recovery until the end of the year at a more moderate pace month by month after the very high level reached in June, as described in the Economic Outlook of September 2021. In Q3, activity is expected to be about -0.6% compared to the pre-crisis level, i.e. an increase of 2.7% compared to Q2. GDP should then rise by about 0.5% in Q4, generally returning to its pre-crisis level. In H2, growth in activity is expected to be driven mainly by household consumption, after still being very much affected by health restrictions in H1. The contribution of investment is likely to be more limited, after the buoyancy of previous quarters, and that of foreign trade looks set to

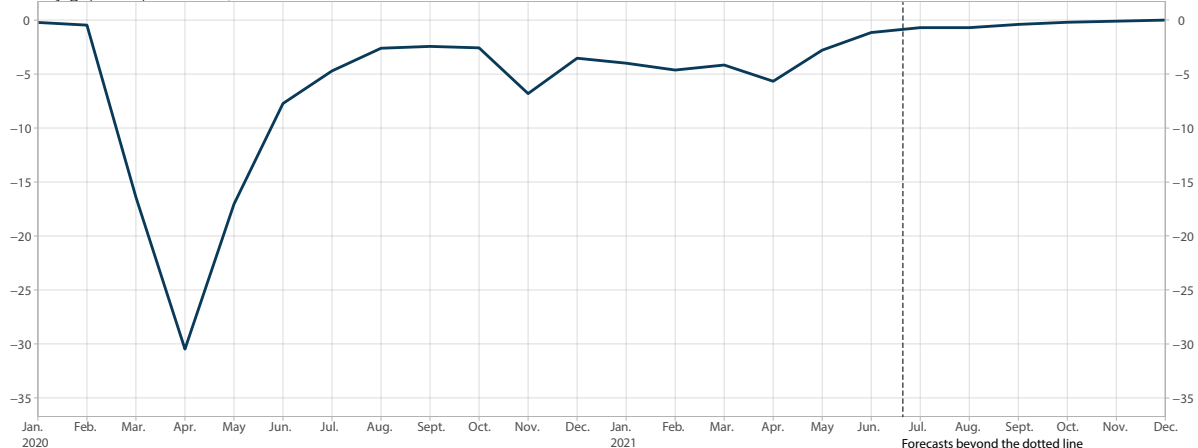
remain negative, with domestic demand boosting imports, while exports still remain well below their pre-crisis level. All in all, across all of 2021, GDP is expected to grow by 6¼% compared to 2020 (after -8.0%).

Economic activity bounced back strongly in May and June

In Q2 2021, according to the detailed results in the quarterly accounts, economic activity was 3.2% below its pre-crisis level (after -4.3% in Q1). After a further drop in activity during the third lockdown in April (► Figure 1), the lifting of the main restrictions in May and June led to a vigorous rebound, with activity in June reaching -1.2% compared to pre-crisis. Activity in construction was revised upwards and continued to rebound in Q2. Industry levelled off overall, with some contrasts between

► 1a. Estimated and then forecast monthly activity losses overall

economic activity gap compared to Q4 2019, in %

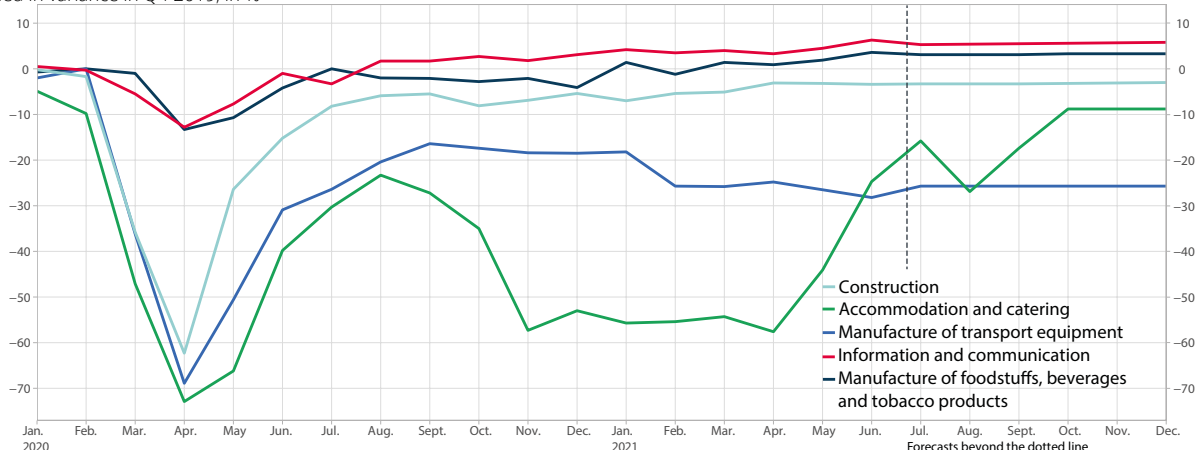


How to read it: in March, economic activity was down by about 5% compared to its Q4 2019 level. In April, it would appear to be settled at -5½% compared to this level

Source: INSEE calculations from various sources

► 1b. Estimated and then forecast monthly activity losses, for some branches of activity

value added in variance in Q4 2019, in %



Source: INSEE calculations from various sources

French economic outlook

branches handicapped by sourcing difficulties and others that are more dynamic. Meanwhile, improvements in part of the services sector were the result of the gradual lifting of restrictions.

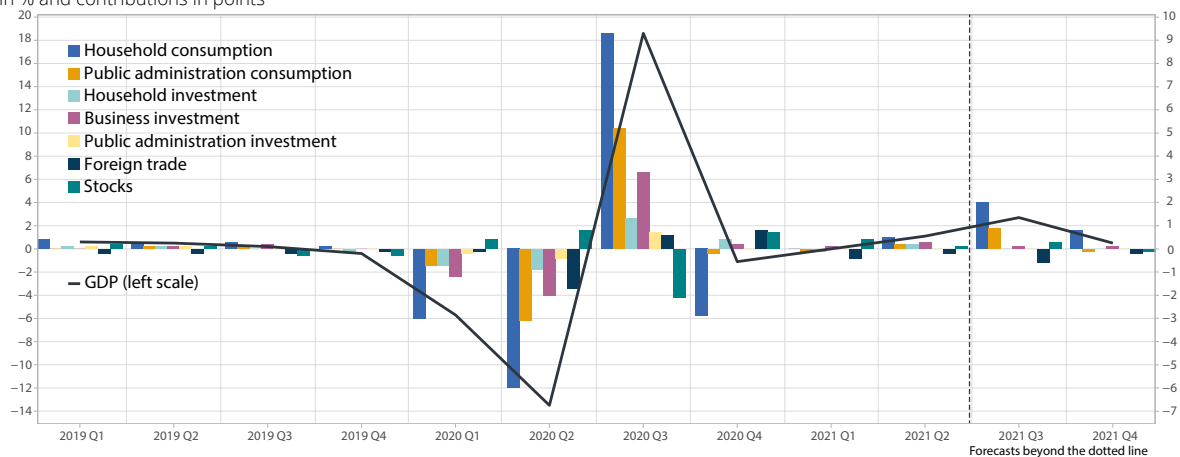
All in all, GDP increased by 1.1% in Q2 2021 (► **Figure 6**). Concerning demand, household consumption was stimulated by the lifting of restrictions in the spring, and was the main driving force behind this growth (contribution of 0.5 points, ► **Figure 2a**). Corporate investment was particularly dynamic, above its pre-crisis level. However, foreign trade once again hampered growth (-0.2 points).

In H2 2021, activity is expected to continue to grow but more moderately, after the high level reached in June

During the summer period, despite the fourth wave of the epidemic, and for the first time since October 2020, the economy was almost fully reopened at national level. However, the situation has not fully returned to normal, although vaccination coverage is making considerable progress: specific measures had to be applied in the overseas departments, where there was a sharp deterioration in the health situation. In addition, some general measures remain in place (wearing masks

► 2a. Quarterly variations in GDP and contributions of main demand items

variations in % and contributions in points

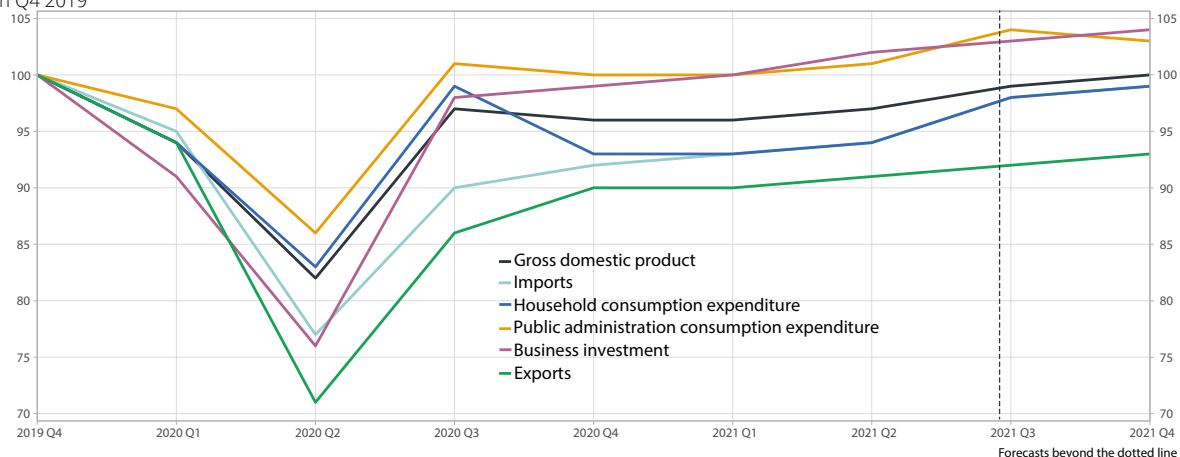


How to read it: in Q3 2021, GDP would appear to have increased by 2.7% compared to Q1 2021; the contribution of household consumption would appear to have been about 2 points.

Source: INSEE calculations from various sources

► 2b. Quarterly changes in GDP, imports and main demand items, compared to Q4 2019

base 100 in Q4 2019



Note: general government consumption expenditure groups together collective consumption spending (defence, justice, etc.) and so-called individualised spending (mainly health care, education).

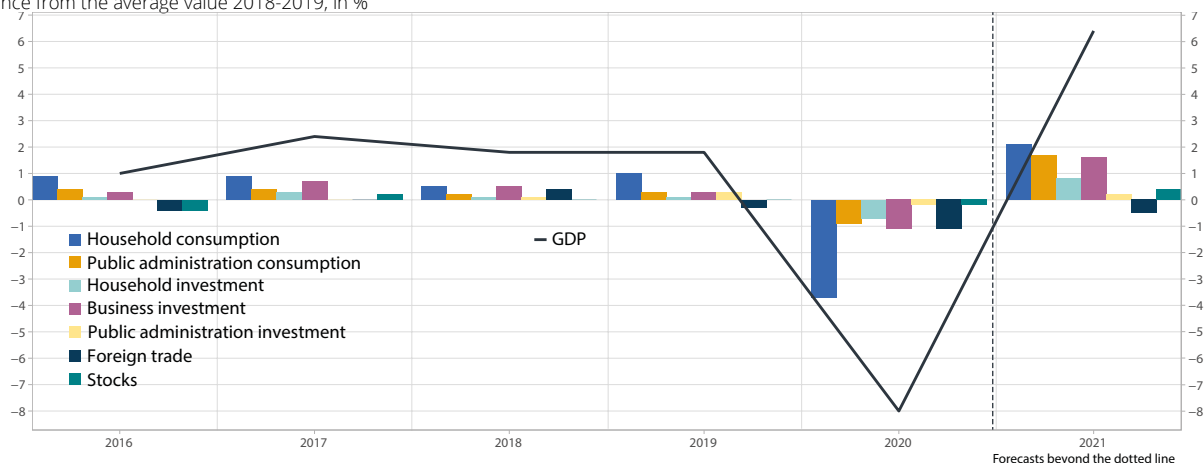
Source: INSEE calculations from various sources

indoors, social distancing) or have been introduced (health pass). In August, manufacturing production increased once again (+1.1% after +0.7% in July). After slipping back in August, the business climate improved a little in September, although with some disparities between sectors (decline in climate in industry, increase in services). In any event, both the business climate and employment remain well above their long-term average.

Given this context, and assuming that no new health restrictions will be introduced, the scenario of continuing recovery in H2 is confirmed, as already described in the *Economic Outlook* of 7 September 2021. Overall, economic activity in Q4 should return to its pre-crisis level (► **Figure 2a**), despite some sectoral differences (► **Figure 1b**).

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

in difference from the average value 2018-2019, in %



How to read it: in 2021, GDP is expected to increase by 6 ¼% compared to 2020; the contribution of household consumption is expected to be 2 points.
Source: INSEE calculations from various sources

► 4. Estimate then forecast of losses of economic activity in 2021 by branch, on average quarterly

difference to the fourth quarter of 2019, in %

Branch	weight	2020				2021			
		Q1 2020	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021
Agriculture, forestry and fishing	2	0.2	0.2	0.1	-0.8	-1.8	-2.4	-1	-1
Industry	14	-5.2	-21.3	-5.6	-3.5	-2.7	-2.7	-2	-2
Manufacture of food products, beverages and tobacco-based products	2	-0.6	-9.4	-1.4	-3.0	0.5	2.1	3	3
Coke and refined petroleum	0	6.8	28.2	21.7	31.0	128.4	103.0	103	103
Manufacture of electrical, electronic, computer equipment; manufacture of machinery	1	-7.0	-23.9	-6.7	-4.1	-2.4	-3.4	-1	-1
Manufacture of transport equipment	2	-12.7	-50.1	-21.1	-18.1	-23.2	-26.5	-26	-26
Manufacture of other industrial products	6	-5.7	-22.4	-5.9	-3.3	-1.3	-1.5	-1	0
Extractive industries, energy, water, waste treatment and decontamination	3	-2.7	-11.7	0.6	3.5	2.4	3.9	2	2
Construction	6	-12.6	-34.6	-6.5	-6.8	-5.9	-3.2	-3	-3
Mainly market services	57	-5.4	-17.9	-4.5	-6.1	-6.3	-4.5	-1	0
Trade; repair of automobiles and motorcycles	10	-6.2	-17.4	-0.3	-2.1	-2.3	-3.2	-2	-1
Transport and storage	5	-11.0	-33.7	-18.2	-21.5	-19.0	-14.8	-8	-8
Accommodation and catering	3	-20.6	-59.6	-26.9	-48.4	-55.1	-42.1	-20	-9
Information and communication	5	-1.7	-7.2	0.0	2.5	3.9	4.7	5	6
Financial and insurance activities	4	-4.7	-15.2	-2.8	-1.9	-0.3	1.7	4	4
Real estate activities	13	-1.3	-3.8	-0.8	-0.5	-0.3	0.4	1	1
Scientific and technical activities; administrative and support services	14	-4.4	-17.7	-2.7	-1.7	-2.3	-0.9	0	1
Other service activities	3	-10.3	-41.6	-13.3	-25.1	-27.1	-22.0	-12	-8
Mainly non-market services	22	-4.6	-15.1	1.2	-0.1	0.2	-0.1	2	2
Total VA	100	-5.5	-18.4	-3.5	-4.4	-4.3	-3.2	-0.7	-0.2
Taxes and subsidies		-7.1	-18.8	-1.5	-3.5	-4.1	-3.2	-0.7	-0.2
GDP		-5.7	-18.4	-3.3	-4.3	-4.3	-3.2	-0.6	-0.1

■ Forecast

How to read it: in Q3 2021, loss of activity in the accommodation-catering branch would appear to have been 20% compared to the pre-crisis level.
Source: INSEE calculations from various sources

French economic outlook

At sectoral level, industry is expected to grow slowly in H2, reaching -2% compared to its pre-crisis level (► **Figure 4**). This change will probably still be limited by persistent sourcing difficulties, which in July many companies reported as being an obstacle to production, and this was the case in all branches of industry (► **Focus** and the **Economic Activity** sheet in *Economic Outlook* of 7 September 2021). However, "other industrial branches" (chemical products, textiles, metallurgy, etc.) are expected to return almost to their pre-crisis level, also the manufacture of capital goods. On the other hand, shortages affecting the automobile sector and the occasional closure of some production lines are expected to continue to affect activity in the transport equipment

branch, which is likely to remain a long way from its pre-crisis level until the end of the year. After picking up in Q2 with a boost from investment, activity in building construction was then linked to the slowdown in housing starts, and looks set to remain stable in Q3 and Q4 2021, at -3% compared to Q4 2019.

In mainly market services, activity is expected to be 1% below pre-crisis level in Q3, then returning more or less to this pre-crisis level in Q4. However, at the end of the year, the situation will probably remain variable. On the one hand, activity is expected to be well above the pre-crisis level in those branches that have already exceeded it and which are now growing at trend pace (information-

► 5. Estimate then forecast monthly of losses of economic activity in 2021 by branch

difference to the fourth quarter of 2019, in %

Branch	weight	2021									
		Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	
Agriculture, forestry and fishing	2	-2	-2	-2	-2	-2	-2	-2	-2	-1	-1
Industry	14	-1	-4	-3	-3	-3	-2	-2	-2	-2	-2
Manufacture of food products, beverages and tobacco-based products	2	1	-1	1	1	2	4	3	3	3	
Coke and refined petroleum	0	111	127	148	142	95	73	103	103	103	
Manufacture of electrical, electronic, computer equipment; manufacture of machinery	1	-1	-3	-4	-3	-5	-3	-2	-1	-1	
Manufacture of transport equipment	2	-18	-26	-26	-25	-26	-28	-26	-26	-26	
Manufacture of other industrial products	6	1	-3	-2	-2	-2	-1	-1	-1	-1	
Extractive industries, energy, water, waste treatment and decontamination	3	4	1	2	3	5	4	2	2	2	
Construction	6	-7	-5	-5	-3	-3	-3	-3	-3	-3	
Mainly market services	57	-6	-7	-6	-8	-4	-1	-1	-2	-1	
Trade; repair of automobiles and motorcycles	10	-2	-3	-3	-7	-2	0	-1	-2	-2	
Transport and storage	5	-20	-19	-19	-19	-14	-12	-8	-7	-8	
Accommodation and catering	3	-56	-55	-54	-58	-44	-25	-16	-27	-17	
Information and communication	5	4	3	4	3	5	6	5	5	5	
Financial and insurance activities	4	-1	0	0	-1	2	4	3	4	4	
Real estate activities	13	0	0	0	0	0	1	0	1	1	
Scientific and technical activities; administrative and support services	14	-2	-3	-2	-3	0	1	0	1	1	
Other service activities	3	-27	-28	-27	-31	-21	-14	-10	-13	-12	
Mainly non-market services	22	0	0	0	-1	0	1	2	2	3	
Total VA	100	-4.0	-4.7	-4.2	-5.4	-2.9	-1.3	-0.7	-0.7	-0.4	
Taxes and subsidies		-4.3	-4.0	-3.9	-7.6	-2.1	0.0	-0.7	-0.7	-0.4	
GDP		-4.0	-4.6	-4.2	-5.7	-2.8	-1.2	-0.7	-0.7	-0.4	

■ Forecast

How to read it: in July 2021, loss of activity in the accommodation-catering branch would appear to have been -16% compared to the pre-crisis level.

Source: INSEE calculations from various sources

► 6. Estimated then forecast loss of economic activity in 2021

	2020				2021				2020	2021
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Quarterly variation (in %)	-5.7	-13.5	18.6	-1.1	0.0	1.1	2.7	0.5	-8.0	6 ¼
Difference compared to pre-crisis level (Q4 2019)	-5.7	-18.4	-3.3	-4.3	-4.3	-3.2	-0.6	-0.1		

■ Forecast

How to read it: In Q3 2021, GDP would appear to stand at -0.6% compared to the pre-crisis level (Q4 2019), an improvement (+2.7%) compared to Q2 2021.

Source: INSEE calculations from various sources

communication and services to businesses in particular). On the other hand, it is likely to remain depressed in accommodation-catering, leisure services and transport services, where some factors have a longer-lasting effect on demand (increased use of teleworking, uneven recovery of international tourism and business travel, etc.) despite the lifting of restrictions.

As a quarterly variation, GDP is expected to rise by 2.7% in Q3, reflecting its dynamic acceleration in May-June and good performance in the summer months, then by 0.5% in Q4 (► **Figure 6**). As in Q2, it will be domestic demand, and especially household consumption, that drives this growth (contributions of +2.0 points in Q3 then +0.8 points in Q4, ► **Figure 2a** and **2b**), after H1 was severely affected by the health restrictions.

Government consumption is also likely to contribute substantially to change in GDP in Q3, linked to the return to normal of schools –Q2 had been affected by the closure of some schools and nurseries– and the consumption of vaccines and tests. The latter should

decline in Q4, resulting in a downturn in government consumption by the end of the year.

After its buoyancy in H1, investment is expected to make only a moderate contribution to GDP growth in H2. In fact, it has already exceeded its pre-crisis level, in corporate, general government and household investment. At the start of the year, this dynamism was driven mainly by investment in construction, which may have been the result of catch-up effects from an accumulated delay in building sites in 2020 and the effect of support measures.

Finally, foreign trade is expected to continue to hamper change in activity (contributions of –0.6 points in Q3 then –0.1 points in Q4). The buoyancy of domestic demand is likely to lead to a sharp rise in imports, especially in Q3. Exports are expected to grow at a more moderate pace: in Q3, they will probably be driven by the return, albeit partial, of international tourism, slowing in Q4 in a context where world trade is affected by sourcing problems (► **Figure 7**). At the end of 2021, of all the

► **7. 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

	2019				2020				2021				2019	2020	2021
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Gross domestic product	0.6	0.5	0.2	-0.4	-5.7	-13.5	18.6	-1.1	0.0	1.1	2.7	0.5	1.8	-8.0	6 ¼
Imports	1.9	0.0	-0.1	-1.0	-5.0	-18.6	16.6	1.5	1.2	1.7	3.9	1.2	2.4	-12.2	8.4
Total resources	1.0	0.5	0.0	-0.7	-5.4	-14.7	18.0	-0.3	0.4	1.5	2.7	0.6	2.1	-8.9	7.1
Household consumption expenditure	0.8	0.4	0.5	0.2	-5.7	-11.6	18.3	-5.5	0.0	1.0	4.0	1.5	1.9	-7.2	4.1
General government consumption expenditure**	0.2	0.3	0.4	0.2	-2.9	-11.6	17.8	-0.8	-0.3	0.7	3.3	-0.5	1.0	-3.5	6.2
of which individual general government expenditure	-0.1	0.2	0.2	0.2	-4.1	-13.1	20.9	-1.6	-0.1	0.8	5.3	-0.9	0.6	-4.9	7.7
of which collective general government expenditure	0.5	0.4	0.8	0.1	-0.7	-8.4	13.4	1.2	-0.8	0.1	0.0	0.1	1.8	-0.1	4.2
Gross fixed capital formation (GFCF)	1.0	1.5	1.1	-0.3	-9.4	-15.8	26.2	2.5	0.4	2.4	0.5	0.5	4.1	-8.9	11.9
of which Non-financial enterprises (NFE)	0.1	1.1	1.3	0.1	-9.4	-15.8	28.2	1.6	1.1	1.9	0.7	0.6	2.7	-8.1	12.5
Households	1.1	1.4	0.0	-0.9	-12.1	-17.8	28.8	6.9	-1.3	4.1	0.4	0.4	2.8	-12.2	15.1
General government	2.8	2.4	2.0	-0.1	-4.9	-12.0	18.1	0.5	-0.5	1.3	-0.2	0.2	9.1	-4.4	5.9
Exports	1.4	-0.8	-0.6	-1.4	-5.5	-25.0	21.1	4.4	0.0	1.0	2.0	0.8	1.5	-16.1	7.2
Contributions (in points)															
Domestic demand excluding inventory**	0.7	0.6	0.6	0.1	-5.9	-12.6	20.2	-2.5	0.0	1.2	3.0	0.7	2.2	-6.7	6.5
Changes in inventories**	0.2	0.1	-0.3	-0.3	0.4	0.8	-2.3	0.6	0.4	0.1	0.3	-0.1	0.0	-0.2	0.4
Foreign trade	-0.2	-0.2	-0.2	-0.1	-0.1	-1.7	0.6	0.8	-0.4	-0.2	-0.6	-0.1	-0.3	-1.1	-0.5

■ 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 Q3 2021, exports would appear to have grown by 2.0% compared to Q2 2021; the contribution of foreign trade to quarterly GDP growth would appear to be –0.6 points.

Source: INSEE calculations from various sources

French economic outlook

different demand items, exports are likely to be lagging furthest behind compared to pre-crisis (-6.9%), whereas household consumption is expected to have almost returned to its level of two years earlier (► [Figure 8](#)).

All in all, as an annual average, GDP looks set to rebound vigorously in 2021 (+6¼% after -8.0%, forecast unchanged from the last *Economic Outlook*). Household consumption, which contributed most to the loss of activity in 2020, is likely to mirror this by contributing significantly to the rebound in 2021, at +2.1 points (► [Figure 7](#)). Investment (corporate, household and general government) is expected to contribute +2.6 points. The contribution of foreign

trade is likely to be slightly negative in 2021, the same as in 2019 and 2020.

This scenario for the end of 2021 remains conditional on the absence of any new health restrictions, both in France and among our main trading partners. It assumes that sourcing problems will stabilise at a high level until the end of the year. If these problems were eased by then, if the rebound in consumption increased, or if the health conditions in France and among our partners were to develop more favourably than expected (enabling international tourism to return more quickly, for example), activity in Q4 could prove to be more dynamic than in our forecast scenario. ●

► 8. Goods and services: resources-uses balance at chain-linked prices for the previous year, compared to pre-crisis

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

	2020				2021			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross domestic product	-5.7	-18.4	-3.3	-4.3	-4.3	-3.2	-0.6	-0.1
Imports	-5.0	-22.6	-9.8	-8.5	-7.3	-5.8	-2.1	-0.9
Total resources	-5.4	-19.3	-4.8	-5.0	-4.7	-3.3	-0.7	0.0
Household consumption expenditure	-5.7	-16.7	-1.4	-6.8	-6.8	-5.9	-2.1	-0.6
General government consumption expenditure**	-2.9	-14.1	1.1	0.3	0.0	0.7	4.0	3.5
of which individual general government expenditure	-4.1	-16.6	0.8	-0.9	-1.0	-0.2	5.2	4.2
of which collective general government expenditure	-0.7	-9.1	3.1	4.3	3.5	3.6	3.6	3.7
Gross fixed capital formation (GFCF)	-9.4	-23.8	-3.8	-1.3	-1.0	1.4	1.9	2.4
of which Non-financial enterprises (NFE)	-9.4	-23.7	-2.2	-0.6	0.5	2.3	3.1	3.7
Households	-12.1	-27.8	-7.0	-0.6	-1.9	2.2	2.5	2.9
General government	-4.9	-16.3	-1.1	-0.6	-1.1	0.2	-0.1	0.1
Exports	-5.5	-29.1	-14.1	-10.4	-10.4	-9.5	-7.7	-6.9

■ Forecast

* Consumption expenditure of general government and non-profit institutions serving households (NPISH)
How to read it: in Q3 2021, imports would appear to be at 2.1% compared to the pre-crisis level (Q4 2019).

Source: INSEE calculations from various sources

Tourism: resident attendance is sustained, but foreign customers are lacking

In France, hotel occupancy in July 2021 stood at 81% of its July 2019 level. The influx of resident tourists did not make up for the absence of tourists from abroad. From the two main foreign clientele groups, the United Kingdom and North America, very few tourists returned, and there were five times fewer hotel overnight stays in July 2021 than in July 2019.

Conversely, resident tourist numbers were very strong in July, especially in market accommodation (hotels, camp sites, rentals via platforms etc.). This contrasts with summer 2020, when residents tended to favour non-market accommodation (in second homes, at the home of friends or family).

The good performance of resident tourism was accompanied by dynamic tourist spending, especially in July. This boost seems to have been advantageous for almost all areas, except Île-de-France which suffered from a substantial drop in visitor numbers: the number of overnight stays in Île-de-France was halved compared to its July 2019 level, due to the disaffection of their foreign clientele.

Other European countries also suffered from a decline in demand in the accommodation sector: "high-frequency" indicators, covering searches for hotels and reviews on Airbnb, seem to suggest a timid recovery in tourist numbers in Europe, in contrast to the United States, where the accommodation sector seems to have recovered more quickly.

Hotel occupancy in July 2021, driven by the buoyancy of resident tourism, stood at four-fifths of its July 2019 level

In July 2021, tourists (residents and foreigners) spent 18.9 million overnight stays in hotels in France, or 81% of the pre-crisis level (23.4 million overnight stays in July 2019, ► **Figure 1**). This is more than in July 2020, when hotel overnight stays stood at 65% of the July 2019 level. Hotel occupancy data are not yet available for August.

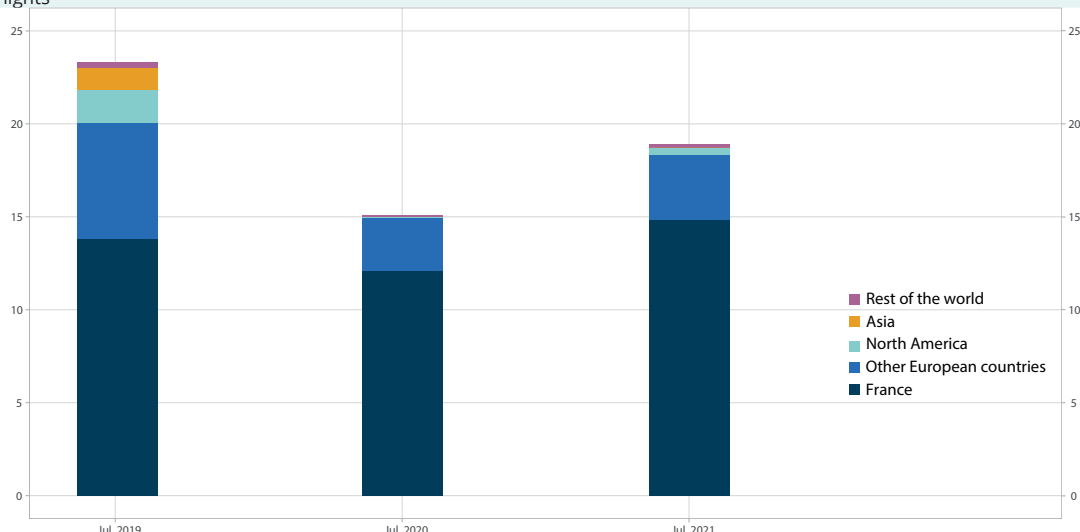
Resident tourism has certainly been particularly dynamic, beating occupancy records with 14.8 million hotel overnight stays. This is the highest level of resident tourist occupancy recorded by INSEE for July since 2011. This momentum has made it possible to offset the

decline in non-resident tourism: this was down compared to July 2019 (overnight stays down 57%) although it did not reach the low point of July 2020 (down 68%). Compared to the year before, the increase in non-resident tourism in July 2021 came almost exclusively from countries that are close geographically (Belgium, Germany, Netherlands and Switzerland).

Whereas during the 2010s, collective accommodation (hotels, outdoor accommodation, tourist residences etc.) was occupied by two-thirds resident tourists and one-third non-residents, the structure of occupancy has become strongly distorted in favour of a resident clientele, which accounted for about 80% of hotel overnight stays in July 2021.

► 1. Number of overnight stays in hotels in July 2019, 2020 and 2021 by tourist country of origin

in millions of nights



How to read it: in July 2021, tourists spent 18.9 million nights in hotels; 14.8 million of these overnight stays were by tourists who are resident in France, 3.5 million by tourists from other European countries and 0.6 million from the rest of the world.

Source: INSEE, tourism survey

French economic outlook

Hotel occupancy by the two main foreign clientele groups, from the United Kingdom and North America, was five times lower in July 2021 than before the crisis

In July 2021, the majority of foreign hotel customers were tourists from neighbouring countries: Belgium, Germany, the Netherlands and Switzerland have thus become the main foreign clientele base for hotels in France (► **Figure 2**). The number of overnight stays in hotels by Belgian, Swiss and Dutch customers returned to its July 2019 level, while hotel occupancy by Germans has recovered by two-thirds. The return of Italian and Spanish customers is for the moment still very patchy (40% and 33% of the July 2019 occupancy respectively).

Customers from countries outside the European Union had much lower occupancy levels, however. This was the case for tourists from the United Kingdom and North America, who, before the crisis (2010s) were the two main groups of foreign hotel customers (2.9 million overnight stays in July 2019, or 31% of all foreign occupancy). In July 2021, their occupancy rate represented 0.6 million hotel overnight stays, or about 20% of the July 2019 level. The quarantine measures imposed by the United Kingdom in July 2021, as a result of the circulation of the Delta variant of Covid in France, probably limited tourist flows. Added to this is the context of Brexit, which put an end to freedom of movement within the European Union from 31 December 2020.

In addition, hotel occupancy by Chinese tourists in particular was down to about 20,000 overnight stays in July 2021, against 400,000 in July 2019.

Return of resident tourists to market accommodation

In July 2021, and according to the survey monitoring tourist demand, the same proportion of residents went on holiday as in 2019 (31%, against 30% in 2020). This rate of holiday departures came after several months when, due to the restrictive health measures in place, many fewer residents went on holiday than in 2019 (except in May).

However, more residents remained in France (123 million overnight stays in July 2021 against 117 in July 2020 and 112 in July 2019), which accounts for the rise in hotel occupancy by residents.

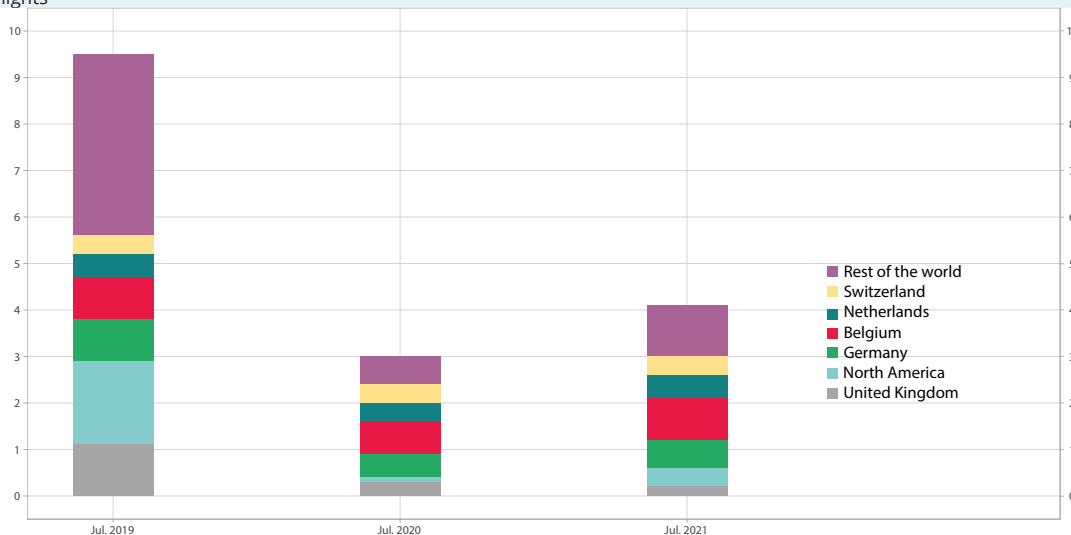
In summer 2020, resident tourists turned more to non-market accommodation (second homes, family or friends) to the detriment of market accommodation (hotels, outdoor accommodation, rentals via booking platforms, ► **Figure 3**). In July 2021, nights spent in market accommodation exceeded the July 2019 level, while those spent in second homes, with family or with friends returned to the July 2019 level.

Bank card tourist spending by residents in July and August 2021 was higher than in the same months in 2019

The aggregated data for bank card transactions give an approximation of tourist spending on accommodation, catering and leisure in France. Bank card data are used to identify transactions in tourist activities. Bank card-holders who spend in a tourist activity sector are not necessarily tourists, but it is reasonable to assume that

► 2. Number of overnight stays in hotels in July 2019, 2020 and 2021 by non-resident tourist country of origin

in millions of nights



How to read it: in July 2021, non-resident tourists spent 4.1 million nights in hotels; 0.9 million of these overnight stays were by tourists from Belgium, 0.6 from Germany, 0.5 from the Netherlands and 0.4 from Switzerland.

Source: INSEE, tourism survey

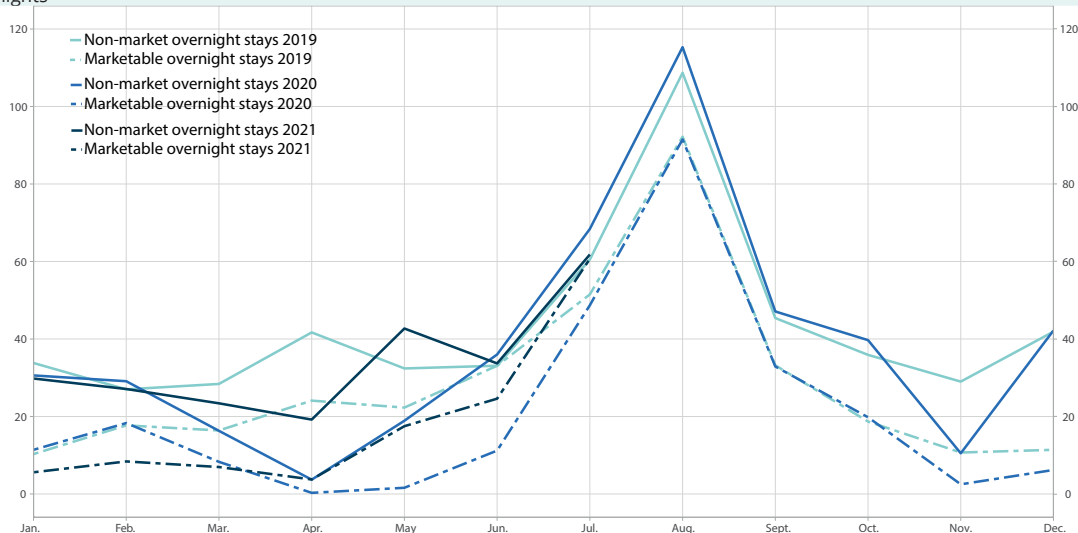
during the summer period a considerable proportion of them are. In addition, these card-holders are residents. Thus bank card transactions do not provide information on spending by foreign tourists. The use of bank cards has increased, especially in spring 2020, when the limit for contactless payments was raised. An upward bias between summer 2020 and summer 2019 is therefore

probable. However, a comparison of bank card spending in summer 2021 and summer 2020 would seem on the face of it to be less affected by this bias.

On this basis, tourist spending appears to be more dynamic in July and August 2021 than in July and August 2019. In accommodation, bank card transaction

► 3. Overnight stays by residents in France from January 2019 to July 2021, for personal reasons according to accommodation type, market or non-market

in millions of nights



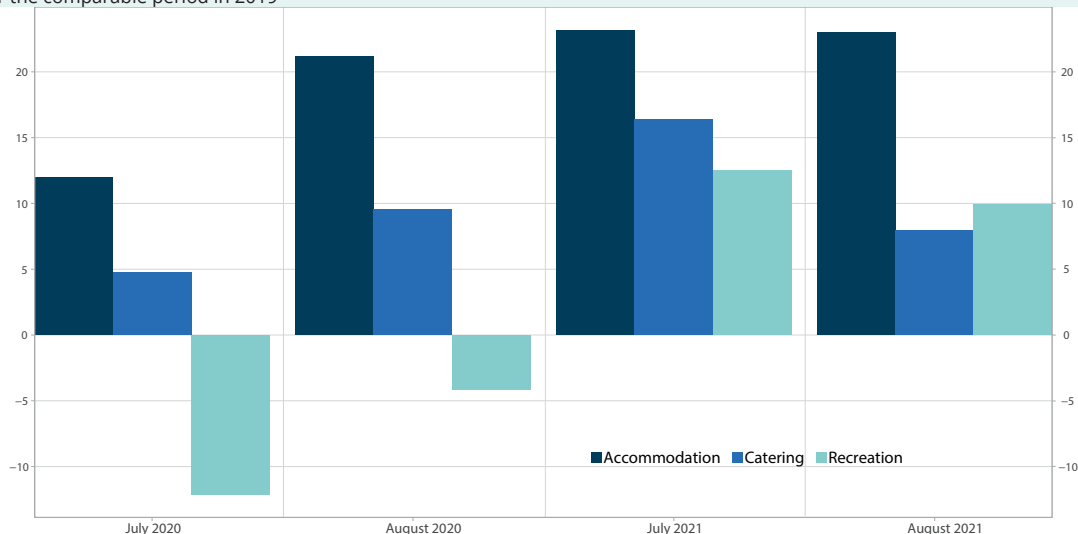
How to read it: in July 2021 residents of Metropolitan France spent 60.7 million market overnight stays and 61.8 million non-market overnight stays; in July 2019 there were 51.5 million market overnight stays by residents and 60.5 million non-market overnight stays.

Scope: France métropolitaine

Source: INSEE, tourism survey

► 4. Change in bank card transaction amounts spent by residents on accommodation, catering and leisure activities, compared to 2019

% change over the comparable period in 2019



How to read it: bank card spending on leisure by residents during August 2021 was 10% above the spending level of August 2019, while in August 2020 it was 4% below.

Note: amounts include remote transactions, unlike those presented at departmental level below, which deal only with physical sales.

Source: Cartes Bancaires CB, INSEE calculations

French economic outlook

amounts¹ increased significantly in summer 2021, to 23% above the 2019 level, in both July and August.² In catering, transaction amounts also appeared to be very buoyant in July 2021. They were also up in August 2021, although lagging behind slightly, probably linked to the introduction of the health pass. Meanwhile, leisure spending paid for by bank card picked up in July and August 2021, and was significantly above the 2019 levels.

This buoyancy in tourist spending, as reflected in bank card transactions and in the hotel occupancy surveys, can also be seen in other western countries, when we examine the indicators used to assess it (► **Box**).

Bank card tourist spending by residents increased in almost all areas for July and August 2021 compared to July and August 2019

Tourist spending by residents paying with bank cards in July 2021 (and to a lesser degree in August 2021) was much higher than the level measured two years earlier

in most departments³ (► **Figure 5**). The rise in spending was more significant in much of the south of France and along coastal areas as a whole. In August, spending by residents on catering, specifically, appeared to be less dynamic than tourist spending as a whole, probably connected to the introduction of the health pass.

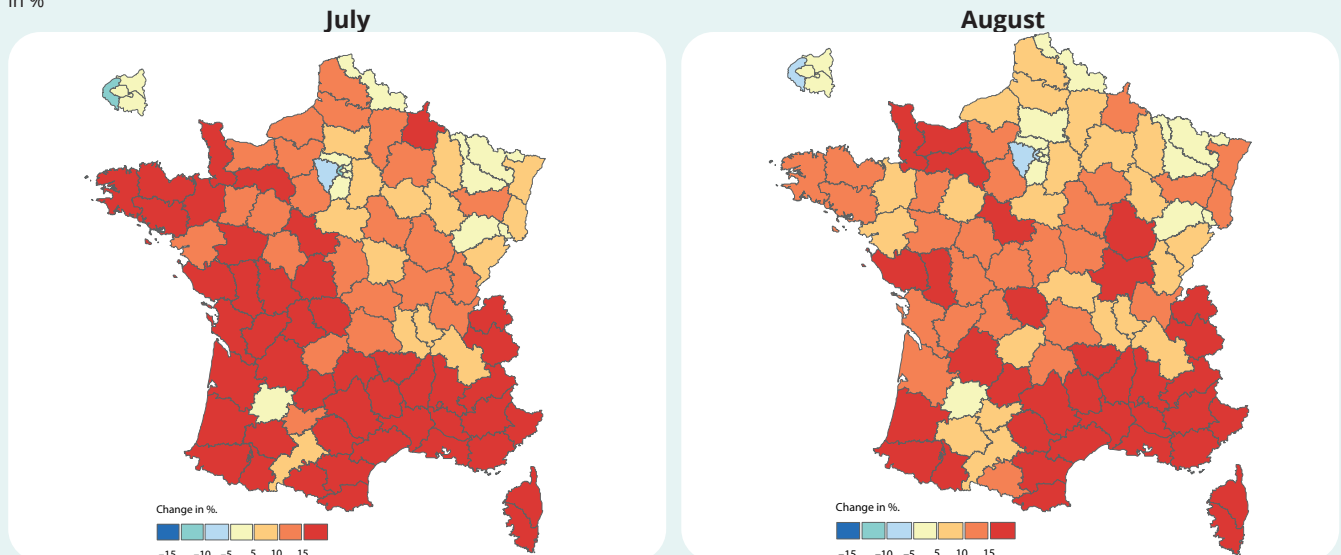
Hotel occupancy in Île-de-France at half of its July 2019 level, with the disaffection of foreign customers

The dynamism of resident tourism does not seem to have benefited Île-de-France, where hotel occupancy appeared to be very low in July (3.3 million overnight hotel stays against 6.7 in July 2019). This halving of overnight stays compared to summer 2019 is mainly due to the absence of a large part of the international clientele, which dropped from 4.1 million overnight stays in July 2019 to 1.1 in July 2021.

- 1 The amounts shown in Figure 5 include remote transactions, unlike those presented at departmental level below, which deal only with physical sales.
- 2 These levels of transaction amounts are very much higher than the 2019 levels, and may be due to a greater use of bank cards. However, an analysis of change in bank card use suggests that it has indeed increased since the start of the health crisis, but that this increase occurred mainly in spring 2020 (notably when the increase in the contactless payment ceiling was introduced). Thus a comparison of summer 2020 and summer 2021 year-on-year to 2019 is probably not much affected by the change in the rate of bank card use over the period.
- 3 The transactions analysed here at departmental level are limited to physical sales, which are more representative of spending actually carried out at local level.

► 5. Bank card tourist spending by residents by department in July and August 2021, compared to July and August 2019

in %



How to read it: in July 2021, resident tourist spending by bank card in July 2021 in Paris (75) was between -5% and +5% compared to spending in July 2019
Source: Cartes Bancaires CB, INSEE calculations

In addition to the decline in numbers of tourists coming from abroad was a drop in the number of resident tourists in July 2021: in Île-de-France, the number of overnight hotel stays by residents fell from 2.7 million in July 2019 to 2.2 million in July 2021. Bank card transaction amounts spent by residents on accommodation decreased in the same proportion, approximately -20% in July 2021, compared to July 2019.

In contrast, spending by residents on accommodation in August 2021 returned to its 2019 level (► **Figure 6**)

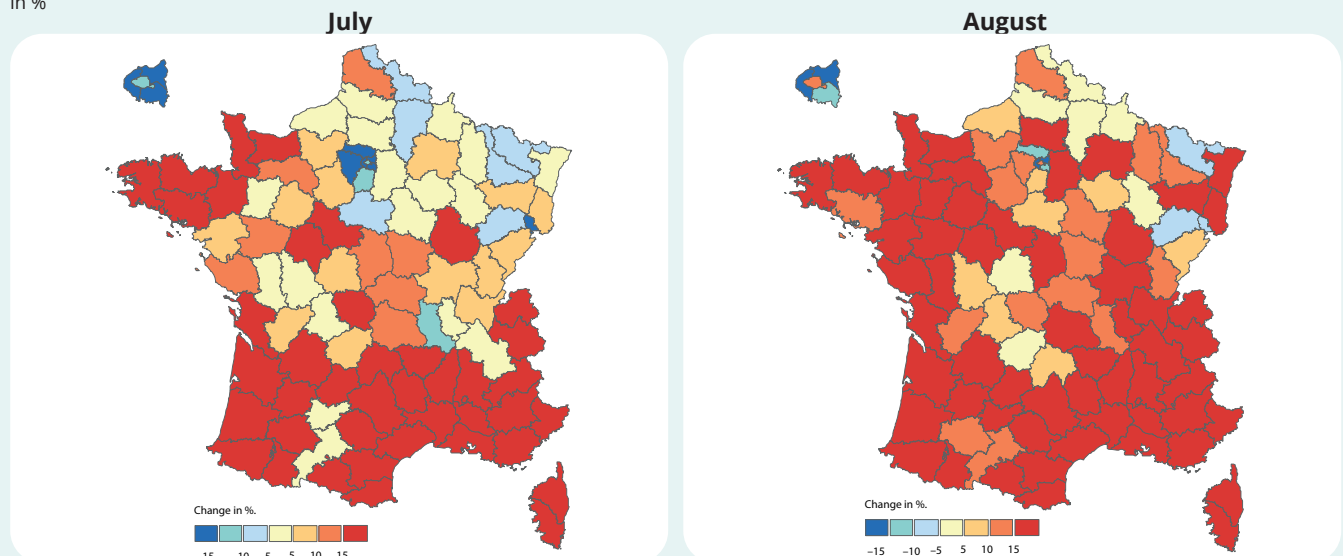
in Île-de-France. The impact of this upturn in resident spending in August in Île-de-France probably remains limited, as resident tourism is in the minority in Île-de-France in summer, compared to non-resident tourism. There were about twice as many overnight hotel stays by non-residents as by residents in July and August 2019.

The situation in Île-de-France, and particularly in Paris, reflects the situation in the major European capitals, where the recovery of tourism seems at present only partial (► **Box**). ●

David Fath and Pierre Girard

► 6. Bank card spending by residents by department on accommodation in July and August 2021, compared to July and August 2019

in %



Source: Cartes Bancaires CB, INSEE calculations

Hotel occupancy seems to be picking up more tentatively in Europe than in the United States

The 2021 tourist season in France can be analysed using survey data (Tourism Occupancy Survey and Tourist Demand Survey) and bank card transaction amounts, however, these types of source are not readily available for the other western economies. For these we can use indirect indicators, such as data from *Google Trends* or bookings on the *Airbnb* platform.

Google searches related to “hotel” suggest a more dynamic tourist season in the United States than in Europe

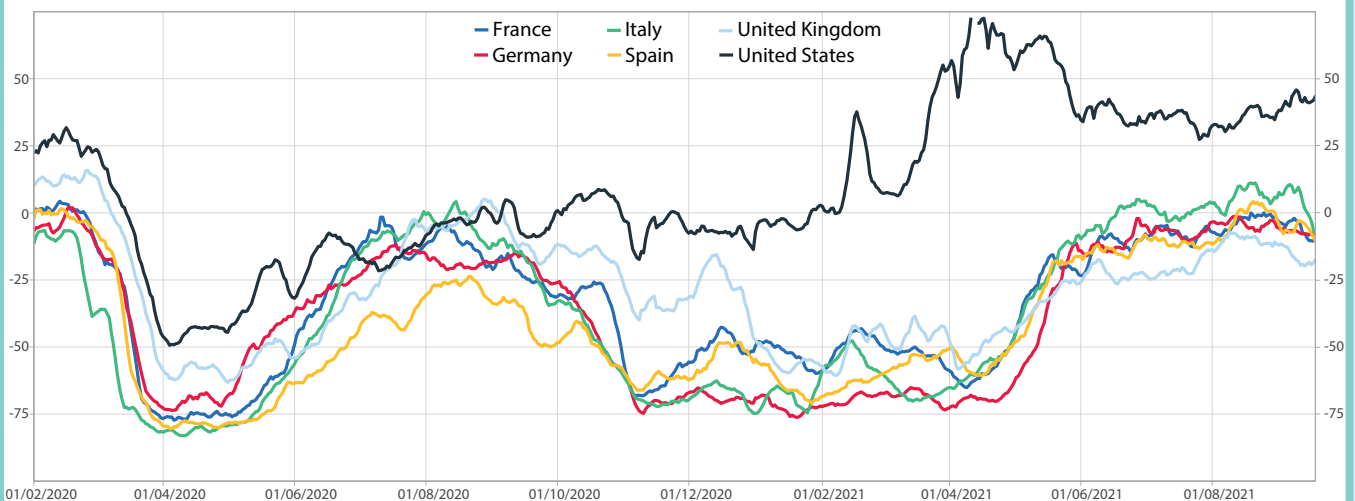
In the summer of 2021, the number of *Google* searches related to hotels was slightly below the pre-crisis level (► **Figure 8**). However, this number was higher than in summer 2020 in continental Europe, especially Spain and Germany, suggesting a better summer season for hotels than the previous year. In the United Kingdom, on the other hand, searches linked to hotels were down on summer 2020, probably due to the health situation but also as a result of Brexit.

The situation in America contrasted with the poor recovery in Europe: in the United States, the hotel sector returned to a similar level of *Google* searches to before the crisis from October 2020, and these scores have continued to improve. They peaked at +75% compared to the pre-crisis level in April 2021, before levelling off at around +30% in late August.

These *Google Trends* data could therefore suggest a more vigorous upturn in hotel tourism in the United States than in Europe, reflecting a more dynamic tourism on the part of Americans in their own country.

► 8. In Europe, searches for the term «hotel» moved slowly towards their pre-crisis level this summer, but they were very dynamic in the United States

in %



How to read it: on 4 September, the 7-day moving average for the number of Google searches for the term “hotel” in Italy was 6% higher than the 7-day moving average for each 4 September between 2017 and 2019.

Note: Latest data available for September 4th, 2021.

Source: *Google Trends*

In June, Airbnb bookings picked up more vigorously in the major American and Chinese cities than in the European capitals

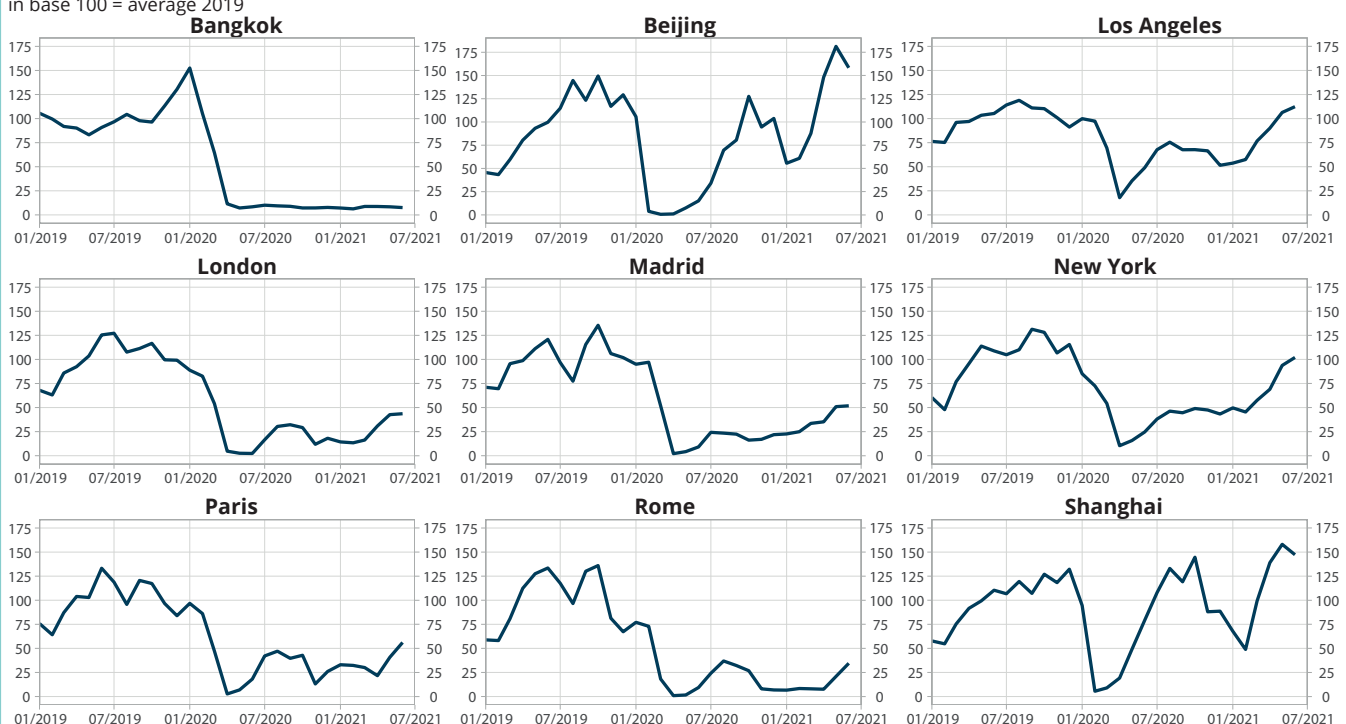
Data from *Inside Airbnb* provide information on the occupancy of accommodation offered by local hosts, especially in the major cities. They look at reviews left by users after their stay in a major city, and these can be considered as an approximation of the number of bookings on the collaborative *Airbnb* platform (assuming that the number of reviews per booking is the same from one city to another). The large cities that are covered include the capitals of each country or cities of a considerable size and data currently go up to June. They should therefore be considered with caution as at this point they do not actually cover the summer season, nor do they cover all tourism in the countries concerned.

From a sample of large cities in Europe (Paris, Rome, Madrid and London), the United States (New York and Los Angeles) and Asia (Bangkok, Shanghai and Beijing), *Inside Airbnb* data show that the occupancy profile collapsed at the start of the pandemic, then picked up slightly (except in Shanghai where it rebounded significantly and Bangkok where it did not recover) in summer 2020, before tumbling again in autumn 2021 and picking up again in June 2021.

In June 2021, three different recovery profiles could be distinguished. First, that of the European capitals, where recovery was better than in June 2020 but still only partial (the number of reviews posted on *Airbnb* did not go above 50% of the pre-crisis level, ► **Figure 9**). Similar profiles in Paris, London, Rome and Madrid suggest a tentative rebooting of tourist flows in the major European cities. In the United States and China, recovery seems to be much more dynamic: in New York and Los Angeles, reviews posted on *Airbnb* have caught up to their 2019 level, and the pre-crisis level has been far exceeded in Shanghai and Beijing (+47% and +53% respectively in June 2021). In fact, Chinese tourists have been encouraged to travel inside China, rather than to foreign destinations. China and the United States have therefore been able to benefit from significant domestic demand for tourism, more so than in Europe where the differences in restrictions have penalised tourism between neighbouring countries, at least this was the case before the European health pass was introduced. Finally, in Bangkok, where the epidemic has strongly affected the economy for several months, bookings collapsed in spring 2020 and have not bounced back since. ●

► 9. Airbnb bookings picked up more quickly in the United States than in Europe

in base 100 = average 2019



How to read it: in June 2021, the number of reviews left after an Airbnb booking in New York was 2% higher than the average level in 2019.

Note: latest data available for June 2021.

Source : *Inside Airbnb*

Workforce shortage, sourcing difficulties: from inconvenience to bottlenecks

INSEE's economic outlook surveys in industry, services and building construction regularly ask companies about any difficulties they may be experiencing regarding workforce and sourcing. Several indicators are produced based on the responses to the various questions asked. To explain these, here we consider the example of the economic outlook survey in the building construction industry, aimed at a sample of companies with ten or more employees.

With regard to the workforce, there is a question every quarter about difficulties with recruitment, calling for a "yes" or "no" answer: "Do you have difficulties recruiting?".

Next, there is a set of questions aimed at identifying any obstacles that hinder the expansion of business. Companies are first invited to say whether there are currently any obstacles to the development of their activity, then to specify the nature of these obstacles, if any. They can tick several boxes in a short list of possible constraints, one of which is shortage of staff. This gives a proportion of companies that say they are prevented from developing their activity as they would wish, due to a shortage of staff: this is a limiting factor to their activity, an obstacle to their production.

The questionnaire continues with a question on their potential production margin: "If you received more orders, with your current resources could you increase your production?". From the companies that reply to this question, we retain those claiming that they would be unable to respond to greater demand and which, in addition, ticked shortage of staff among the factors hindering their expansion: these companies are facing a "workforce bottleneck".

Businesses experiencing a workforce bottleneck are therefore necessarily a subset of those reporting shortage of staff as a factor limiting their expansion. However, the respective proportions do not relate to the same totals: the share of companies reporting that the shortage of staff hinders their activity is calculated in relation to all companies that replied to the question on the existence of obstacles to production, whereas the share of companies facing a workforce bottleneck is calculated in relation to all companies that replied

to the question on the possibility of increasing production in the event of additional orders. However, the companies surveyed do not all necessarily provide information on all the questions asked, and this partial non-response varies according to the questions: hence, we are not looking at the same denominator in both cases, and thus the resulting proportions do not strictly correspond. Overall, slightly fewer companies respond to the question on the possible increase in production in the event of additional orders, than to the question on the existence of obstacles.

Finally, we consider those companies that not only say that they could not increase their production if they received more orders, but they also tick lack of staff as the only factor limiting their production: these companies are experiencing a "bottleneck in workforce only".

This produces four tiered indicators (► [Figure 1](#)).

We also consider sourcing difficulties: obstacles limiting production or, even more disabling for a company, a bottleneck when companies encountering obstacles also say they are unable to increase their production if they receive more orders (► [Figure 2](#)).

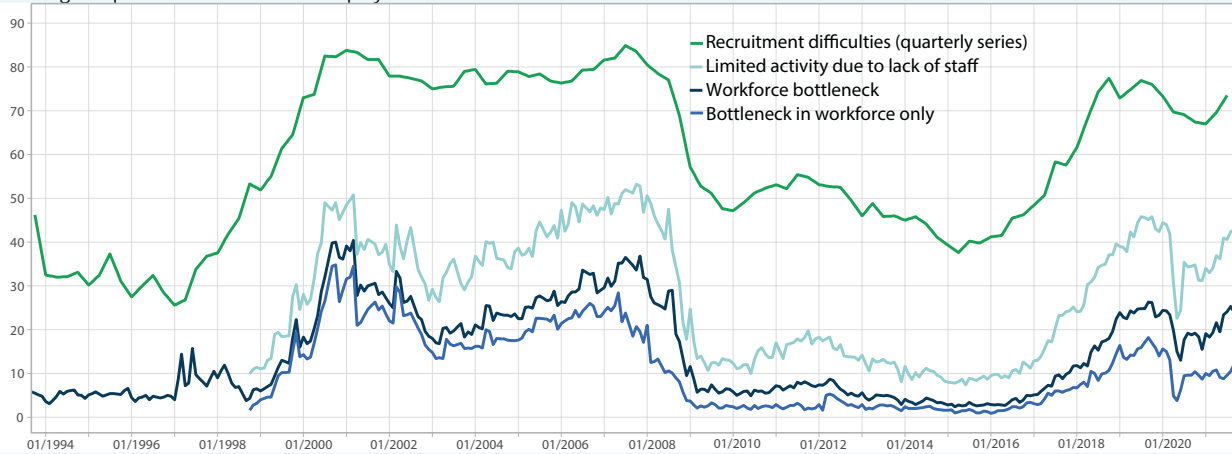
All these proportions are calculated taking into account the respective weighting of the companies that responded: individual responses are weighted by workforce for the question on recruitment difficulties and by turnover for the questions on factors limiting activity and the production margin. Results for each elementary stratum (intersection of sector of activity x size category) are aggregated taking into account the relative economic importance of each stratum across the entire scope of the survey. In the case of the building industry survey, this secondary weighting is based on turnover per stratum for all the questions.

Every economic outlook survey has its own specific characteristics, due to the variety of questions that are harmonised at European level along with questions or items based on a national initiative. Thus in the economic outlook survey of the building industry, questions on factors limiting activity are monthly, whereas they are quarterly in the surveys in industry and services. ●

Myriam Broin

► 1. Different types of difficulty linked to the workforce shortage measured in the economic outlook survey in the building construction industry

% of building companies with 10 or more employees



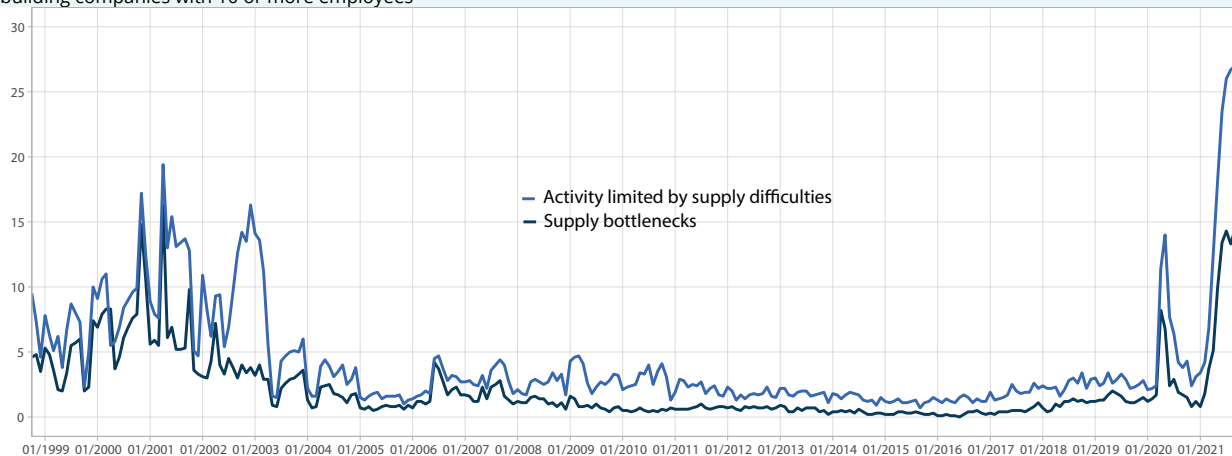
Note: the series are raw data. Within the elementary strata, individual responses are weighted by staff numbers for recruitment difficulties, by turnover for other questions. The results per stratum are aggregated, taking into account the relative importance of the stratum in the entire scope of the survey, according to turnover.

Last point: July 2021 for recruitment difficulties, September 2021 for other series.

Source: INSEE, Monthly survey of building

► 2. Sourcing difficulties: curb on activity and bottlenecks

% of building companies with 10 or more employees



Note: the series are raw data. Results are weighted by turnover.

Last point: September 2021.

Source: INSEE, Monthly survey of building

Foreign trade

In Q2 2021, the dynamism of imports in the advanced countries ensured that world trade could continue to rebound (+1.4% after +2.9% in Q1). World demand for French products accelerated more vigorously (+1.8% after +1.3%), linked to the growth in imports in the European countries, France's main trading partners. French exports followed this dynamic trend only partially, however, (+1.0% after stagnation in Q1), with imports proving more robust: thus for the second consecutive quarter, foreign trade affected change in GDP (-0.2 points after -0.4).

In H2, French imports are expected to continue to be buoyant (+3.9% in Q3 then +1.2% in Q4), boosted by the increase in domestic demand. Exports are also likely to accelerate, although to a lesser degree (+2.0% then +0.8%): in Q3, they appear to have been driven by the rebound, albeit partial, in international tourism, before decelerating in Q4. Business managers in industry who responded to the September business tendency surveys reported that their foreign order books were less full than in previous months. All in all, foreign trade is likely to continue to affect GDP in the last two quarters of 2021 (contribution of -0.6 points to change in GDP in Q3 then -0.1 points in Q4).

By the end of 2021, exports are expected to reach 93% of their Q4 2019 level, while imports are likely to return to virtually the same level as pre-crisis. This difference is mainly due to exports of transport equipment (especially aeronautical equipment) and imports of manufactured products, driven by domestic demand. ●

► 1. World trade and world demand for French products

quarterly variations (T/T-1), in %

	2020				2021				2020	2021
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
World trade	-3.3	-15.0	12.9	5.0	2.9	1.4	1.4	1.5	-7.9	10.9
Imports from advanced economies	-3.2	-17.0	13.7	5.2	1.0	2.0	2.4	1.5	-9.6	9.7
Imports from emerging economies	-3.5	-10.9	11.3	4.7	6.7	0.2	-0.8	1.4	-4.5	13.2
Global demand addressed to France	-3.2	-16.8	13.3	5.2	1.3	1.8	2.1	1.4	-9.1	9.6

■ Forecast

How to read it: in Q3 2021, world trade would appear to have increased by +1.4%, annual growth in 2021 is expected to be +10.9%.

Source: INSEE

► 2. French foreign trade

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

	2020				quarter variations				annual variations	
	Q1	Q2	Q3	Q4	2021				2020	2021
					Q1	Q2	Q3	Q4		
Exports										
Total	-5.5	-25.0	21.1	4.4	0.0	1.0	2.0	0.8	-16.1	7.2
Manufactured products (67%)	-4.6	-27.7	27.8	5.4	-0.8	1.4	-0.3	0.4	-15.4	7.8
Imports										
Total	-5.0	-18.6	16.6	1.5	1.2	1.7	3.9	1.2	-12.2	8.4
Manufactured products (69%)	-4.1	-20.6	24.2	1.5	1.7	1.5	3.0	1.0	-9.9	10.8
Contribution of foreign trade to GDP	-0.1	-1.7	0.6	0.8	-0.4	-0.2	-0.6	-0.1	-1.1	-0.5

■ Forecast

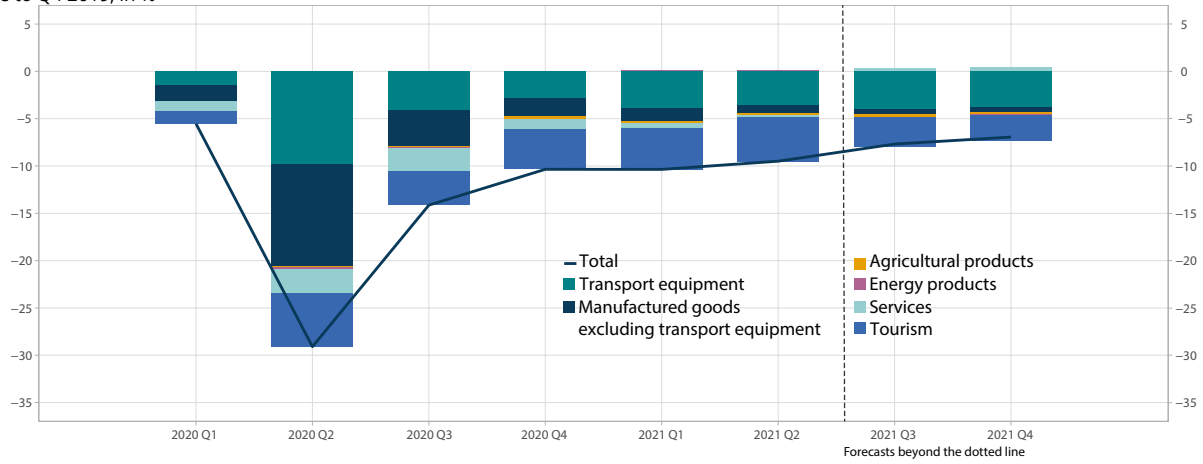
How to read it: French exports would appear to have grown by +2.0% in Q3 2021.

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

Source: INSEE

► 3. Contributions to French exports by sector

difference to Q4 2019, in %

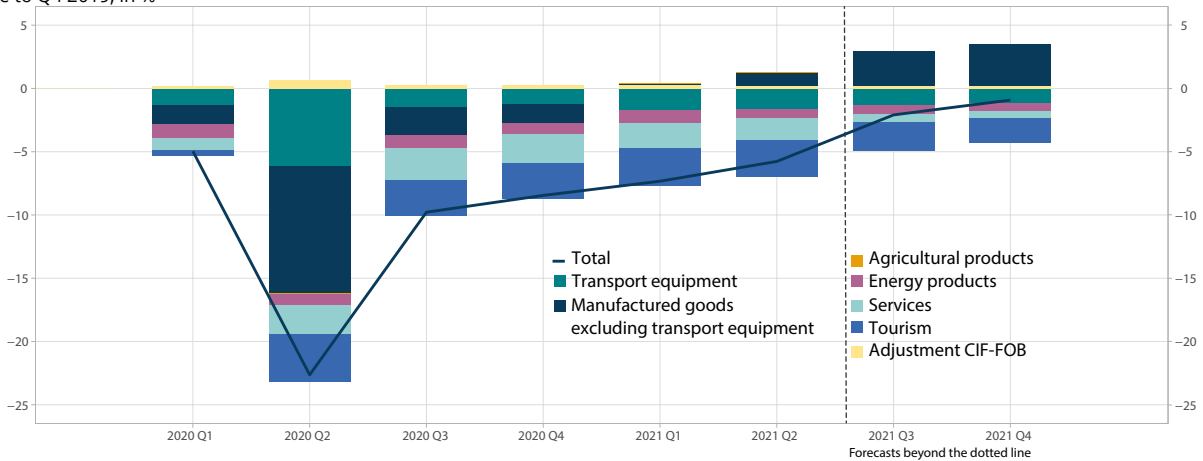


How to read it: in Q3 2021, French exports would appear to be 8% lower than their Q4 2019 level, with exports of tourism and transport equipment contributing around -7 points.

Source: INSEE

► 4. Contributions to French imports by sector

difference to Q4 2019, in %



How to read it: in Q4 2021, French imports are expected to be 1% lower than their Q4 2019 level, with imports of manufactured products, excluding transport equipment, contributing around +3 points.

Source: INSEE

Employment and unemployment

In H1 2021, payroll employment bounced back significantly: +438,000 between the end of 2020 and the end of June 2021, after -293,000 for the whole of 2020. Thus by the end of June 2021, payroll employment had exceeded its pre-crisis level (Q4 2019) by 145,000 (or +0.6%). In H2 2021, payroll employment is expected to continue to increase, but to a lesser degree: +76,000 (+0.3%). Since June, the upswing in activity has been accompanied by a decline in the use of short-time working, resulting in a sharp rebound in working time per employee and apparent labour productivity per capita.

If we also take self-employment into account, which looks likely to fall back moderately in 2021, total employment (payroll and self-employment) should increase by 474,000 in 2021 (between the end of 2020 and the end of 2021), after -263,000 in 2020, thus exceeding its pre-crisis level (Q4 2019) by 211,000 jobs by the end of 2021.

After a historic decline in 2020, the number of active workers bounced back in H1 2021 and should increase further in H2, at the same pace as in H1 (+194,000 after +225,000), thus returning to its pre-crisis trend trajectory. The strong rebound in employment in the middle of the year is expected to lead to a drop in unemployment, which should fall from an average of 8.0% in Q2 to 7.6% in Q3 and Q4.

By the end of June 2021, payroll employment had exceeded its pre-crisis level in virtually all sectors of activity

In H1 2021, payroll employment increased in France (excluding Mayotte): +438,000 between the end of 2020 and the end of June 2021 (with +148,000 in Q1 and +289,000 in Q2), after -293,000 for the whole of 2020 (between the end of 2019 and the end of 2020). In Q2, this rebound was mainly driven by the dynamism of

activity linked to the gradual lifting of health restrictions in May and June. Payroll employment increased particularly strongly in the market tertiary sector (+336,000 across the half-year, including temporary workers in their user sector), driven by those sectors that had been worst affected by the health restrictions: accommodation-catering (+112,000), trade (+61,000) and services to households (+51,000, notably with the reopening of museums, cinemas and concert halls). It also grew significantly in services to businesses (+65,000), the non-market tertiary sector (+59,000) and building construction (+27,000).

At the end of June, therefore, payroll employment exceeded its Q4 2019 level of 145,000 jobs, i.e. +0.6% (► **Figures 1** and **2**). Notably, payroll employment (including temporary workers) exceeded its pre-crisis level by 54,000 in building construction and by 122,000 in the non-market tertiary sector, almost half of which is in the health sector, directly linked to the health crisis. By mid-2021, employment in the market tertiary sector exceeded its end of 2019 level overall by 34,000, although it was still below this level in accommodation-catering and services to households. Finally, in industry, employment at mid-2021 was still 69,000 down on its Q4 2019 level (-2.0% compared to the end of 2019, of which -6.7% was in the production of transport equipment).

The rebound in employment in early 2021 concerned all age groups, especially young people, whose employment rate had fallen particularly sharply in spring 2020. Thus the employment rate of 15-24 year-olds rebounded by 4.6 points year-on-year in Q2 2021, after a considerable drop of 3.4 points in H1 2020. Across all 15-64 year-olds, downward variations were much more moderate (-1.6 points in H1 2020) as were upward variations (+1.7 points across the year by mid-2021).

► 1. Change in payroll employment

in thousand, SA, at the end of the period

	Evolution over 3 months								Evolution over 1 year		Evolution since end of 2019	
	2020				2021				2020	2021	End of June 2021	End of Dec. 2021
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Agriculture	-8	-2	3	12	-2	2	-2	-4	4	-7	4	-2
Industry	-125	-3	46	-2	10	5	2	3	-84	21	-69	-63
Construction	-100	58	49	20	30	-2	1	-6	27	22	54	49
Commercial tertiary sector	-241	-192	208	-78	81	255	53	29	-302	418	34	115
Tertiary non-trading	-17	-68	118	30	30	29	2	-1	63	60	122	123
All	-491	-207	423	-17	149	289	56	20	-293	514	145	222

■ Forecast

Note: in this table, temporary workers are counted in the sector where they carry out their assignment.

Scope: France (excluding Mayotte)

Source: INSEE

In H2 2021, payroll employment is expected to continue to grow but at a more moderate pace than in H1

In H2 2021, payroll employment should continue to grow, but at a significantly more moderate pace: +56,000 in Q3 and +20,000 in Q4, i.e. +76,000 in H2 2021 (after +438,000 in H1). Ultimately, in the two years affected by the health crisis, it would seem that 222,000 net payroll jobs would have been created between the end of 2019 and the end of 2021, against 217,000 per year on average between 2015 and 2019.

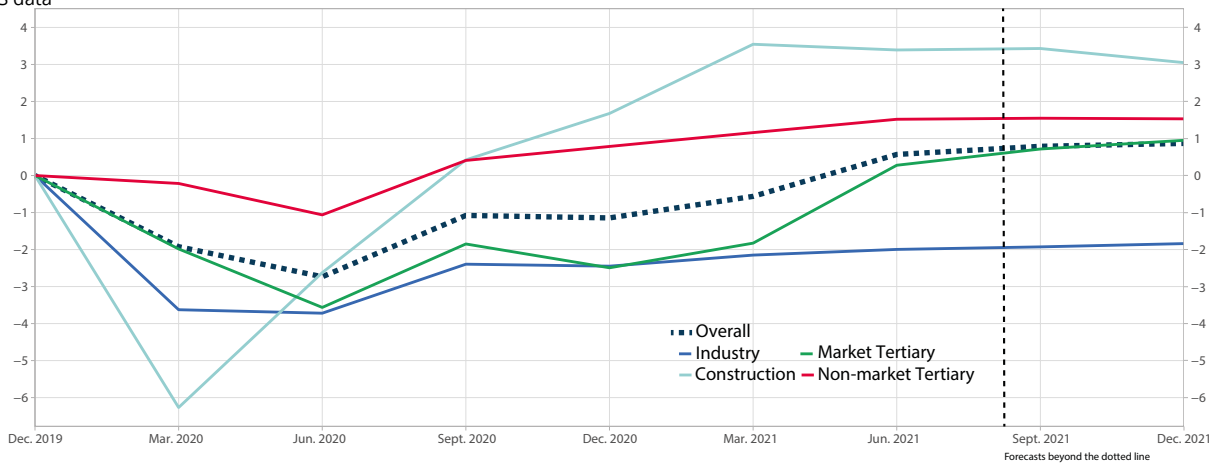
The momentum in activity that can be attributed to the easing of health restrictions has already contributed to the dynamism of employment at

¹ Especially as from September 2021, the share payable by companies has been increased, except for a few sectors which are still affected by specific restrictions.

the end of Q2; the main effect of this in H2 is likely to be the elimination of the short-time working scheme almost completely by the end of the year.¹ Employees' effective working time would then pick up significantly. The use of short-time working has already declined considerably over summer 2021. For private sector employees, short-time working estimated from nominative social declarations provided by businesses represented on average 4.7% of hours in Q2 2021, during which April was still affected by major health restrictions. This percentage came down to 2.1% in June 2021, then to 1.0% in July and 0.8% in August. In March 2021, paid hours were 5.1% below their March 2019 level; in July, they were only 1.0% below the July 2021 level (► **Figure 3**).

► 2. Payroll employment compared to the end of 2019

in %, CVS data



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

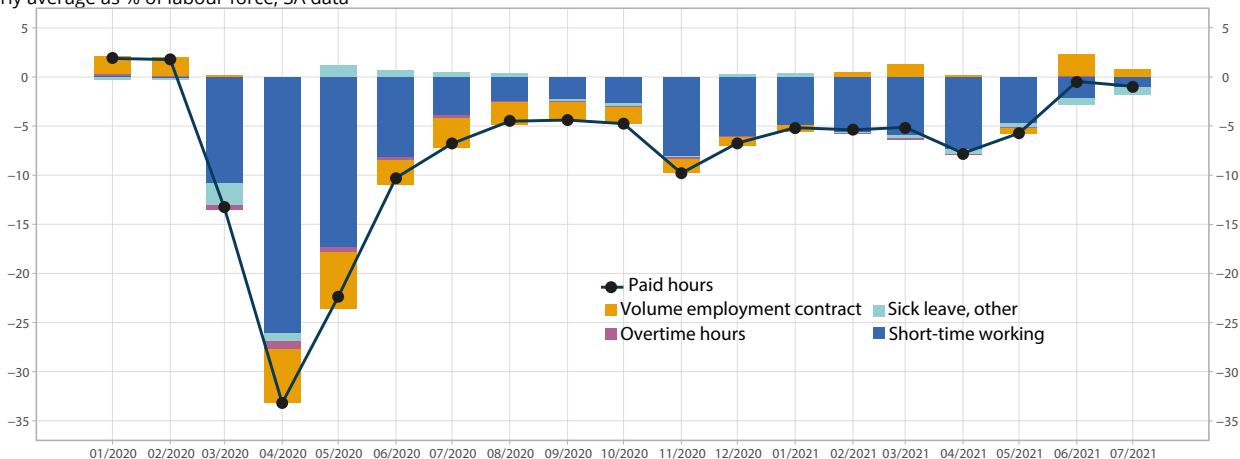
Note: in this graph, temporary workers are counted in the sector where they carry out their assignment.

Scope: France (excluding Mayotte)

Source: INSEE

► 3. Change in the volume of paid work compared to 2019 and contributions to this change

quarterly average as % of labour force, SA data



How to read it: between July 2019 and July 2021, the volume of paid hours fell by 1.0% and short-time working accounts for 1.0 point in this decline.

Note: "Volume employment contract" corresponds to the sum of the contractual working time offered by companies. This is the working time that the employee should complete in the month, taking into account only the weekly rest periods provided for by law (2 consecutive days per week). These figures were obtained using conventional measurements: e.g. 151.67 hours for a full-time employee, i.e. 35 hours per week (75.88 hours for a part-time employee); 21.67 days for an employee whose contract stipulates a fixed volume of work of 218 days per year.

Scope: France (excluding Mayotte)

Source: INSEE

French economic outlook

Total employment (payroll and self-employment) looks set to increase by 474,000 in 2021 after a decline of 263,000 in 2020

In 2020, self-employment would seem to have done better than simply withstand the crisis: it appears to have increased by 30,000 between the end of 2019 and the end of 2020, driven by a rise in the number of micro-entrepreneurs.² Nevertheless, this would be a net slowdown compared to the previous two years (+66,000 self-employed jobs in 2018 and +121,000 in 2019). The buoyancy of micro-enterprise creations, driven since 2018 by the doubling of the turnover ceiling and in 2020 by the unusual circumstances surrounding the health crisis, is likely to weaken in 2021. As a result of the downward trend in the number of “traditional” self-employed (excluding micro-enterprises) and the end of aid schemes associated with the crisis, self-employment is expected to fall back by 40,000.

Finally, total employment (payroll employment and self-employment) looks set to increase by 474,000 in 2021 after -263,000 in 2020, considerably in excess of its level of two years previously (+211,000).

² Because of the way the self-employed declare their income, the employment of self-employed workers is not yet known for 2020.

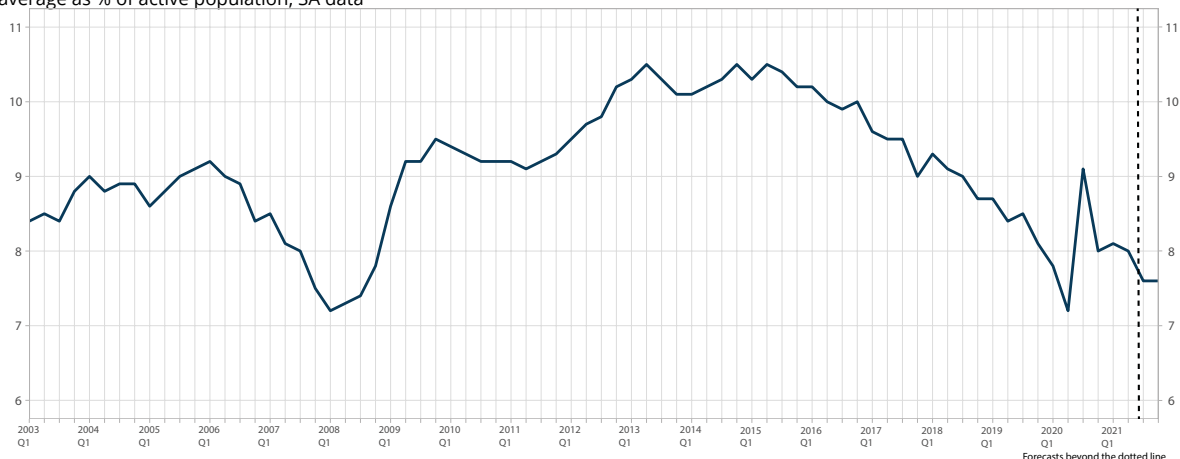
The unemployment rate is expected to fall to 7.6% in Q3 and Q4 2021

In Q2 2021, the unemployment rate remained virtually stable compared to the previous quarter (-0.1 points), at 8.0% of the active population (► **Figure 4**), just below its Q4 2019 level (8.1%).

This virtual stability in the unemployment rate in Q2 2021 is in line with the forecast published in early July. It is the result of the strong momentum in employment (+189,000 on average over the quarter) and in the active population (+173,000) – both these components were more dynamic than expected. The increase in the active population since the beginning of the year is mainly due to the return to the labour market of some of those workers who had left during the health crisis. First, during lockdowns or periods when major health restrictions were in place, some people stopped searching actively for a job and were therefore no longer considered as active jobseekers according to the ILO definition. This effect was particularly noticeable during the first lockdown and accounts for the decline of almost one million active workers in Q2 2020 and the rebound

► 4. Unemployment rate (ILO definition)

quarterly average as % of active population, SA data



How to read it: at the end of March 2021, payroll employment was 0.8% down on its level at the end of 2019.

Note: in this graph, temporary workers are counted in the sector where they carry out their assignment.

Scope: France (excluding Mayotte)

Source: INSEE, Labour Force Survey

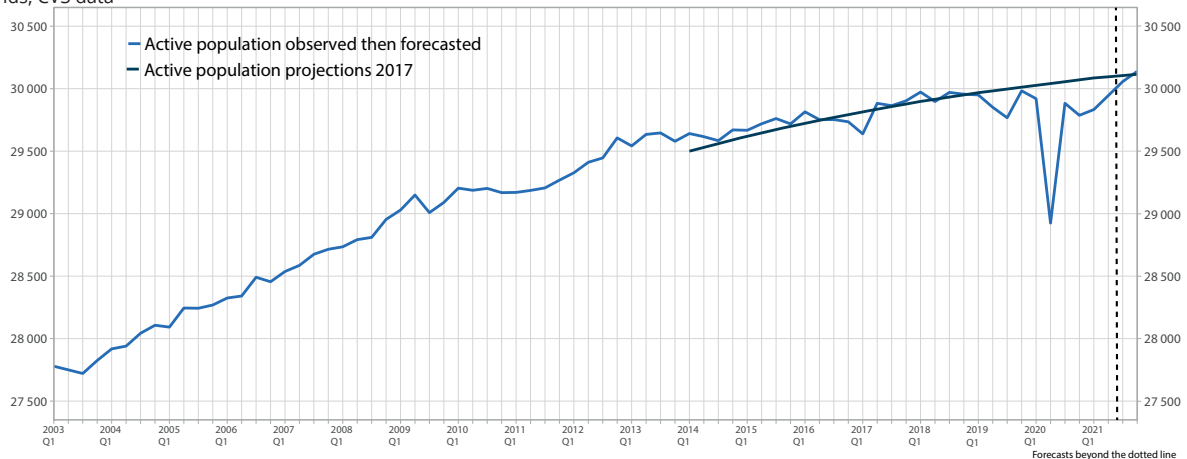
the following quarter. Second, in a more pervasive way throughout the entire crisis, the number of active workers fell as employment declined, as a result of an “effect of economic downturn on the active population”. The improvement in the economic outlook during 2021 results in the return of these people to the labour market. The existence of such an effect is common³ but in 2020 and 2021 it was on an unprecedented scale, similar to the shock that activity had undergone.

By the end of 2021, the active population is expected to continue to grow at the same pace as in H1, back to its trend trajectory: it looks set to increase by 112,000 in Q3 and by 82,000 in Q4 (► Figure 5). At the same time, the average rise in employment across the quarter is likely to be greater: +204,000 in Q3 (due to a strong carry-over effect linked to the considerable increase in employment between the end of March and the end of June), before slowing in Q4 (+97,000). As a result, the unemployment rate is expected to fall substantially from Q3, by 0.4 points to 7.6%, and remain at this level in Q4 (► Figure 6). ●

³ See Focus “New labour force projections and the effects of economic downturns” in Conjoncture in France June 2017.

► 5. Change in the active population compared to the latest long-term projections (2017)

in thousands, CVS data



Scope: France (excluding Mayotte), people aged 15 or over living in ordinary housing.
Source: INSEE, Employment survey, labour force projections 2017

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

variation in quarterly average in thousands, SA data

	2020				2021				Cumulative change since end 2019
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Employment (1)	-34	-739	358	170	31	189	204	97	274
<i>reminder: employment at the end of the period</i>	-484	-200	431	-10	139	279	45	11	211
Unemployment (2)	-96	-272	662	-351	22	-16	-92	-15	-158
Active population = (1) + (2)	-130	-1011	1020	-181	53	173	112	82	116
<i>trend labour force</i>	15	15	15	15	10	10	10	10	99
Variation in unemployment rate	-0.3	-0.6	1.9	-1.1	0.1	-0.1	-0.4	0.0	-0.6
Unemployment rate	7.8	7.2	9.1	8.0	8.1	8.0	7.6	7.6	

■ Forecast

How to read it: between the first quarter of 2021 and the second quarter of 2021, employment increases by 189,000 on average, unemployment decreases by 16,000 and the labour force increases by 173,000. The unemployment rate falls by 0.1 percentage points to 8.0%.

Note: unemployment corresponds here to total employment (payroll + self-employment), measured as a quarterly average.

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

Source: INSEE, Labour Force Survey, Quarterly employment estimates

Increase in private payroll employment in the non-market tertiary sector: what activities are concerned?

Between the end of June 2019 and the end of June 2021, private payroll employment in the non-market tertiary sector increased by 2.5% (+62,000 jobs). If we exclude employees of private individual employers, it is even more dynamic: +4.1% over two years, or +95,000 jobs. After a drop in H1 2020 due to the health crisis, the rebound was particularly rapid. From the end of September 2020, payroll employment has returned to its pre-crisis level and has continuously exceeded it since then.

The non-market tertiary sector is often associated with public employment, but it is not limited to this. Virtually all public employment (96%) is indeed counted in this sector, or 5.6 million employees in mid-2021. However, the sector also includes 2.6 million private sector employees, for a total of 8.1 million employees, i.e. two thirds public and one third private. Jobs classified in the “non-market tertiary” sector are designated as such according to the French classification of activities (NAF). Whereas for the public part of the sector, a large majority of services are provided free or at prices that are not economically significant, for the private part the majority of activities are lucrative. Private employment in the non-market tertiary sector includes a very wide range of activities:

- **General government activities** (8% of the sector in Q2 2021)

Private employment in this sub-sector consists mainly of social security activities, in particular health insurance funds and family allowance funds. There are also private legal entities under ministerial supervision (e.g. local agencies or *Pôle Emploi*).

- **Teaching** (15%)

Private education employees work in private schools (from nursery schools to higher education), vocational training, and also in teaching driving, sports and recreation. Note that in private education under contract, teachers are civil service employees, not private sector employees.

- **Human health activities** (25%)

These are employees working in a variety of private structures (clinics, laboratories, ambulances) and with health professionals (general practitioners, specialists, surgeons, etc.).

- **Medical and social residential care** (21%)

This category includes residential nursing care and social structures for a wide range of people (the elderly, especially those living in EHPADs, the disabled, those with drug addictions or social difficulties).

- **Non-residential social action** (31%)

This sector consists of services with a social dimension (e.g. child care or assistance to dependent persons) and associations carrying out social action (e.g. the Red Cross).

Between the end of June 2019 and the end of June 2021, all sub-sectors contributed to boosting private employment overall in the entire non-market tertiary sector (+95,000 jobs; ► [Table](#)).

In some sectors there is a direct link with the health crisis. In particular, almost one third of the overall increase was in human health activities (+5.5% jobs in two years or +32,000) with an unprecedented increase in employment in medical analysis laboratories (+19.8% or +9,000) linked to the demand generated by the health crisis for carrying out screening tests.

The number of employees of social security funds increased by 3.7% (+4,000), mainly as a result of recruitment linked to the tracing of Covid cases.

Payroll employment in private education also increased significantly between the end of June 2019 and the end of June 2021: +4.4% or +15,000 jobs.

Finally, social action (residential or non-residential), which represents more than half of the private non-market tertiary sector, has also contributed to the overall dynamism (+3.5% or +43,000 jobs between the end of June 2019 and the end of June 2021). Notably, payroll employment in care for young children –private nurseries– has risen substantially (+8.4% or +9,000), although this carries on from previous years and is partly substitution for childcare previously carried out by the employees of private individual employers. Lastly, residential social care for children and families in difficulty is also buoyant. ●

Léa Garcia

► Change in private payroll employment in the private non-market tertiary sector, between Q2 2019 and Q2 2021

Raw data

	Levels (in thousands)		Two-year change Q2 21/Q2 19	
	Q2 2019	Q2 2021	In Thousands	In %
PRIVATE NON-MARKET TERTIARY	2 326	2 421	95	4.1 %
General government activities	190	195	5	2.8 %
<i>General social security activities</i>	111	115	4	3.7 %
<i>Others</i>	79	80	1	1.5 %
Teaching	342	357	15	4.4 %
Human health activities	577	608	32	5.5 %
<i>Hospital activities</i>	303	303	0	0.0 %
<i>Medical analysis laboratories</i>	44	52	9	19.8 %
<i>Dental practice</i>	46	52	5	11.7 %
<i>Others</i>	183	201	17	9.5 %
Medical and social residential care and non-residential social action	1 218	1 261	43	3.5 %
<i>Residential social care for people in difficulty</i>	91	99	7	8.2 %
<i>Residential social and nursing care for the elderly</i>	221	223	2	1.1 %
<i>Care facilities for young children</i>	103	112	9	8.4 %
<i>Home care</i>	264	270	6	2.4 %
<i>Others</i>	538	556	18	3.4 %

Scope: private sector employees excluding individual employers

Source: Acoess, INSEE Calculations

Consumer prices

Since the start of the year, against a backdrop of rebounding energy prices that are much higher than the year before, as well as sharply rising prices for agricultural and mineral commodities, inflation has risen considerably, from 0.0% year-on-year in December 2020 to 2.1% in September 2021, according to this month's provisional estimate. Core inflation, which by definition is less affected by the increase in energy prices and agricultural commodities, rose more moderately than headline inflation: in September it would appear to have reached +1.3% year-on-year, after peaking at +1.5% in August due to the delay in the start of the summer sales compared to 2020.

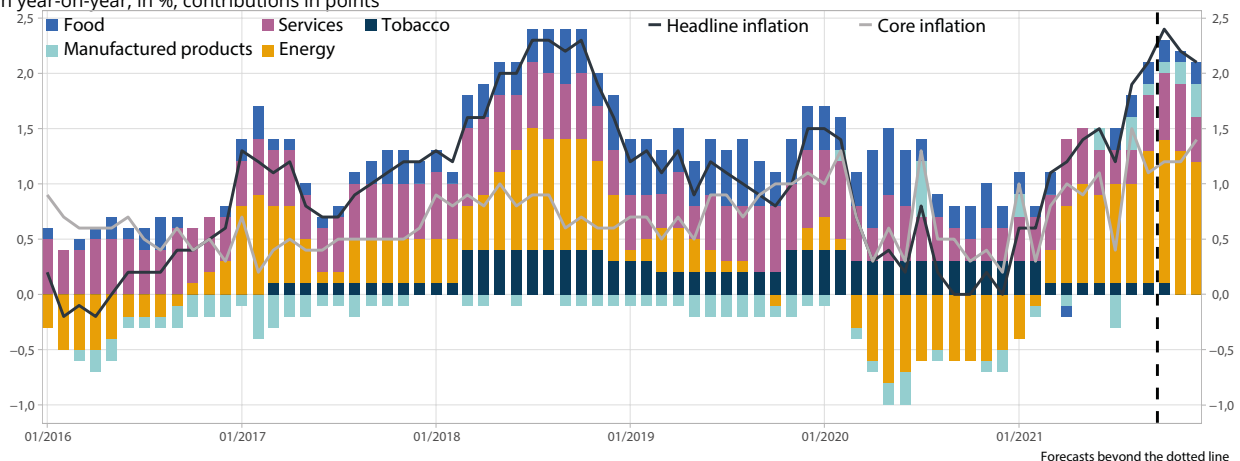
By the end of the year, it is expected that headline inflation will still be above 2%: it will probably reach 2.3% in October then fall back slightly (2.1% forecast for December), under the conventional assumption that the price of oil is fixed at \$75 for a barrel of Brent and there is stability in other commodity prices. This profile is mainly the result of energy prices: their contribution is likely to remain strong until the end of the year, but should decline automatically ("base effect") after the rise in oil prices seen at the end of 2020.

Food inflation should remain broadly stable until December: prices of food products excluding fresh produce are expected to rise, due to the recent increase in agricultural commodities, but conversely, the price of fresh food is likely to decelerate year-on-year, having increased sharply towards the end of 2020 as a result of the second lockdown. Prices of manufactured products are expected to be driven up by recent increases in industrial production costs. However, the prices of services are likely to slow slightly until December, with the expected deceleration in transport services, which should return to a more normal seasonality than that observed last year.

Meanwhile, core inflation looks set to increase gradually over the coming months, reaching 1.5% year-on-year in December, driven by the price of manufactured goods. ●

► 1. Headline inflation and contributions by item

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



Source: INSEE

► 2. Consumer prices

change in %

Regroupements IPC* (pondérations 2021)	February 2021		July 2021		August 2021		September 2021		December 2021		Annual averages		
	yoy	cyoy	yoy	cyoy	yoy	cyoy	yoy	cyoy	yoy	cyoy	2019	2020	2021
Food (17.9%)	0.8	0.1	0.9	0.2	1.3	0.2	1.0	0.2	1.0	0.2	2.5	1.9	0.6
<i>including: fresh food (2.6%)</i>	3.7	0.1	3.8	0.1	6.8	0.2	4.6	0.1	2.2	0.1	4.3	7.3	1.9
<i>excluding: fresh food (15.2%)</i>	0.3	0.1	0.4	0.1	0.4	0.1	0.3	0.1	0.8	0.1	2.1	1.0	0.4
Tabacco (2.4%)	12.8	0.3	5.1	0.1	5.1	0.1	4.8	0.1	0.0	0.0	10.6	13.7	5.5
Manufactured products (25.0%)	-0.4	-0.1	-1.1	-0.3	1.1	0.3	0.4	0.1	1.2	0.3	-0.6	-0.2	0.3
<i>including: clothing and footwear (3.5%)</i>	-3.0	-0.1	-7.1	-0.3	4.6	0.2	0.9	0.0	1.4	0.0	-0.3	-0.5	-0.1
<i>medical products (4.4%)</i>	-0.7	0.0	-0.8	0.0	-1.0	0.0	-1.4	-0.1	-1.7	-0.1	-2.8	-2.0	-1.2
<i>other manufactured products (17.1%)</i>	0.2	0.0	0.0	0.0	1.0	0.2	0.8	0.1	2.0	0.3	-0.1	0.3	0.7
Energy (7.5%)	-1.6	-0.1	12.3	0.9	12.7	0.9	14.4	1.1	13.9	1.0	1.9	-6.1	9.3
<i>including: oil products (3.4%)</i>	-4.6	-0.2	16.5	0.6	16.9	0.6	18.4	0.6	16.0	0.5	0.6	-11.8	11.5
Services (47.3%)	0.8	0.4	0.6	0.3	0.7	0.3	1.5	0.7	1.3	0.6	1.0	0.9	1.1
<i>including: rent-water (8.5%)</i>	0.8	0.1	1.1	0.1	1.3	0.1	1.3	0.1	1.4	0.1	0.4	0.3	1.1
<i>health services (6.5%)</i>	0.0	0.0	-0.8	-0.1	-0.7	0.0	-0.6	0.0	-1.3	-0.1	-0.1	0.4	-0.6
<i>transport (1.7%)</i>	-0.7	0.0	2.0	0.0	3.7	0.1	7.4	0.1	3.1	0.1	0.7	-1.7	3.0
<i>communications (2.4%)</i>	1.3	0.0	3.0	0.1	2.8	0.1	2.3	0.1	3.6	0.1	-1.1	1.0	2.9
<i>other services (28.1%)</i>	0.9	0.2	0.8	0.2	0.6	0.2	1.3	0.4	1.5	0.4	1.6	1.4	1.1
All (100%)	0.6	0.6	1.2	1.2	1.9	1.9	2.1	2.1	2.1	2.1	1.1	0.5	1.5
<i>All excluding energy (92.5%)</i>	0.9	0.8	0.4	0.4	1.1	1.0	1.4	1.3	1.2	1.1	1.1	1.1	1.0
<i>All excluding tobacco (97.6%)</i>	0.3	0.3	1.1	1.1	1.8	1.8	2.1	2.1	2.1	2.1	0.9	0.2	1.5
Core inflation (60.1%)**	0.6	0.4	0.4	0.2	1.5	0.9	1.3	0.8	1.5	0.9	0.8	0.6	1.0

■ Provisional

■ 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

French economic outlook

Perceived inflation increases slightly more in rural areas

In the monthly economic outlook survey of households carried out by INSEE, respondents are asked about their perception of inflation. From their responses regarding their perception of recent price changes¹ a balance of opinion is calculated which, over a long period, appears to be strongly correlated to the consumer price index (or CPI ► [Figure 1](#)). Since the start of the year in particular, more and more households say that prices in general have risen (balance of opinion changed from -39 points in December 2020 to -4 points in September 2021), linked to the rise in the CPI over the period (0.0% year-on-year in December 2020 to 2.1% year-on-year in September 2021). In September, this balance was at its highest since 2013, slightly above the high point reached at the end of 2018, also in a context linked to an increase in CPI as a result of a rise in energy prices. However, it is still very far below the levels reached in 2011-2012 and 2008.

This balance of opinion on past inflation has been rising since the beginning of 2021 for all categories of household. Affluent households (highest income quartile) are certainly less likely than lower-income households to respond that prices have increased sharply, but this observation already applied before 2021, and this gap has not widened this year (► [Figure 2](#)).

In addition, as the increase in the CPI was driven mainly by energy prices, and especially by the price of oil, households living in rural areas, who are more dependent on their cars for moving about, seemed to feel the growth in inflation in recent months more keenly than households in urban areas (► [Figure 3](#)): their balance of opinion increased from March 2021, a few months before that of residents of urban areas, who only perceived sharp increases from May 2021. ●

Jérémy Marquis

¹ The question that households were asked is as follows: "Do you find that over the last twelve months, prices have... increased sharply/ increased moderately/ increased slightly / stagnated / fallen?". The balance of opinion distinguished between the percentage of households that replied "increased sharply" and those that replied "increased slightly", "stagnated" or "fallen".

► 1. Balance of opinion on past change in prices and inflation measured by the Consumer Price Index (CPI)

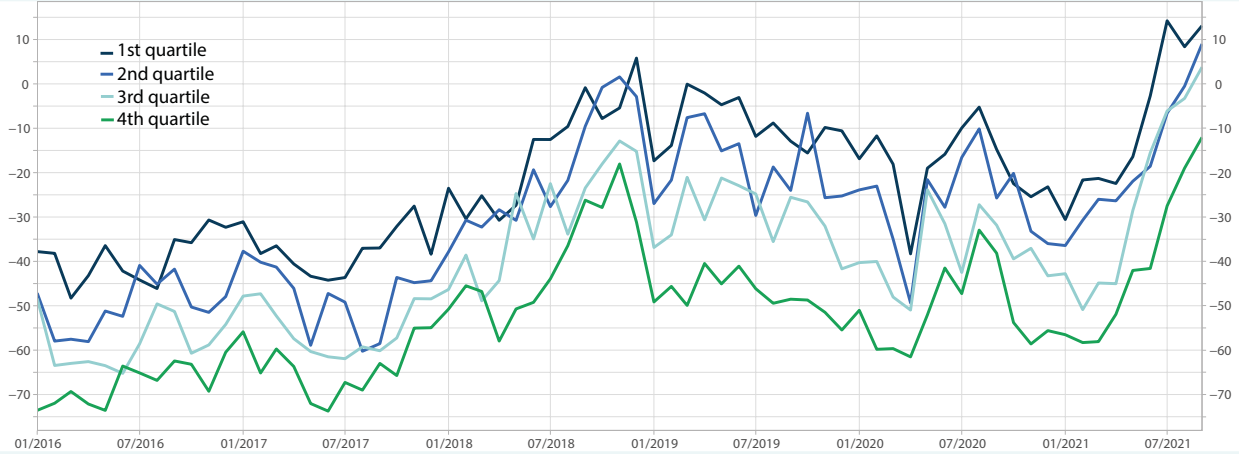
in %



Scope: all of France for the CPI, Metropolitan France for the balance of opinion.
Source: INSEE, consumer price index and monthly household survey

► 2. Balance of opinion on past change in prices, by income quartile

in points



How to read it: the 1st quartile corresponds to the most modest 25% of households; the 4th to the most affluent 25%.

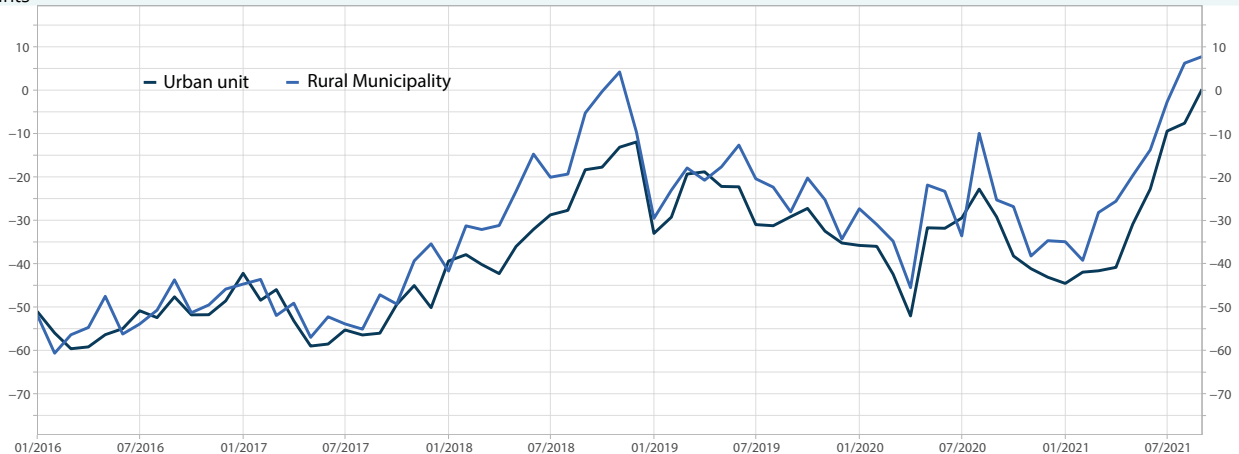
Data not seasonally adjusted.

Scope: Metropolitan France

Source: INSEE, consumer price index and monthly household survey

► 3. Balance of opinion on past change in prices, according to area of residence

in points



Data not seasonally adjusted.

Scope: Metropolitan France

Source: INSEE, consumer price index and monthly household survey

Bibliography

Arion G., Beatriz M., Sueur E., Leclair M. and Morer N. (March 2019), «Perceived inflation, measured inflation: are there differences between categories of households?» March 2019 *Economic outlook* Special analysis. ●

Wages

After rallying slightly in H1, the average wage per capita (SMPT) in the non-agricultural market branches looks set to increase more strongly in H2: it is expected to rise by 3.4% in Q3 2021 then by 0.9% in Q4 (► [Table](#)). These developments are very much linked to the use of short-time working: with the gradual lifting of health restrictions, this scheme would appear to have declined significantly during the summer, and should be merely residual in the autumn. The result would be a sizeable reduction in the short-time working compensations paid out, and an accompanying rise in payroll. This increase in SMPT is also likely to be boosted by the renewal of the extraordinary purchasing power bonus (PEPA), and, in Q4, by an increase in the minimum wage (+2.2% from October 2021), in a context of rising inflation. Finally, at the end of 2021, the SMPT is expected to exceed its Q4 2019 level by 3.1%, almost back to the level it would have reached had it followed its trend for the decade that preceded the health crisis.

Changes in SMPT are made up of two components: the most short-term elements, affected first of all by the health crisis, and then the trend movements of wages, reflected in the basic monthly wage (SMB). Fluctuations in the SMB are therefore more moderate, between +0.3% and +0.5% per quarter. With the increase in the minimum wage on 1st October, the SMB is likely to be more dynamic towards the end of the year: +0.7% in Q4, of which about 0.2 points will be due to the increase in the minimum wage. ●

► 1. Changes in average wage per capita (SMPT) and basic monthly wage (SMB)

changes in %, seasonally adjusted data

	Quarterly growth rates								Average annual change		
	2020				2021				2019	2020	2021
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Average wage per capita (SMPT) in non-agricultural market branches	-3.6	-11.6	17.2	-2.3	0.3	1.0	3.4	0.9	2.3	-4.9	6.0
Basic monthly wage (SMB)	0.4	0.4	0.4	0.4	0.3	0.4	0.5	0.7	1.7	1.5	1.6
Household consumer prices (national quarterly accounts)	0.2	-0.1	0.1	0.0	0.8	0.2	0.7	0.5	0.8	0.6	1.5
Real WPS in the non-agricultural market branches	-3.8	-11.5	17.0	-2.4	-0.4	0.8	2.7	0.4	1.5	-5.5	4.5
Real WPS	0.2	0.5	0.2	0.4	-0.4	0.2	-0.2	0.2	0.9	0.9	0.2

■ Forecast

Note: the ACEMO quarterly 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. Changes in average wage per capita (SMPT) and basic monthly wage (SMB)

change in Q4 2019, in %, seasonally adjusted

	Difference to Q4 2019							
	2020				2021			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Average wage per capita (SMPT) in non-agricultural market branches	-3,6	-14,8	-0,2	-2,5	-2,2	-1,2	2,1	3,1
Basic monthly wage (SMB)	0,4	0,8	1,1	1,5	1,9	2,3	2,8	3,5
Household consumer prices (national quarterly accounts)	0,2	0,1	0,2	0,3	1,0	1,2	2,0	2,5
Real WPS in the non-agricultural market branches	-3,8	-14,9	-0,4	-2,7	-3,2	-2,4	0,2	0,6
Real WPS	0,2	0,7	0,9	1,3	0,8	1,0	0,8	1,0

■ Forecast

Note: the ACEMO quarterly 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

Household income

In Q3 2021, earned income would appear to have accelerated significantly (+3.0% after +0.7%), as a result of the ever-decreasing use of short-time working schemes (now leading to more paid working hours for the employees concerned) and the increase in employment. At the same time, social benefits would seem to have fallen back (in September, fewer short-time working benefits and the end of exceptional assistance for workers in precarious employment) and social and tax contributions would seem to have rebounded (especially social contributions, in line with the hike in gross payroll). All in all, household GDI would seem to have increased by 0.8% in Q3. Given the acceleration in consumer prices (+0.7% as a quarterly variation after +0.2%), household purchasing power would appear to have been at a standstill this quarter (+0.1%).

In Q4 2021, those factors that could have affected household GDI in the previous quarter are expected to remain relatively stable (social benefits, taxes and social contributions slowed by the first housing tax relief for the 20% most well-off households). Changes in household GDI now look set to be determined by the rise in earned income, driven by wage increases and the rise in employment. Household GDI is therefore expected to increase by 1.1% this quarter, and purchasing power should rally (+0.5%).

Across the whole of 2021, GDI is expected to increase substantially (+3.4% after +1.0% in 2020), due to the sharp rebound in earned income coupled with a moderate decline in social benefits. Given the rise in household consumer prices, household purchasing power is likely to be less buoyant than GDI: it is expected to increase by 1.9% in 2021, after +0.4% in 2020. When converted to consumption units in order to take demographic changes into account, it looks set to rise by 1.5%, after being stable in 2020. ●

► 1. Components of household gross disposable income

variations in %

	2020				Quarterly changes				Annual changes		
	Q1	Q2	Q3	Q4	2021			2019	2020	2021	
					Q1	Q2	Q3				Q4
Gross disposable income (100%)	-1.1	-0.7	1.9	1.9	-0.1	0.8	0.8	1.1	3.4	1.0	3.4
including:											
Earned income (72%)	-2.7	-10.0	12.8	0.5	0.4	0.7	3.0	1.2	3.1	-3.7	6.5
Gross wages and salaries (64%)	-2.7	-10.7	13.5	-0.7	0.4	1.1	3.6	1.3	3.2	-4.1	6.3
GOS of sole proprietors* (8%)	-2.5	-4.5	8.0	9.7	0.3	-2.4	-0.9	0.0	2.3	-0.6	7.7
Social benefits in cash (35%)	2.9	12.9	-9.8	2.7	-0.5	0.3	-3.1	-0.1	2.9	9.5	-2.0
GOS of "pure" households (14%)	-0.2	-1.6	2.9	0.6	0.4	0.7	1.3	0.7	3.2	1.1	3.3
Property income (6%)	-4.7	-3.7	-2.0	-0.7	1.0	1.1	1.4	1.8	-2.3	-12.6	0.4
Social contributions and taxes (-27%)	-0.5	-7.9	10.3	-1.9	1.2	-0.3	1.5	0.2	0.5	-3.2	3.1
Household consumer prices	0.2	-0.1	0.1	0.0	0.8	0.2	0.7	0.5	0.8	0.6	1.5
Purchasing power of gross disposable income	-1.3	-0.5	1.7	1.9	-0.9	0.6	0.1	0.5	2.6	0.4	1.9
Household purchasing power by consumption	-1.4	-0.6	1.6	1.8	-1.0	0.5	0.0	0.4	2.0	0.0	1.5

■ Forecast

How to read it: after a rise of 0.8% in Q2 2021, household gross disposable income would appear to have risen by a further 0.8% in Q3. Annual change is expected to be +3.4% in 2021.

Note: figures in brackets give the structure for 2019.

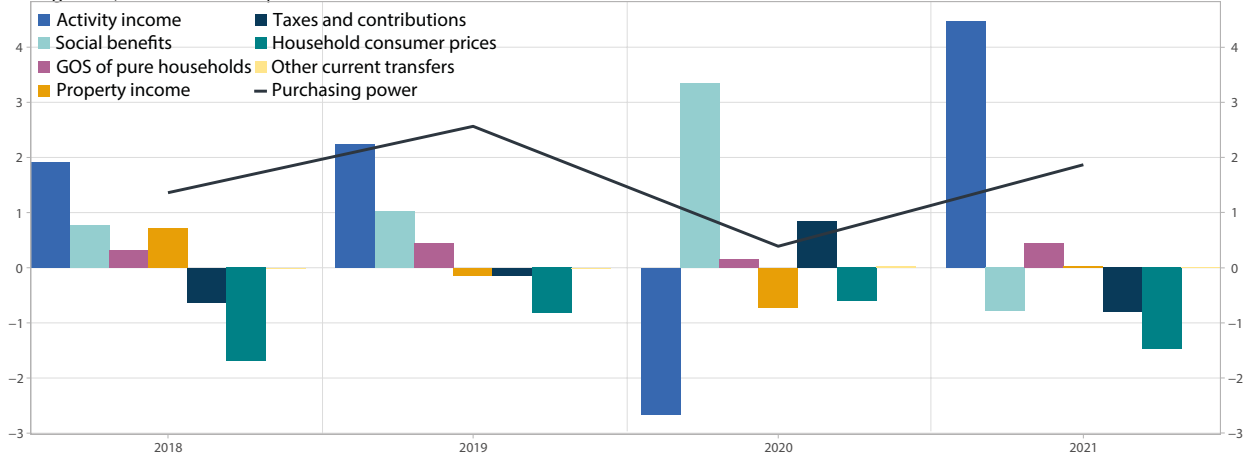
* the gross operating surplus (GOS) of sole proprietors is the balance of the operating account of sole proprietorships. This is mixed income as it remunerates work carried out by the owner of the sole proprietorship, and possibly members of their family, but it also contains profit made as a sole proprietor.

Source: INSEE

French economic outlook

► 2. Purchasing power is expected to accelerate in 2021, despite the rise in inflation

annual change in %, contributions in points



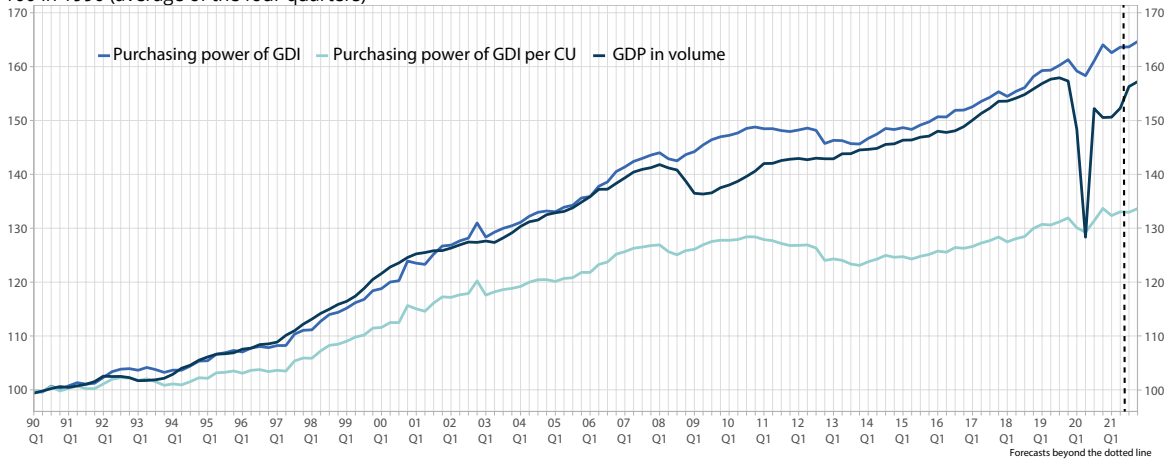
How to read it: in 2021, household purchasing power is expected to increase by 1.9%. The main contribution to this increase is likely to be earned income, which is expected to reach 4.5 points.

Source: INSEE

► 3. The purchasing power of household GDI has been generally preserved since the start of the pandemic

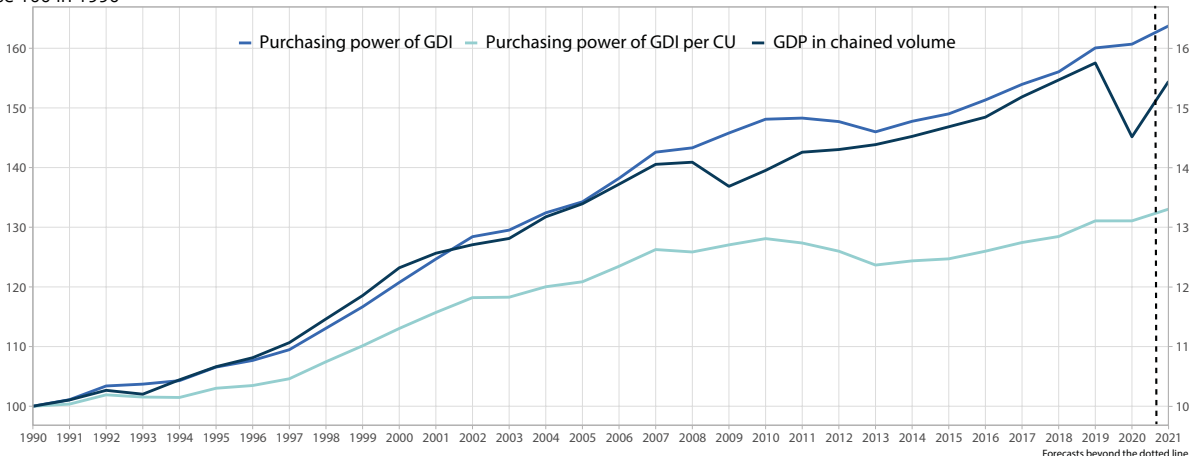
a. Quarterly changes in purchasing power and GDP

index base 100 in 1990 (average of the four quarters)



b. Annual changes in purchasing power and GDP

index base 100 in 1990



Note: the annual data in Figure 3b are derived from the quarterly data. However, given the scale and the suddenness of the downward and upward shifts in GDP from one quarter to the next in 2020-2021, these changes are presented at both quarterly and annual intervals.

Source: INSEE

Household consumption

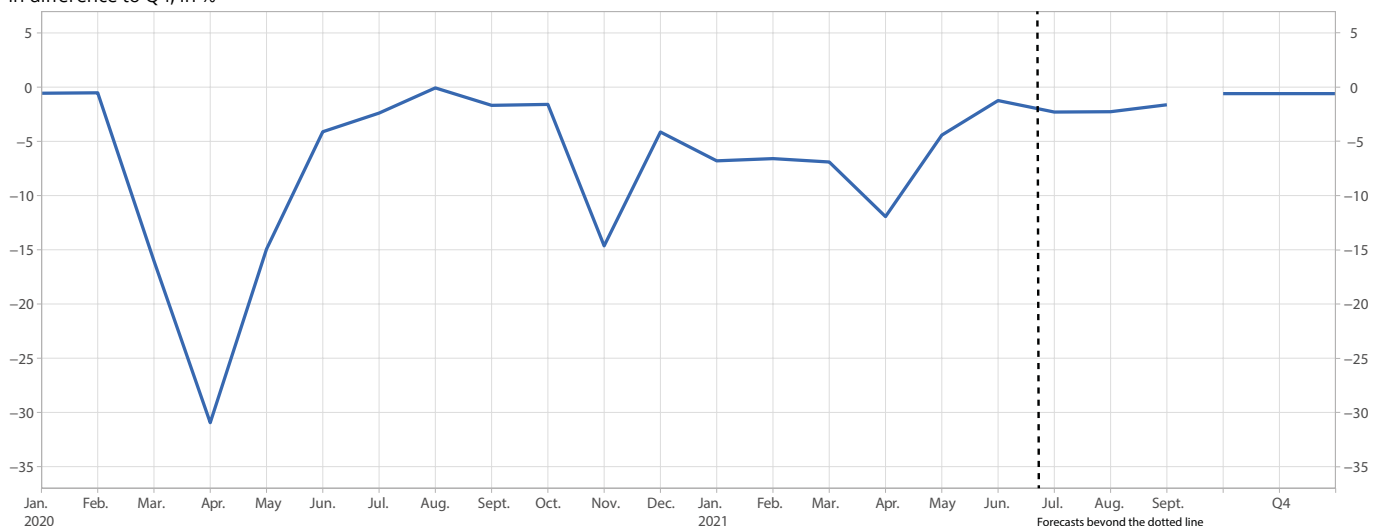
After deteriorating sharply in April as a result of the third lockdown, household consumption in June returned almost to its pre-crisis level (-1% compared to Q4 2019, after -4% in May and -12% in April). In July, it would appear to have fallen back slightly, to 2% below its pre-crisis level. It would seem to have been adversely affected by a downturn in purchases of goods, despite the buoyancy in spending in those services where restrictions had previously applied (accommodation-catering, transport services and leisure activities). In August, consumption seemed to remain for the most part at the same level as in July with purchases of goods picking up slightly but, conversely, spending on accommodation-catering and leisure slipped back, in the context of the introduction of the health pass. However, this downturn would seem to be just temporary and consumption appears to have increased slightly in September, to 1½% below its Q4 2019 level.

In Q4, household spending should get back to normal for most expenditure items. Thus consumption overall is expected to return to its pre-crisis level. However, it is likely to remain depressed in some specific sectors (accommodation-catering, transport and leisure services, with only a partial return of international tourism) or for certain types of goods (purchases of vehicles, as a result of sourcing problems limiting production).

All in all, consumption is expected to rise by 4.0% in Q3 then by 1.5% in Q4, giving an annual change of 4.1% in 2021, after plummeting by 7.2% in 2020. The household savings ratio is likely to decline gradually, after increasing significantly at the height of the crisis: it should therefore be 17.5% at the end of the year, still above its pre-crisis level (15.3% in Q4 2019) but well below its Q2 2021 level (21.4%). ●

► 1. Estimated and forecast monthly consumption

in difference to Q4, in %



How to read it: in July 2021, household consumption would appear to have been 2% below its Q4 2019 level. From October 2021, projections are established on a quarterly basis instead of a monthly basis as previously.

Source: INSEE calculations from various sources

French economic outlook

► 2. Estimated and projected monthly household consumption levels

difference to the Q4 of 2019, in %

Products	Share of consumption*	Janv. 2021	Feb. 2021	March. 2021	Apr. 2021			May 2021			June 2021		
Agriculture, forestry and fishing	3%	-2.4	-1.3	-3.3	-8	-7	-7	-8	-7	-7	-8	-7	-7
Industry	44%	-10.3	-0.2	0.2	-2	-1	-1	-2	-1	-1	-2	-1	-1
Manufacture of food products, beverages and tobacco-based products	15%	3.0	2.8	0.1	-3	1	1	-3	1	1	-3	1	1
Coke and refined petroleum	4%	-16.6	-7.6	-1.9	1	2	1	1	2	1	1	2	1
Manufacture of electrical, electronic, computer equipment; manufacture of machinery	3%	5.7	14.6	11.7	9	10	10	9	10	10	9	10	10
Manufacture of transport equipment	6%	-12.8	-11.3	-10.4	-14	-13	-12	-14	-13	-12	-14	-13	-12
Manufacture of other industrial products	12%	-32.9	-1.4	4.5	2	0	1	2	0	1	2	0	1
Extractive industries, energy, water, waste treatment and decontamination	5%	8.3	7.2	0.3	1	1	1	1	1	1	1	1	1
Construction	2%	-1.5	-1.7	-2.0	-2	-2	-2	-2	-2	-2	-2	-2	-2
Mainly market services	47%	-17.4	-11.3	-5.1	-3	-4	-3	-3	-4	-3	-3	-4	-3
Trade; repair of automobiles and motorcycles	1%	-3.7	-5.0	-2.7	-5	1	1	-5	1	1	-5	1	1
Transport and storage	4%	-64.0	-41.3	-34.7	-22	-16	-16	-22	-16	-16	-22	-16	-16
Accommodation and catering	8%	-62.4	-44.0	-16.0	-11	-20	-17	-11	-20	-17	-11	-20	-17
Information and communication	3%	0.8	3.3	2.0	3	3	4	3	3	4	3	3	4
Financial and insurance activities	5%	0.6	1.3	1.7	2	2	2	2	2	2	2	2	2
Real estate activities	19%	2.1	2.2	2.3	2	2	3	2	2	3	2	2	3
Scientific and technical activities; administrative and support services	2%	-8.9	-7.5	-4.5	-4	-4	-6	-4	-4	-6	-4	-4	-6
Other service activities	4%	-33.6	-20.6	-11.4	-9	-10	-9	-9	-10	-9	-9	-10	-9
Mainly non-market services	5%	0.4	0.7	1.5	2	2	2	2	2	2	2	2	2
<i>Territorial correction</i>	<i>-1%</i>	<i>-74.4</i>	<i>-84.3</i>	<i>-95.5</i>	<i>-42</i>	<i>-42</i>	<i>-42</i>	<i>-42</i>	<i>-42</i>	<i>-42</i>	<i>-42</i>	<i>-42</i>	<i>-42</i>
Total	100%	-11.9	-4.4	-1.2	-2	-2	-1 ½	-2	-2	-1 ½	-2	-2	-1 ½

* weight in final household consumption spending in 2018 (excluding territorial correction)

■ Forecast

How to read it: in July 2021, the level of household consumption of accommodation and catering services would appear to have been 11% lower than in Q4 2019.

Source: INSEE calculations from various sources

► 3. Estimated and projected quarterly household consumption levels

difference to the Q4 of 2019, in %

Products	Share of consumption*	2020				2021				2020	2021
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Agriculture, forestry and fishing	3%	3.9	-1.2	-0.1	-1.0	-0.1	-2.3	-8	-7	0.4	-4
Industry	44%	-6.7	-12.9	2.5	-1.7	-0.9	-3.4	-1	0	-4.7	-1
Manufacture of food products, beverages and tobacco-based products	15%	3.5	5.4	2.2	3.3	3.7	2.0	-1	0	3.6	1
Coke and refined petroleum	4%	-5.9	-29.2	-4.6	-12.9	-5.8	-8.7	1	0	-13.1	-3
Manufacture of electrical, electronic, computer equipment; manufacture of machinery	3%	-8.2	-4.6	12.2	15.4	13.0	10.7	10	5	3.7	10
Manufacture of transport equipment	6%	-23.1	-35.5	3.5	-9.3	-8.4	-11.5	-13	-8	-16.1	-10
Manufacture of other industrial products	12%	-12.1	-23.1	3.5	-5.0	-4.4	-10.0	1	2	-9.2	-3
Extractive industries, energy, water, waste treatment and decontamination	5%	-2.5	-3.5	0.6	1.6	1.7	5.3	1	1	-0.9	2
Construction	2%	-9.4	-23.5	0.2	0.8	-1.1	-1.7	-2	0	-8.0	-1
Mainly market services	47%	-6.1	-21.8	-6.3	-14.1	-15.2	-11.3	-4	-1	-12.1	-8
Trade; repair of automobiles and motorcycles	1%	-12.3	-24.7	1.2	-4.6	-2.6	-3.8	-1	1	-10.1	-2
Transport and storage	4%	-15.6	-74.0	-31.2	-53.4	-51.3	-46.7	-18	-10	-43.6	-31
Accommodation and catering	8%	-17.0	-63.5	-15.0	-46.6	-58.4	-40.8	-16	-10	-35.5	-31
Information and communication	3%	-2.5	-1.8	-0.7	-0.8	1.2	2.0	3	4	-1.5	3
Financial and insurance activities	5%	-2.5	-6.4	-1.7	-0.3	0.7	1.2	2	2	-2.7	1
Real estate activities	19%	0.1	0.3	0.7	0.8	1.8	2.2	2	2	0.5	2
Scientific and technical activities; administrative and support services	2%	-6.7	-19.1	-10.2	-8.9	-9.6	-7.0	-5	-1	-11.2	-6
Other service activities	4%	-12.3	-42.2	-13.2	-25.4	-25.8	-21.9	-9	-4	-23.3	-15
Mainly non-market services	5%	-7.8	-24.1	1.0	-2.4	-0.4	0.9	2	1	-8.3	1
<i>Territorial correction</i>	<i>-1%</i>	<i>-47.7</i>	<i>-81.4</i>	<i>-32.5</i>	<i>-61.7</i>	<i>-69.2</i>	<i>-84.7</i>	<i>-42</i>	<i>-37</i>	<i>-55.8</i>	<i>-58</i>
Total	100%	-5.7	-16.7	-1.4	-6.8	-6.8	-5.9	-2.1	-0.6	-7.6	-3.4

* weight in final household consumption spending in 2018 (excluding territorial correction)

■ Forecast

How to read it: in Q3 2021, the level of household consumption of accommodation and catering services would appear to have been 16% lower than in Q4 2019.

Source: INSEE calculations from various sources

► 4. Household consumption compared to Q4 2019 and as a quarterly variation

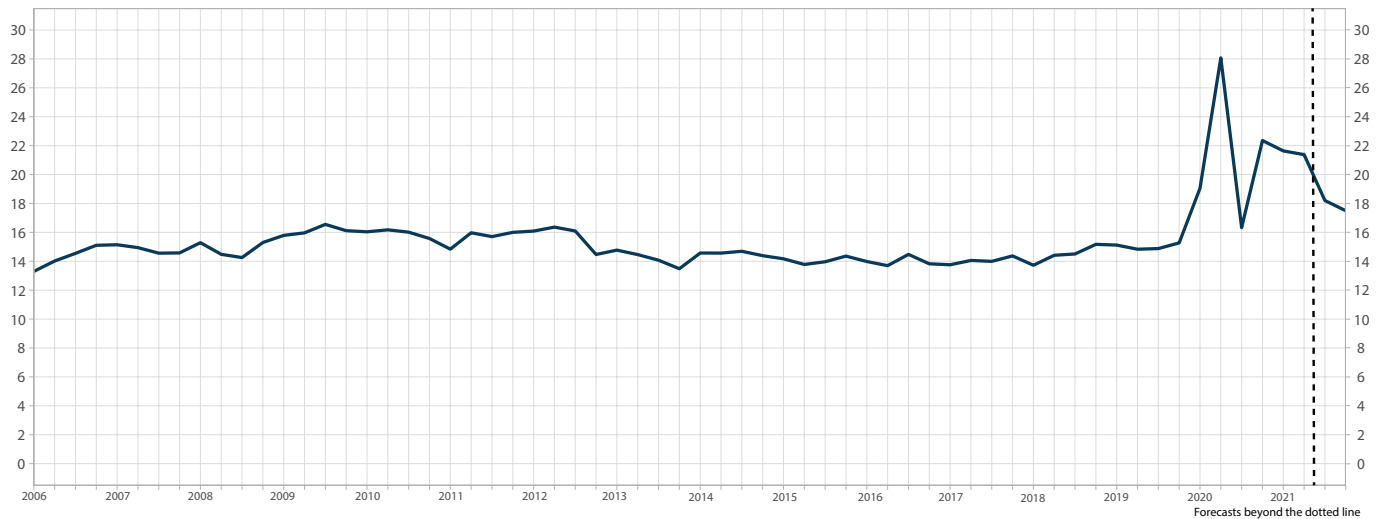
in %

	2020				2021				2020*	2021*
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
Quarterly growth in %	-5,7	-11,6	18,3	-5,5	0,0	1,0	4,0	1,5	-7,2	4,1
Difference compared in % to Q4 2019	-5,7	-16,7	-1,4	-6,8	-6,8	-5,9	-2,1	-0,6		

■ Forecast
Annual variations for the last two columns
Source: INSEE

► 5. Household savings ratio

in % of gross disposable income



How to read: in Q4 2021, the household savings ratio is expected to be 17.5% of gross disposable income.

Source: INSEE

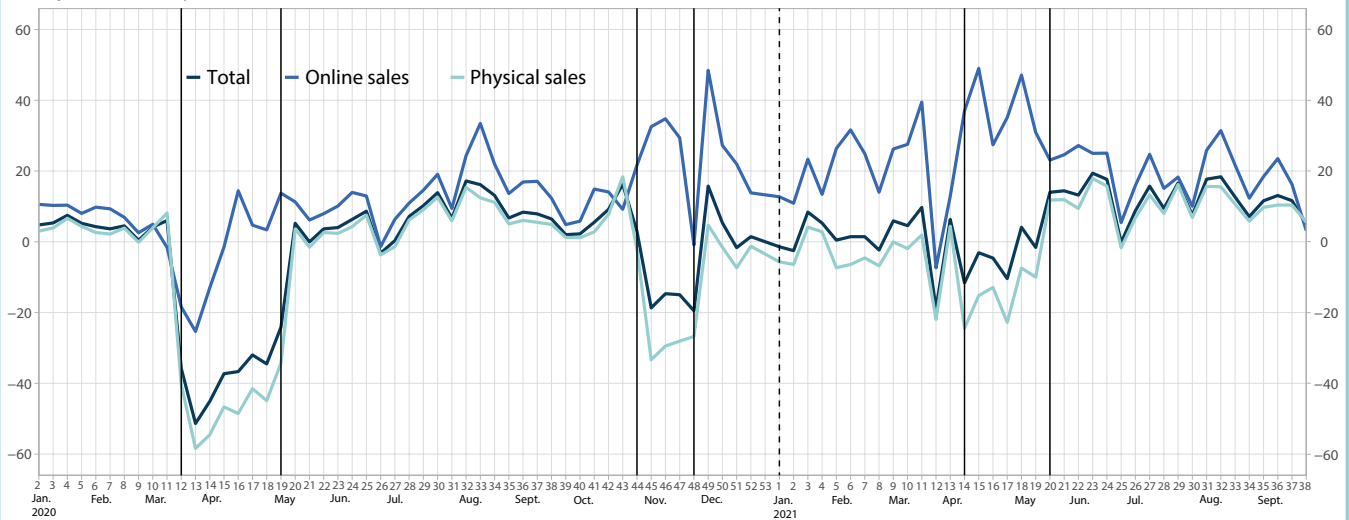
Bank card transaction amounts reveal contrasting changes since the end of August

Aggregated bank card transaction amounts, available to 26 September, are now an invaluable source for advanced analysis of household consumption behaviour. When total amounts are compared year-on-year with 2019, figures for September seem to remain at a level well above that of 2019, and higher than the last week of August (► **Figure 6**).

Looking at points of sale in detail, the change in bank card transactions appears contrasted in September: they remained dynamic in household equipment and picked up slightly in catering (after the dip observed in early August, ► **Figure 7** and **8**). However, from late August these amounts declined in accommodation, perhaps reflecting the end of the summer period with larger numbers of resident tourists than usual. In clothing-footwear, the profile of bank card transactions revealed a downward trend from mid-July, although amounts remained markedly higher than 2019 levels. Finally, from examining bank card transactions, purchases of fuel appear to be down from the beginning of September compared to August. This may also be the result of the end of the summer season: resident tourism was sustained (► **Focus**), driving up spending on fuel in August. There could be a backlash in September, with the end of the season and possibly more frequent use of teleworking. ●

► 6. Weekly bank card transactions

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



How to read it: in week 38 of 2021 (20 – 26 September), total bank card transaction amounts were 5% higher than the total amount in week 38 of 2019. The vertical lines show the dates that “non-essential” businesses closed and reopened during the 2020 lockdowns and the national lockdown in spring 2021. As each amount is compared to that of the same week in 2019, for the differences shown for the end of 2020 and the start of 2021 there is therefore a break in the reference week (end of 2019 then start of 2019). This break is indicated by the vertical dotted line at week 1 of 2021. Note: in addition, the dynamism of these transaction amounts from March 2020 onwards may reflect a higher use of bank card payments. This trend has been taken into account in the forecast for losses or increases in consumption compared to the pre-crisis level.
Source: Cartes Bancaires CB, INSEE calculations

.../...

7. Weekly bank card transaction amounts, for various points of sale

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



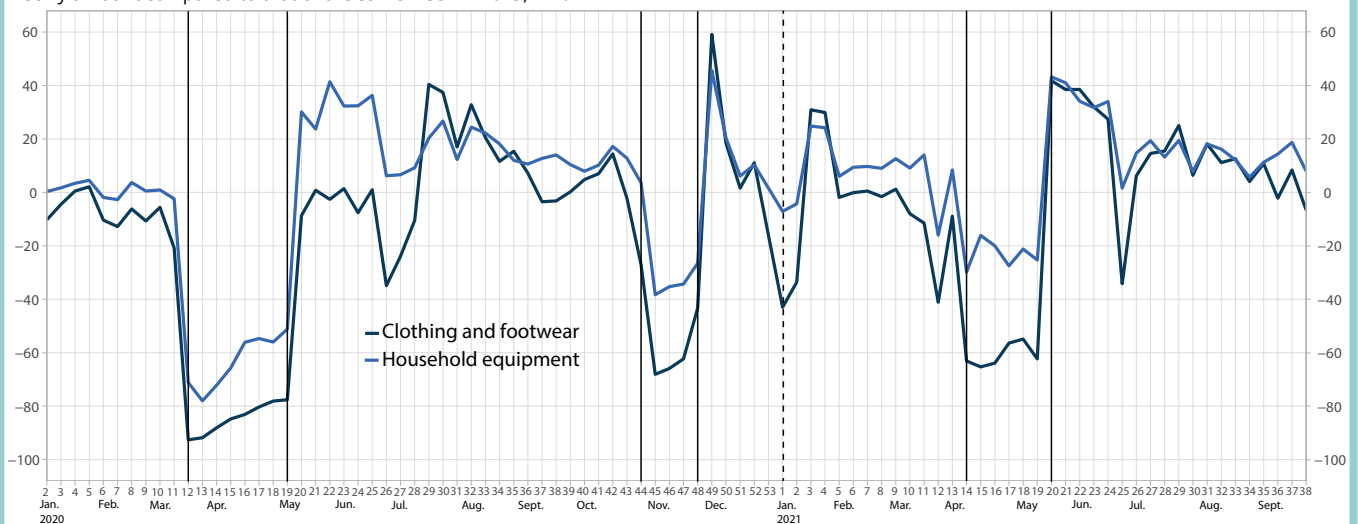
How to read it: in week 38 of 2021 (20 – 26 September), bank card transaction amounts related to purchases of fuel were 7% higher than amounts in week 38 of 2019. The vertical lines show the dates that “non-essential” businesses closed and reopened during the 2020 lockdowns and the national lockdown in spring 2021. As each amount is compared to that of the same week in 2019, for the differences shown for the end of 2020 and the start of 2021 there is therefore a break in the reference week (end of 2019 then start of 2019). This break is indicated by the vertical dotted line at week 1 of 2021.

Note: the dynamism of these transaction amounts from March 2020 onwards may reflect a higher use of bank card payments. This trend has been taken into account in the forecast for losses or increases in consumption compared to the pre-crisis level.

Source: Cartes Bancaires CB, INSEE calculations

8. Weekly bank card transaction amounts, for various points of sale

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



How to read it: in week 38 of 2021 (20 – 26 September), bank card transaction amounts in clothing-footwear were 7% lower than amounts in week 38 of 2019. The vertical lines show the dates that “non-essential” businesses closed and reopened during the 2020 lockdowns and the national lockdown in spring 2021. As each amount is compared to that of the same week in 2019, for the differences shown for the end of 2020 and the start of 2021 there is therefore a break in the reference week (end of 2019 then start of 2019). This break is indicated by the vertical dotted line at week 1 of 2021.

Note: the dynamism of these transaction amounts from March 2020 onwards may reflect a higher use of bank card payments. This trend has been taken into account in the forecast for losses or increases in consumption compared to the pre-crisis level.

Source: Cartes Bancaires CB, INSEE calculations

Enterprises' earnings

At the start of 2021, the margin rate of non-financial corporations (NFC) stood at a particularly high level as a result of the combined effect of support measures, which had been strengthened since Q4 2020 (especially the Solidarity Fund), and the decrease in taxes on production. Thus in the latest version of the national accounts, it reached a historic high of 35.9% of the value added of NFCs in Q1 2021, then declined slightly in Q2, to 35.4%.

In H2, the margin rate of NFCs is expected to decline significantly, down to 32.0% by year's end: the rebound in activity is likely to be accompanied by a decrease in the level of subsidies paid, especially through the Solidarity Fund, which was replaced on 1st October by an extension of fixed cost coverage, a more selective scheme. The gradual decline in the take-up of short-time working, and the higher contributions required from those companies that use it, are expected to automatically increase the real cost of labour per capita, more so than productivity. Finally, the terms of trade (ratio of price of value added to consumer price) are generally expected to be unfavourable across the half-year.

In Q4 2021, the margin rate is expected to be 0.6 points above its 2018 average (2019 having been affected by the double payment related to the CICE tax credit). The reasons for this difference compared to 2018 are the slightly higher subsidies and the buoyancy of the value added of NFCs: this would appear to have increased more over three years than remunerations paid. As an annual average, the margin rate should stand at 34.0% in 2021, given the very high values reached in H1. ●

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

Margin rate and variation in %, contributions in points

	Quarterly changes								Annual changes		
	2020				2021				2019	2020	2021
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Margin rate	30.2	31.5	30.7	34.2	35.9	35.4	32.7	32.0	33.4	31.7	34.0
Variation in margin rate	-2.8	1.3	-0.8	3.5	1.7	-0.5	-2.6	-0.7	1.8	-1.7	2.3
Contributions to variation in margin rate:											
productivity gains	-4.3	-8.6	12.1	-1.0	0.4	0.8	0.8	0.0	0.7	-6.1	3.8
real cost of labour per capita	2.4	8.6	-12.7	1.5	0.3	-0.3	-1.7	-0.2	0.9	3.6	-3.2
ratio of price of value added to consumer prices	0.3	1.0	-0.4	0.7	-0.1	-0.2	-0.6	0.0	0.6	1.1	0.0
other factors (including subsidies and taxes on production)	-1.2	0.3	0.2	2.3	1.2	-0.7	-1.1	-0.5	-0.4	-0.3	1.7

■ 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.

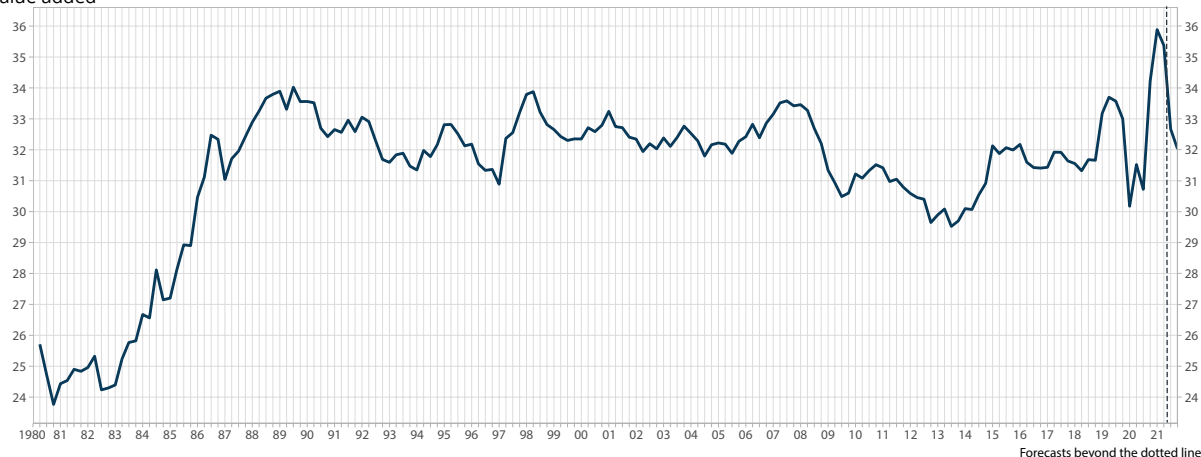
This breakdown can be synthesised in the equation:

$$MR = \frac{EBE}{VA} \approx 1 - \frac{WL}{Y P_{va}} + \text{other factors} = 1 - \frac{L}{Y} \frac{W}{P_c} \frac{P_c}{P_{va}} + \text{other factors}$$

Source: INSEE

► 2. Overview of the margin rate of non-financial corporations (NFC)

in % of value added



Source: INSEE

Corporate investment

After returning to its Q4 2019 level in Q1 2021, investment by non-financial enterprises (NFE) continued to increase in Q2 (+1.9% after +1.1%, ► **Figure 1**), 2.3% above its pre-crisis level. Investment in manufactured products slowed, hampered by the decline in investment in transport equipment. However, investment in construction accelerated sharply in Q2, probably as a result of the continuing catch-up of the backlog that had built up in building sites in 2020. Finally, investment in services grew briskly, returning to its pre-crisis trajectory.

In H2 2021, investment by NFEs is expected to continue to increase, although at a reduced pace, after catching up in previous quarters. Investment in services should continue to grow briskly, at its trend pace. Growth in investment in manufactured products is expected to be sustained by investment in capital goods, but will still be slowed by investment in transport equipment. Finally, after a half-year of vigorous catch-up, investment in construction seems likely to slip back.

All in all, by the end of 2021, investment by NFEs looks set to be 3.7% higher than pre-crisis, especially as a result of investment in services (► **Figure 2**). As an annual average, NFE investment is expected to increase 12.5% in 2021, after nosediving by 8.1% in 2020. However, in H2 2021 alone, investment by NFEs is likely to be more dynamic in general than their activity, mainly because their recovery is based in part on sectors that invest little structurally, like accommodation-catering or leisure activities. Conversely, these composition effects probably help to explain the relative resistance of investment in 2020 (► **Focus** in *Economic Outlook* of 1st July 2021), alongside support measures and the favourable financial context. ●

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

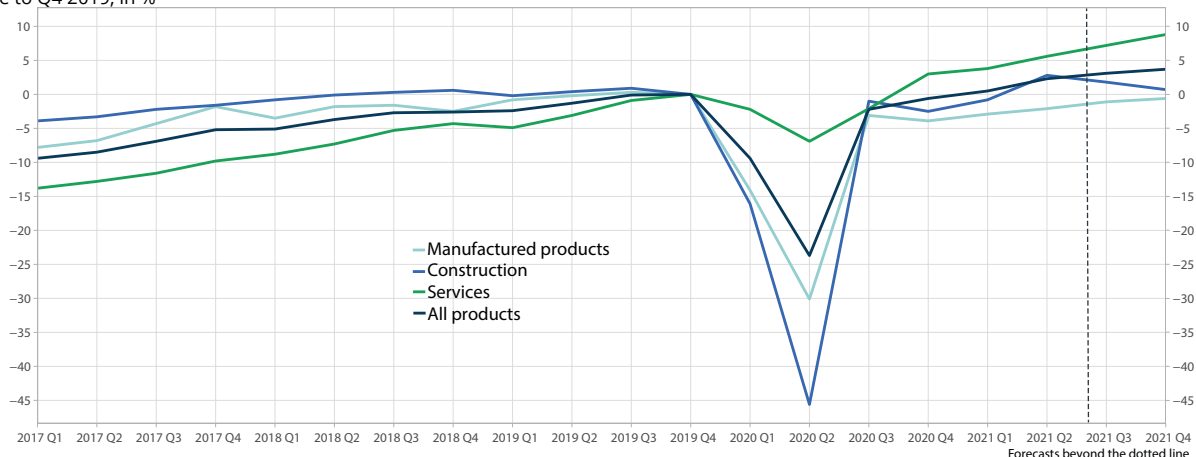
at previous year's prices, chain-linked, seasonally adjusted, in %

	Quarterly changes								Annual changes		
	2020				2021				2019	2020	2021
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Manufactured product (33%)	-14.1	-18.6	38.6	-0.8	1.1	0.8	1.0	0.5	2.2	-12.6	12.8
Construction (22%)	-16.1	-35.1	82.0	-1.5	1.7	3.6	-1.0	-1.0	0.3	-16.5	20.8
Services (45%)	-2.1	-4.8	5.1	5.2	0.8	1.8	1.5	1.5	4.4	0.2	8.5
All NFEs (100%)	-9.4	-15.8	28.2	1.6	1.1	1.9	0.7	0.6	2.7	-8.1	12.5

■ Forecast
Source: INSEE

► 2. investissement des entreprises non financières par produit

difference to Q4 2019, in %



Source: INSEE

International economic outlook



Oil and commodities

Since the beginning of 2021, the global economic recovery has led to a substantial increase in energy prices. Thus the price of oil rose from \$44 on average in Q4 2020 to \$69 in Q2 2021. In Q3, after a downturn in August against a background of a slow in Chinese growth, it resumed its upward trajectory and exceeded \$75 from mid-September, reaching an average of \$73.5 per barrel across the quarter. Meanwhile, the price of gas also rose sharply in Europe (+424% between 1st February and 30 September for fixed-term contracts). Over the forecasting period, the conventional assumption is that energy prices remain constant, with notably the price of a barrel of Brent being fixed at \$75,¹ with uncertainty arising from the balance between the gradual increase in production by OPEC and the sustained pace of demand.

In addition, and in a context where sourcing difficulties were apparent, industrial commodity prices also increased significantly, reaching a historic high in May 2021. They have fallen since then, especially agro-industrial commodities (sharp decline in the price of timber since June and, to a lesser extent, that of pulp), but also mineral commodities (the price of iron was in sharp decline in August, due to the slowdown in steel production in China, the main importer of iron, and the fall in demand in Europe, especially in the automobile industry).

Prices of imported food commodities have also risen sharply (+37.6% year-on-year in August 2021), in the wake of price hikes in meat, wheat and corn, and also oil seeds.

The rise in prices of energy and other commodities is already reflected in production prices in the manufacturing branches. As a result, production prices in French industry increased in August by +9.5% year-on-year, and agriculture production prices by 10.4% year-on-year. Meanwhile, consumer prices of energy products increased by 12.7% year-on-year in August. ●

¹ i.e. €64 assuming a euro-dollar exchange rate of 1.18 dollars for 1 euro.

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

daily values



Last point: 30 September 2021

How to read it: on 30 September 2021, the price of a barrel of Brent stood at \$78.5

Source: Commodity Research Bureau

International economic outlook

► 2. Price of natural gas in euros (TTF fixed-term contracts)

daily values



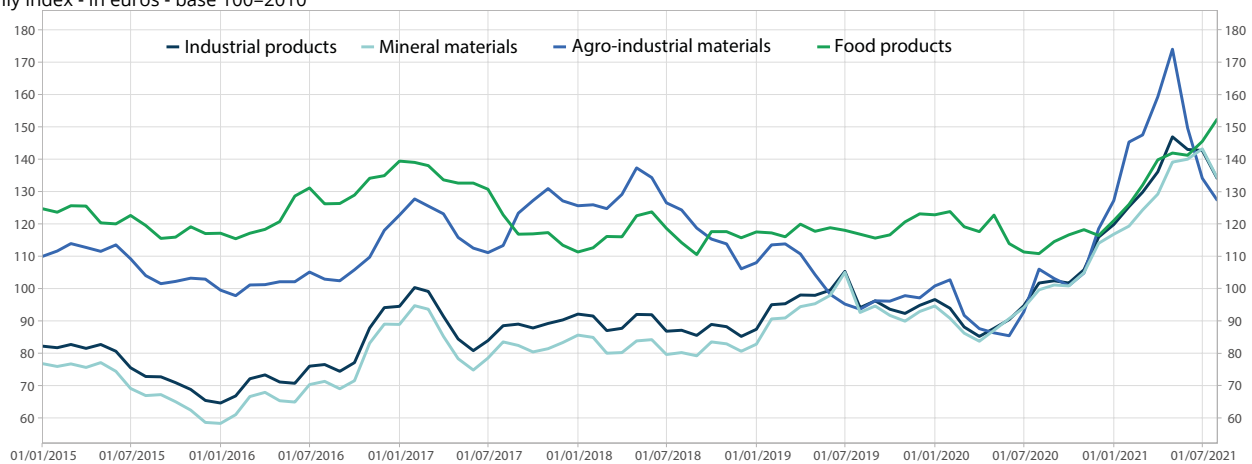
Last point: 30 September 2021

How to read it: on 30 September 2021, the value of natural gas contracts at the next expiry date (TTF) is €93.3 per megawatt hour

Source: ICE Futures Europe

► 3. Price indices of imported commodities

monthly index - in euros - base 100=2010



Last point: August 2021

How to read it: in May 2021, the price index in euros of industrial products was 146.9.

Source: INSEE

International comparisons

Europe returned to growth in Q2 with the easing of health restrictions, but GDP was still below its pre-crisis level in the main European economies. The recovery continued this summer, but the pace of growth is likely to slacken towards the end of the year, amid growing supply chain and hiring difficulties, and inflationary pressures fuelled by commodity prices. In the United States, where inflationary tensions are stronger than in Europe, GDP has already surpassed its pre-crisis level, and is expected to slow in H2. Finally, in China, activity seems to have fallen back slightly this summer, hampered by demand that is less dynamic than at the start of the year and by production difficulties.

In Q2, GDP and household consumption remained below their pre-crisis levels in Europe

In Q2, activity rebounded in Europe after Q1 was severely affected by health restrictions: in the Eurozone, GDP growth reached +2.2% after -0.3%, whereas it rebounded to +5.5% after -1.4% in the United Kingdom. In the United States, GDP continued to improve: +1.6% after +1.5%. In Q2 2021, compared to Q4 2019, GDP in the main European economies was between -3.2% for France (-3.3% for Germany and the United Kingdom) and -8.4% for Spain (► **Figure 1**). US activity, however, exceeded its pre-crisis level (+0.9% compared to this level).

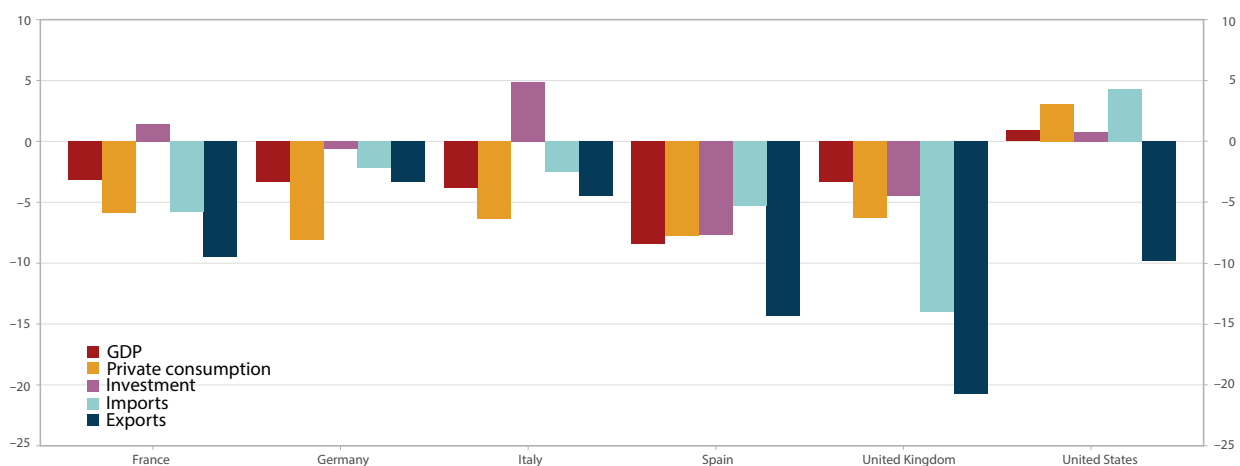
In the main European economies, private consumption in Q2 remained well below its pre-crisis level, as a result of restrictive measures in force or in the process of being reduced. This was notably the case for Germany, where consumption was still 8.1% below its pre-crisis level, after declining sharply in Q1. In the United States, however, consumption was above its Q4 2019 level, driven by fiscal support measures for households and by the lifting of health restrictions earlier than in Europe.

Concerning investment, situations vary from one country to another: in France and the United States, investment slightly exceeded its pre-crisis level in the spring, and in Italy it had already largely exceeded it, thanks mainly to the buoyancy of investment in construction. In Spain, however, investment in construction remains at a very low level (-12.9% compared to the pre-crisis level). In the United Kingdom, the Brexit issue and workforce shortages have created an unfavourable climate for corporate investment.

Regarding foreign trade, exports in Q2 (compared to pre-crisis) were still considerably worse than imports. This was especially the case in Spain, where exports have suffered from the drop in tourism since the start of the crisis.¹ In the United Kingdom, the entry into force of Brexit at the beginning of 2021 also hampered exports,

¹ In national accounting, non-resident tourism is included in exports. The tourism sector represents about 10% of Spanish value added.

► **1. In Q2, GDP and household consumption remained below their pre-crisis levels in Europe**



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

International economic outlook

due to the introduction of customs controls for goods destined for the single European market: having tumbled by 8.0% at the start of the year, British exports bounced back only partially in Q2 (+6.2%). In the United States, exports in Q2 were below their pre-crisis level, whereas imports have already exceeded this level, benefiting from the strong upturn in domestic demand.

In Q2 2021, the trade, transport and accommodation-catering sectors contributed most to loss of activity compared to pre-crisis in the Eurozone

On the supply side, in Q2 2021, the trade, transport services and accommodation and catering sectors continued to weigh heavily on value added in the four main Eurozone economies (► **Figure 2**). This was the case in Spain, France and Italy (respective contributions of -5.0 points, -2.4 points and -2.1 points to variation in value added between Q2 2021 and Q4 2019) due to restrictions still in force in these sectors, but also to their weighting in terms of value added. Services to households, which include leisure activities, also had a significant effect in the four main Eurozone economies. Differences between countries are not due to the weighting of this sector, which is similar in all four

economies, but to their respective losses of activity, linked to the nature of the restrictions imposed.

Although industry was less affected by the health restrictions, in Q2 it nevertheless contributed to the difference in activity compared to pre-crisis. This was especially the case in Germany (-1.6 points) because of its importance in the economy, and the supply chain problems that are still being felt in some sub-sectors, like automotive and aeronautics, despite strong demand (► **Box 2**). This sector made the largest contribution to the loss of German activity in Q2, but only the third largest contribution in France and Spain and the fourth largest in Italy. In addition, some sectors made a positive contribution to the variation in activity compared to pre-crisis. This was the case for non-market services in Spain and construction in Italy.

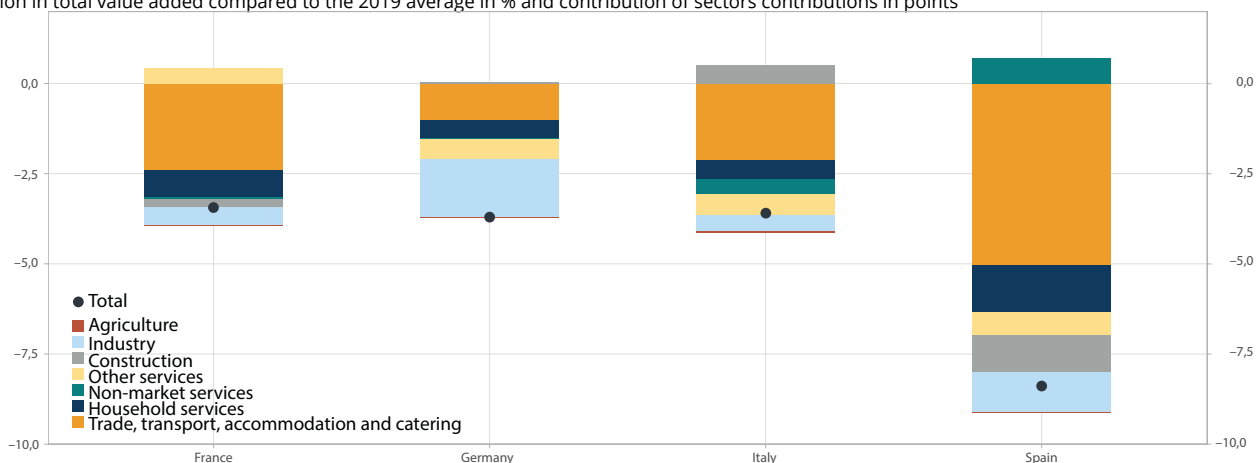
This summer, after a rebound, retail sales were at a standstill

After increasing strongly in H1 with the easing of health restrictions, retail sales² stabilised or fell back slightly during the summer in the main western economies (► **Figure 3**). They nevertheless remained above their pre-crisis level, except in Italy and Spain, where they had been in a worse state previously. In France and

² The Retail Trade Volume Index, published by Eurostat, may differ for France from the household consumption of goods, published each month by INSEE (national accounts). One factor of difference between the two indicators is that of the scope used: retail sales exclude sales of transport equipment, whereas household consumption of goods includes them. As a result, and in particular given the deterioration in sales of transport equipment, retail sales appear to be more dynamic for France than household consumption of goods.

► 2. The trade, transport and accommodation-catering sectors have been the main contributors to loss of activity since the start of 2020 in the Eurozone, except in Germany where industry has had the most effect

variation in total value added compared to the 2019 average in % and contribution of sectors contributions in points



Note: "other services" include services to businesses, information and communication services, financial services and insurance and real estate services. "Services to households" include in particular leisure activities.

Source: INSEE, Destatis, Istat, INE

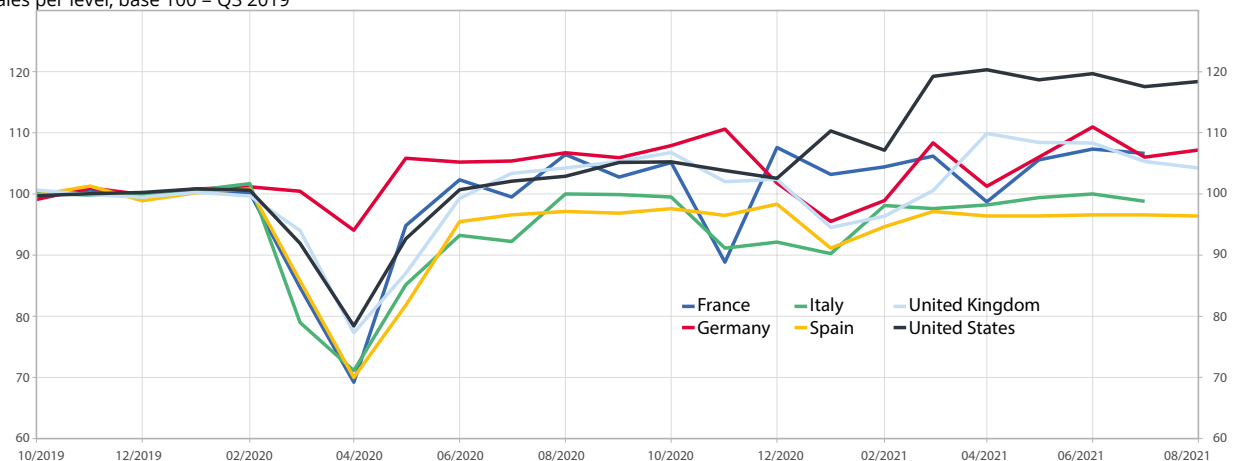
Germany, after the strong rebound seen in May-June when businesses reopened, retail sales stabilised over the summer, fluctuating in Germany around a fairly high level (+8% compared to Q4 2019). Consumption of services (catering, accommodation, travel), which was particularly dynamic this summer, is not measured by this retail sales indicator. In the United Kingdom, retail sales continued to decline slightly in August. The increase in the number of Covid-19 cases at the start of the summer would appear to have persuaded some consumers to limit their visits to shopping centres. Lastly, in the United States, retail sales were maintained at a high level during the summer, and exceeded their pre-crisis level by +18% in August.

Inflationary tensions affect all western economies

Inflation moved up again in 2021, moderately at first at the beginning of the year before accelerating sharply in the following months, starting in the spring in the United States and in the summer in Europe (► **Figure 4**). In August, the Harmonised Index of Consumer Prices (HICP) reached its highest level for five years in the main European countries. This index is created from a basket of goods common to all countries. In this way, international comparisons of inflation can be made, but there may be differences from the consumer price index used in each country (► **Box 1**). In the United States, the HICP peak was reached in July (+6.4% year-on-year).

► 3. This summer, retail sales stabilised in the main western economies

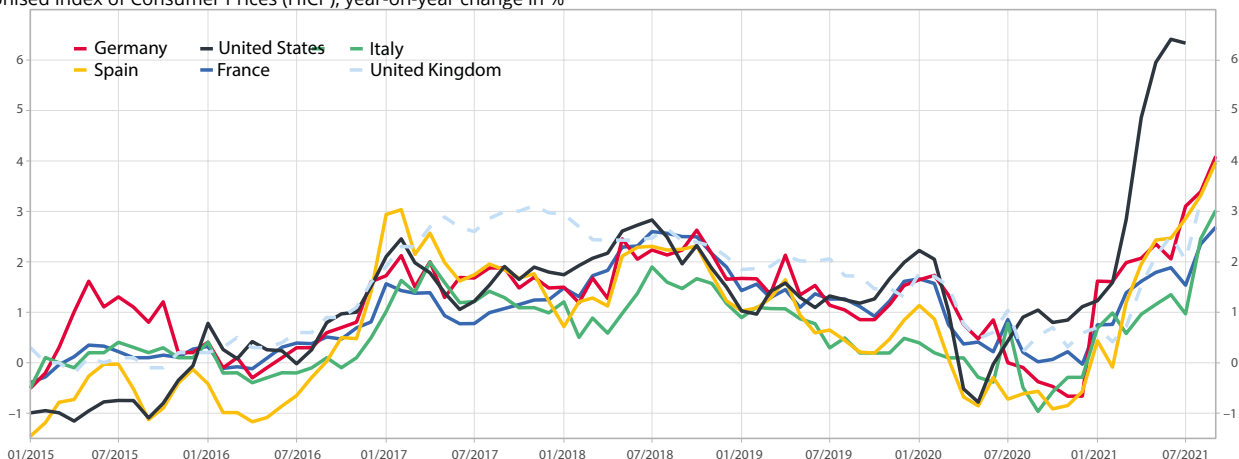
retail sales per level, base 100 = Q3 2019



Source: Eurostat, ONS, Census Bureau

► 4. Inflation continues to rise in the western countries

Harmonised Index of Consumer Prices (HICP), year-on-year change in %



Note: UK data is a CPI, as the HICP has not been published since late 2020.

How to read it: in July 2021, consumer prices in the US were 6.3% higher than in July 2020.

Source: Eurostat, ONS

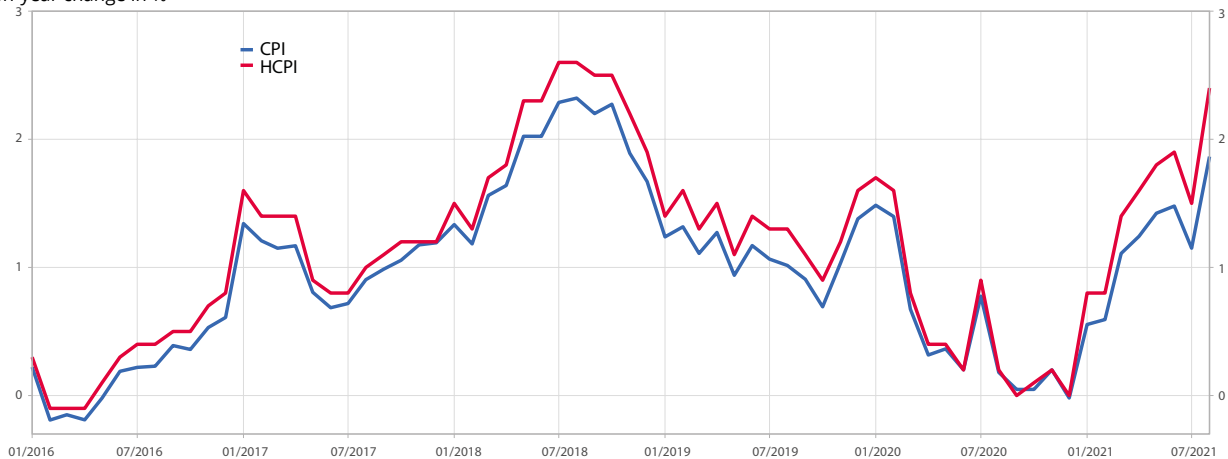
Box 1: The Harmonised Consumer Price Index is necessary for comparisons between countries

For international comparisons of inflation, a harmonised indicator is needed to compare price changes, as national consumer price indices (CPI) are calculated using baskets of different products and are therefore not easy to compare one with another.

The Harmonised Consumer Price Index (HCPI) is therefore ideal in this context, as it is constructed with methods and content that ensure the best comparability between countries (however, the structure of the basket of goods reflects that of household consumption and can therefore still vary according to the country). In the case of France, the main difference between the CPI and the HCPI lies in the accountability of health benefits. On the one hand, the CPI counts all health benefits, including the amount payable by the national health insurance fund. The HCPI, on the other hand, only covers household spending “net” of the reimbursements by the health insurance fund. The weighting of the price of health services and goods is therefore greater in the CPI than in the HCPI. In France, this difference in weighting and the decline in prices of health services and goods in Q2 2021 resulted in a significant difference between the CPI and the HCPI (► [Figure 5](#)). ●

► 5. Comparison between CPI and HCPI in France

year-on-year change in %



Source: Eurostat, INSEE

This rise in inflation is the result of several factors, two of which are common to all economies. The first common factor is a base 2020 effect, linked to the very low level that prices fell to at the height of the health crisis, especially with regard to the price of oil. In fact, in H2 2020, prices (within the meaning of HICP) in several European countries were below their level of a year earlier (Germany, Italy, Spain) or only very slightly above (France and United Kingdom). One way to measure the magnitude of this base 2020 effect is to consider the HICP over two years (2021 compared to 2019, see *Economic Outlook* for July): in the United States, the HICP in August was 3.3% above its level of August 2019, annualised over two years, i.e. a much smaller increase than year-on-year over one year (6.3%). This difference between the two HICPs is also clearly visible in the case of Spain, where the annual HICP was at +4.0% in September against +1.7% when it was annualised over two years. The second factor common to all countries is the sharp rise in commodity prices –oil and also minerals and food– linked to the strong rebound in world demand. Sourcing difficulties are another aspect of these tensions.

There are other factors, more specific to the countries studied, that also contribute to the rise in inflation. In the United States, the extent of fiscal support, especially for household consumption, stimulated specific demand items, such as second-hand cars where prices surged by 31.9% year-on-year in August, partly because of the limitation on new car production linked to shortages of semi-conductors. In Europe, inflation evolved at a more moderate pace than in the United States, although Germany and Spain stand out with an HICP that is generally more dynamic over one year (about +4% year-on-year in August). In Germany, the introduction of a carbon tax and the reinstatement of the VAT rate (after the temporary reduction in 2020) since the start of 2021 may have driven the HICP upwards. In the United Kingdom, where HICP data are no longer available from the end of 2020, workforce shortages, accentuated by Brexit, caused shortages of some goods, thus boosting inflation. The CPI grew by +3.2% year-on-year in August, and is expected to reach +4% by the end of the year, according to the Bank of England.

In China, economic activity seems to be slowing

Since the net rebound in Q2 2020, the Chinese economy has grown at a dynamic pace (+1.9% per quarter on average), so that in spring 2021 the country stood at +9.2% above its Q4 2019 level. This growth was driven by vigorous exports (+17% in Q2 2021 compared to Q4 2019), mainly fuelled by demand from western countries for textile products and electronic equipment (*Economic Outlook* of 6 May 2021).

In summer 2021, there were signs that suggested that growth in China was slowing. The manufacturing sector PMIs continued their downward trend: the official PMI calculated by the NBSC, mainly for heavy industries, has been in decline since March and fell back in September, for the first time since February 2020, below the contraction threshold (49.6). The Caixin-Markit PMI, more representative of light industry, rallied and reached 50 in September, after 49.2 in August. And in August the slowdown was even more marked in the non-manufacturing sector: the Caixin-Markit index and the official PMI lost 8.2 points and 5.8 points respectively, dropping to 46.7 and 47.5, although the latter index did rebound to 53.2 in September. The main reason for this slowdown in economic activity is the resurgence of outbreaks of the epidemic, forcing the authorities to lock down cities and close production units and port terminals, for example in August the port of Ningbo-Zoushan, third largest port in the world, was closed. In addition to these health factors, there was significant flooding during the summer and a tightening of regulations in several sectors: antitrust rules in the digital sector, regulations on private education and meal deliveries, prohibition of financial transactions involving cryptocurrencies, new debt limits, etc. The strengthening of CO2 emission standards also restricted coal production, causing electricity shortages, which in turn affected economic activity in industry, and potentially global supply chains.

The changes observed in industrial production and retail sales over the last few months confirm this finding (► **Figure 6**). While industrial production had been one of the driving forces behind Chinese recovery, returning to its pre-crisis level from April 2020, it appears to have been in decline since the beginning of 2021. In addition to sporadic closures, businesses are faced with bottlenecks and rising commodity prices. In fact, in August the producer price index reached its highest level in 13 years (+9.5% year-on-year), even though the consumer price index slowed (+0.8% after +1.0%), reflecting the difficulties producers were experiencing in passing on the rise in prices to consumers in a context of intense competition and fragile domestic demand.

In fact, retail sales already illustrated the relative weakness of domestic demand during the economic rebound in 2020, but this summer they have shown a particularly strong decline (–6.1% between June and August) with only slight growth over the year (+2.5%). Private consumption suffered from local lockdowns and travel restrictions, as illustrated by the 17.8% drop in automobile sales year-on-year.

International economic outlook

In addition, there are fears around the possible bankruptcy of one of the country's main real estate developers, Evergrande, which is in debt to the tune of 260 billion euros. As a result of new debt regulations, Evergrande could find itself unable to repay this debt to businesses and households, threatening the entire economy in the absence of State intervention.

By the end of the year, growth in the main economies is expected to slow a little

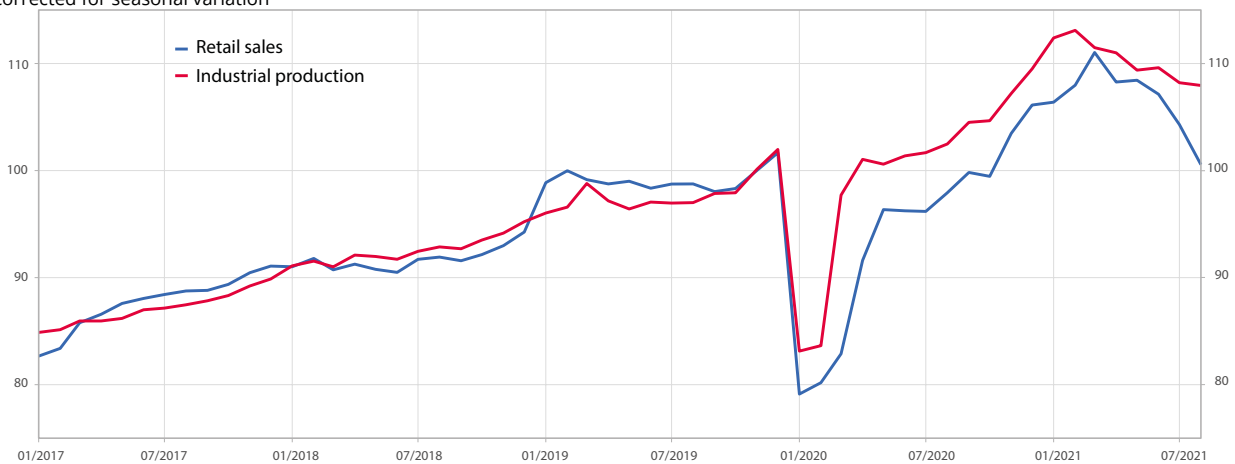
In H2 2021, economic activity in the major western countries is expected to continue to grow but at a slower pace (► **Figure 7**). The rise in the cost of commodities, the supply chain difficulties that

companies are facing and the change in the health situation are all factors that can affect activity.

In the Eurozone, activity would seem to have accelerated in Q3 in France (+2.7% after +1.1%), Germany (+2.8% after +1.6%) and Spain (+3.8% after +1.1%). In Italy, however, it would seem to have slowed slightly (+1.7% after +2.7%). As in Q2, it would seem that consumption was continuing to boost activity, especially in services, due to the easing of health restrictions and a particularly dynamic summer period. Investment is also expected to be dynamic in the Eurozone, where it would seem to have made a positive contribution to growth in Q3 in all countries. The progress made in the vaccination campaign in the countries of Europe should mean that the health risk

► 6. For several months, Chinese industrial production and retail sales have lost ground

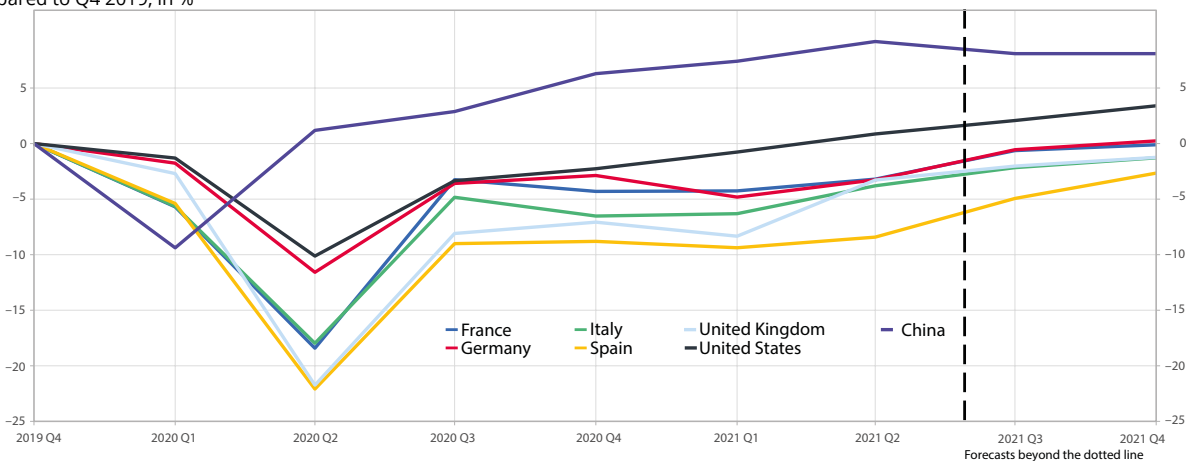
series corrected for seasonal variation



Source: NBSC, INSEE calculations

► 7. Recovery is expected to continue until the end of the year but at a slower pace

GDP compared to Q4 2019, in %



Source: INSEE, Destatis, Istat, INSE, ONS, BEA, NBSC, INSEE forecast

is limited, provided there is no new resistant variant. Conversely, the rise in commodity prices and supply chain difficulties (► **Box 2**) could hamper growth towards the end of the year.

Over the whole of 2021, GDP in the main Eurozone economies is expected to rebound significantly after nosediving in 2020: +3% in Germany, more strongly in Spain (+5½%), and even more so in Italy and France (6% and +6¼% respectively, ► **Figure 8**). Activity will probably still be around 3% below its pre-crisis level at the end of the year in Spain (compared to Q4 2019) and around -1% below in Italy. In France and Germany, GDP is expected to be back to pre-crisis level by the end of the year.

In the United Kingdom, activity would appear to have slowed considerably this summer (+1.3% in Q3 after +5.5% in Q2, which followed on from a decline of 1.4% in Q1). The resurgence of the epidemic at the beginning of the summer and the shortages of goods and workforce, exacerbated by the consequences of Brexit, would appear to have affected activity. Investment and exports therefore seem to have grown very little in Q3 and they are likely to remain well below their pre-crisis level in Q4. Consumption is expected to be buoyant, however, especially in

services, and should continue to drive growth at the end of the year (+3.5% in Q3 then +2.0% in Q4). GDP is expected to increase by +0.8% in Q4 and would then be around -1% below its pre-crisis level. Overall for the United Kingdom, GDP growth looks set to be 6¾% in 2021.

In the summer, growth in the US economy would seem to have slowed a little compared to Q2 (+1.2% after +1.6%), mainly as a result of the increased intensity of the epidemic in the Southern States. In addition, while household consumption has been the main driving force of activity since the start of the crisis, it looks set to slow towards the end of the year: inflationary tensions and the weakening effect of the assistance provided for households through stimulus plans are likely to affect consumers. Activity is improving by 6% across the year as a whole, and by the end of 2021 it is expected to be 3% above its Q4 2019 level.

In China, the deteriorating climate surrounding the summer indicators is likely to result in a sharp slowdown in economic activity: -1.0% in Q3 after +1.7% in Q2. If it remains at this level in Q4, GDP looks set to grow by +8% in 2021 after 2% in 2020. ●

► 8. Annual GDP growth in the main western economies and China in 2020 and INSEE forecasts in 2021

	2020	2021
France	-8.0	6 ¼
Germany	-4.9	3
Italy	-8.9	6
Spain	-10.8	5 ½
United-Kingdom	-9.7	6 ¾
United-States	-3.4	6
China	2.0	8

■ Forecast

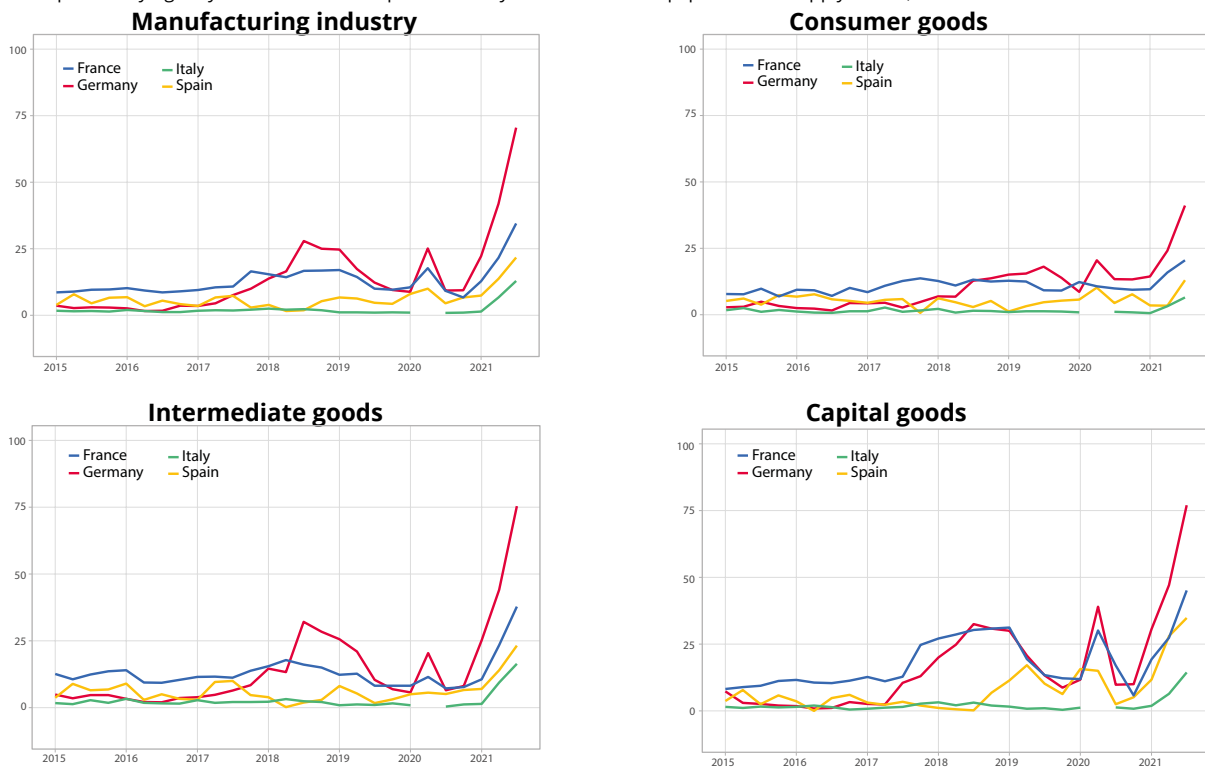
Source: INSEE, Destatis, Istat, INE, ONS, BEA, INSEE forecast

In the main Eurozone countries, supply chain problems affect the manufacturing industry unevenly across sectors

Since the start of the year, more and more manufacturing companies in the main Eurozone countries have reported problems with supply chains¹ as factors that are limiting their output (► **Figure 9**). However, according to the business tendency surveys, the scale of these problems varies across countries and sectors. Companies manufacturing consumer goods² (agri-food, clothing, household equipment, etc.) appear to be less badly hit by these problems, as their increase is less pronounced than in other sectors. The phenomenon particularly affects companies manufacturing intermediate goods (engines, electronic components, etc.) and capital goods (automobile and aeronautical construction, etc.).

► 9. German industries are reporting the most supply chain problems in Europe, with just over three out of four companies concerned in the intermediate goods and capital goods sectors

share of companies saying they are limited in their production by difficulties with equipment and supply chains, in %



Source : DG ECFIN

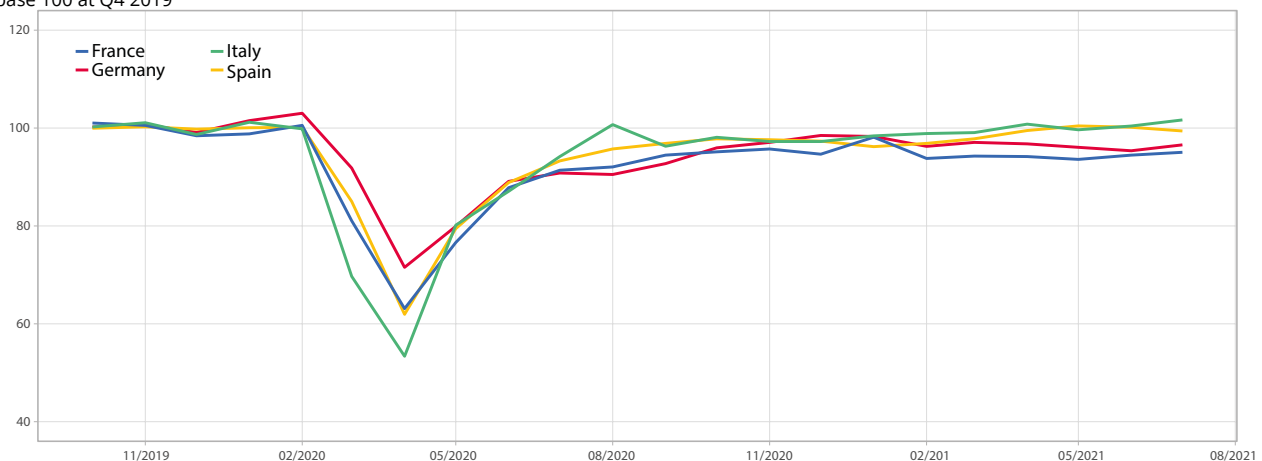
¹ According to the definition harmonised at European level, the problems analysed here concern difficulties with supply chains and equipment that limit companies' output. However, in what follows there is a misuse of the definition as we discuss supply chain problems only, as these were most prevalent over the period.

² The results presented here are published by the DG ECFIN using the MIG (Main Industrial Grouping) classification which groups the industrial branches into five categories of manufactured product: consumer non durables, consumer durables, intermediate goods, capital goods, and energy. Questions on the subject of factors that limit production are asked quarterly, in January, April, July and October each year.

In the manufacture of both intermediate goods and capital goods, supply chain problems are more acute in Germany, where, in July, 75% of companies said they were hampered by this type of problem. In France, such problems certainly appear but they are less significant, as in July they affected 38% of companies producing intermediate goods and 43% of those producing capital goods. In Spain, these difficulties are less present in industries producing intermediate goods (23% of companies concerned) but they remain high in those producing capital goods (35%). In Italy, supply chain problems appear to be more moderate, affecting about 15% of companies in each of these two sectors. Finally, in the four largest European Union economies, the share of companies affected by these problems reached a high point in July (latest available month for these data), which was well above levels in previous years.

These difficulties may partly explain why the industrial production index levelled off in H1 2021, especially in Germany and France (► [Figure 10](#)). ●

► **10. In Italy and Spain, manufacturing output is more dynamic than in France and Germany**
IPI, base 100 at Q4 2019



Source: Eurostat