

Recovery, but with constraints

The global economic recovery continues, but the key areas for vigilance, whether inflationary tensions or increased uncertainty over the health situation, are becoming more prominent. The US economy rebounded faster than that of the Eurozone as a result of even more massive fiscal support, but it is now experiencing the downside with higher inflation. In China, recovery has been held in check, in contrast to the United States, by sluggish domestic demand and a more restrictive health strategy. In the United Kingdom, the rise in hiring difficulties – which most western countries are experiencing – has been accentuated by *Brexit*, and foreign trade remains very poor.

In the main Eurozone economies, recovery was strong over the summer. Overall, France was back to its pre-crisis level of activity (Q4 2019) from Q3 2021, while GDP in Germany and Italy came close, to within about 1 point. In Spain, the economy has remained more restricted, at more than 6 points below its pre-crisis level. The latest business tendency surveys remain favourable overall in Europe, although some of the data were collected before the resurgence in health concerns. By the end of the year, growth is expected to slow in most countries. The potential for catch-up has certainly lessened now (except in Spain) and supply chain difficulties, which have so often been flagged in surveys, continue to hamper industry. In addition, uncertainty over the health situation is likely to delay the continuing recovery in some services, as suggested by the data from search engine queries.

This edition of the *Economic Outlook* includes forecasts for France up to Q2 2022, assuming that by then, health restrictions are unlikely to be tightened further and will have only a peripheral effect on the momentum of recovery at macroeconomic level, and that supply chain difficulties will persist to some extent, dissipating only slowly. In this context, the rebound in the French economy looks set to continue, at a rate of +0.5% in Q4 2021, +0.4% in Q1 2022 and +0.5% in Q2. In spring 2022, French GDP is expected to be 1.4% above its pre-crisis level. The mid-year carry-over effect (i.e. the annual growth rate that would be obtained for 2022 if economic activity in Q3 and Q4 were to remain frozen at the level forecast for Q2) is expected to be 3.0% (after GDP growth of +6.7% as an annual average in 2021).

Growth in France is likely to be driven mainly by market services, and to a lesser extent by industry. The rebound in some services that were severely affected in 2020-2021 by the measures taken to contain the epidemic, such as international tourism, is likely to remain uncertain due to the health context. Household consumption is expected to return to its pre-crisis level in H1 2022, while corporate investment, which has already exceeded its pre-crisis level, is likely to slow after its very sharp increase in 2021. While exports are expected to lag behind compared to pre-crisis, they should increase substantially in Q4 2021 then in Q2 2022 as a result of some major naval deliveries.

After a very strong rebound, employment should continue to improve, but at a slower pace, like economic activity in general. Thus, payroll employment is expected to rise by a little over 150,000 in H2 2021, then by 80,000 in H1 2022. The active population looks set to stabilise over the forecasting period, after its sharp rise this summer when the labour force participation rate reached an unprecedented level. The unemployment rate should fall to 7.8% of the active population in Q4 2021, then decline gradually in H1 2022 to 7.6%.

After standing at zero in December 2020, the year-on-year increase in consumer prices reached 2.8% in November 2021 in France, driven mainly by energy prices. This increase in inflation has affected all western countries, first and foremost the United States. Global demand for goods certainly rebounded strongly, although supply was still limited. In France, under the conventional assumption that fuel and commodities prices remain stable, inflation is expected to remain above 2.5% in H1 2022, but its composition will change slightly: the contribution of energy is likely to decline, whereas that of manufactured products is expected to increase, reflecting with some delay the very sharp rise in production prices in industry (+14% year-on-year in October 2021). Indeed, in the business tendency surveys, balances of opinion on expected prices are at their highest in several sectors, including industry.

Given this situation, nominal wages are expected to be relatively dynamic, but their increase in real terms looks set to be more restrained. The purchasing power of households' gross disposable income is expected to fluctuate from quarter to quarter, driven by both rising consumer prices and the timing of income support measures. After stability in Q3 2021, purchasing power per consumption unit is likely to increase in Q4 2021, affected by the "inflation indemnity" among other things, before falling back automatically in reaction in Q1 2022, then rebounding slightly in Q2. Given the expected change in consumption, the household savings ratio, which was very high during the periods of lockdown, is likely to drop back to 16% by mid-2022, still a little higher than before the crisis (15%).

Thus the short-term situation remains unusual in many respects, and there are several uncertainties that may affect the forecast, which could go up or down. Economic activity may be more resistant now to a resurgence of Covid-19, but the fifth wave of the epidemic and the appearance of a new and dangerous variant which is still not properly understood will only serve to heighten uncertainty. Supply chain constraints emerged very early in the recovery: a possible normalisation of the health situation, especially in Asia, could help reduce them. At the same time, inflationary tensions, especially in the United States, raise the question of the timing of monetary policy tightening. And finally, consumption could prove to be more dynamic than expected if households were to draw on some of the savings they accumulated during the lockdowns. ●