War and Prices

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The international economic environment is largely dependent on geopolitical and health developments, but also on economic policy reactions to rising inflation

In H1 2022, the global economy bears the imprint of a succession of exogenous shocks. With the Omicron wave, Covid-19 again affected economic functioning – only slightly in Europe, but much more markedly in China given its "zero-Covid" strategy. The war in Ukraine has heightened energy and food supply chain difficulties as well as geopolitical uncertainty. Overall, these two shocks, although very different in nature, have amplified inflationary pressures and once again global value chains have been put to the test, despite being already under pressure at the end of the most intense phase of the health crisis.

This difficult context poses new challenges for economic policies. During the pandemic, fiscal and monetary support was huge, contributing to a rapid exit from the crisis. The very sharp rise in inflation around the world is now leading to monetary tightening that is likely to affect behaviour, as shown by the concerns expressed by the financial markets. Fiscal policies, for their part, are attempting to curb the impact of inflation through measures aimed at limiting prices or supporting incomes directly.

From its standstill in the spring, world trade could rebound in H2, driven mainly by a recovery in Chinese activity. The US economy will probably still be driven by domestic demand, despite the expected slowdown in an inflationary context which looks set to stabilise at a high level. Finally, European countries are more exposed than the United States to the shock of the war in Ukraine, especially given their energy imports, but they undoubtedly have a greater potential for catch-up. Growth here is likely to be positive but moderate by the end of 2022.

However, this global scenario would be put to the test in the event of, say, a complete interruption in the supply of Russian energy products to Europe, more lockdowns in China resulting in lasting disruptions in value chains, or a sharper slowdown in American activity.

Over the forecasting period (end 2022), inflation in France is expected to remain high and its base should continue to widen

In May 2022, the annual change in consumer prices reached 5.2% year-on-year in France, a level not seen since 1985, but still lower than in the other main Eurozone economies. There are several factors that may combine to account for these differences between countries: these include the structure of household consumption, price-setting conditions (especially energy) and recent measures to control inflation. The year-on-year change in electricity prices thus appears to be much better contained in France, where the "tariff shield" on regulated gas and electricity sales tariffs together with the fuel price rebate brought down headline inflation by about 2 percentage points in May.

Assuming that this tariff shield is maintained until the end of the year, that the fuel price rebate is brought down gradually between September and December and that the price of Brent is €111/barrel, energy inflation could ease gradually by the end of the year. Its contribution to headline inflation would still be above 2 percentage points in December, but it would no longer be the main contributor. It is likely that services will take over, given their weight in household consumption (almost 50%), while the prices of food and manufactured products are also expected to continue to accelerate in reaction to earlier increases in production costs. All in all, headline inflation should continue to increase this summer, then stabilise in the autumn between 6.5 and 7% year-on-year (and around 4.5% for core inflation). As an annual average, inflation is expected to be +5.5% in 2022 (after +1.6% in 2021).

Inflation figures are usually published as an average for the entire population. However, every year in January INSEE also publishes indices by household category, as consumption structures can differ from one household to another. It seemed appropriate to update this index at a slightly higher frequency in this *Economic Outlook*. Some much larger differences than usual do indeed emerge as a result of the sharp rise in energy prices. In April 2022, for example, this simulation suggests that households living in rural areas were exposed to an inflation rate that was about one percentage point higher than the overall average.

With strong support from fiscal measures, household purchasing power is expected to pick up in H2 2022, but nevertheless see a decline as an annual average in 2022

Our inflation forecast is expected to lead to another automatic increase in the minimum wage either during the summer or at the beginning of the autumn period. The Livret A savings book interest rate could also increase this summer. Alongside these automatic increases and price limitation measures, household purchasing power, which fell substantially in Q1 2022 and is likely to decline further in Q2, could pick up in H2 thanks to the buoyancy of payroll and additional income support measures.

The forecast for household income presented in this *Economic Outlook* was produced based on available public announcements on purchasing power support measures. This is not a prediction of any specific measures that will ultimately be introduced, the terms of which are likely to change before they are actually implemented. These measures may concern wages (renewal and increase in the ceiling for the extraordinary purchasing power bonus, increase in the civil service index point), social benefits (increase in retirement pensions, minimum social benefits, family allowances, activity bonus and targeted aid measures for fuel and food expenses), as well as taxes and social contributions (notably the abolition of the television and radio licence fee). Taken together, these measures are expected to contribute to raising households' gross disposable income (GDI) by about 1 percentage point in 2022.

Payroll is also likely to be supported both by the dynamism of wages, mainly due to wage agreements in various sectors, and by the relatively good performance of employment. This is certainly expected to slow in 2022 (+200,000 net job creations forecast after +855,000 in 2021) but this should at least allow the unemployment rate to continue to fall slightly (7.0% forecast for the end of 2022).

Taking into account the trend in consumer prices, the purchasing power of household GDI should pick up sharply in H2, but is expected to decline as an average over the whole of 2022 (–0.6% forecast, i.e. –1% per consumption unit).

At the start of 2022, French growth may have creaked under the cumulative weight of exogenous shocks, but under our assumptions, it is unlikely to break

The decline in purchasing power contributed to the sharp fall in household consumption in Q1. However, this consumption could rebound moderately in Q2, mainly as a result of a catch-up effect in those services most affected by the pandemic during the winter, while the consumption of goods is likely to slip back. In H2, the context of very high inflation and uncertainty is likely to affect household purchasing decisions and encourage precautionary savings. Households are also likely to smooth the effect that quarterly fluctuations in their purchasing power have on their consumption. All in all, with a moderate increase in consumption in H2, the savings ratio should remain at 16.3% in 2022, quite significantly higher than its level before the health crisis (15.0% in 2019).

Regarding companies' margin rate, this peaked during the health crisis mainly due to support measures. The decline forecast for 2022 began for the most part during 2021. It resulted both from the deterioration in the terms of trade and the fact that emergency aid associated with the pandemic came to an end. The margin rate is expected to stand at 31.7% in 2022, a similar level to that of 2018. Despite this fall in margin rate, corporate investment, which has already clearly exceeded its pre-health crisis level, looks set to be relatively resistant. However, after a slight acceleration in the spring, it could then slow down given the uncertainties. Meanwhile, exports still show potential for catch-up; however, they are likely to be at a standstill in the spring before picking up in H2 with the expected rebound in world trade.

In addition, given the lacklustre results from the business tendency surveys carried out in June, quarterly growth looks set to be moderate: +0.2% forecast in Q2, then +0.3% in Q3 and Q4. This rate of growth would be below that expected in a recovery phase, but not very different from the average recorded during the decade that preceded the health crisis. At the end of 2022, French GDP is expected to be 1.2% above its level at the end of 2019. Annual growth is expected to be 2.3% in 2022 (after +6.8% in 2021).

Alongside the international risks already mentioned, which undoubtedly constitute the main uncertainties in the forecast, there are other factors that may influence it. Household consumption behaviour, for example, remains difficult to predict precisely in this context of high inflation. If there were a drop in the savings ratio, this could make domestic demand a little more dynamic. Conversely, household confidence currently appears to be weakened, and, in contrast to previous presidential elections, it has not seen any improvement as a result of the April 2022 elections. Finally, the recent results of the legislative elections in France are adding to the uncertainty. ●

French economic outlook

Economic activity

The beginning of 2022 was affected by restrictions linked to the Omicron wave, then by the first repercussions of the war in Ukraine. As a result, French GDP shrank by 0.2%, according to the detailed results of the quarterly accounts published in May (►**Figure 1**). The health situation is no longer as restrictive at this stage in France, but Q2 remains affected by the economic consequences of the conflict. In particular, supply chain problems persist and are accompanied by the fastest rise in prices in several decades. In this context, French GDP is expected to increase slightly in Q2 2022, by about +0.2%, thus returning to the same level as in Q4 2021, i.e. a little above the level before the health crisis (+0.5%, ►**Figure 2**). Subsequently, GDP is expected to maintain a moderate rate of growth until the end of the year, of around +0.3% per quarter. Across the whole of 2022, GDP growth looks set to be +2.3%, although year-on-year, activity at the end of the year will probably be just above its level at the end of 2021 (+0.6%).
Regarding the main demand items, household consumption is expected to pick up slightly in Q2 2022, after Q1 was penalised by the upsurge in the epidemic and the rise in inflation. It is then expected to slow in H2, in a context of high inflation –notably with stagnation in the consumption of goods – despite aid measures to support household purchasing power (►**Figure 3b**). Nevertheless, it is likely to be the largest contributor to GDP growth (►**Figure 3a**). Investment is expected to grow moderately, driven by growth in investment by non-financial enterprises in services, and by households in construction. Investment by non-financial enterprises in manufactured products is expected to continue to decline, penalised by sluggish activity and the continuing disruption to value chains due to supply chain problems (especially for transport equipment). Finally, in line with sluggish domestic and foreign demand, foreign trade will probably be at a standstill in Q2, before rebounding slightly in H2 with the upturn in trade in goods. As imports are a little more dynamic than exports, the total contribution of foreign trade is expected to be slightly negative (–0.1 points) in Q2 and Q3. Across 2022 as a whole (►**Figure 4**), household consumption and general government consumption are likely to contribute most to GDP growth, around 1.8 points taken together, with investment and foreign trade contributing less strongly but still positively, by 0.4 and 0.1 points respectively.

►1. 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

	2020				2021				2022				2020	2021	2022
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Gross domestic product	–5.7	–13.7	19.4	–1.4	0.2	1.0	3.2	0.4	–0.2	0.2	0.3	0.3	–7.9	6.8	2.3
Imports	–5.2	–19.1	18.3	0.3	1.6	2.1	0.7	3.9	0.5	0.0	0.7	0.8	–13.0	7.8	4.9
Total resources	–5.4	–14.8	18.9	–0.6	0.6	1.4	2.6	1.0	0.2	0.1	0.4	0.4	–8.8	7.4	3.0
Household consumption expenditure	–5.5	–11.5	19.0	–5.6	0.2	1.2	5.8	0.3	–1.5	0.4	0.2	0.2	–6.8	5.2	2.3
General government consumption expenditure**	–3.4	–11.8	18.0	–0.7	–0.1	0.0	3.5	0.6	0.2	–0.1	0.2	0.2	–4.2	6.4	2.4
of which individual general government expenditure	–4.8	–12.7	20.1	–1.0	0.6	0.0	5.1	0.6	0.3	–0.4	0.1	0.2	–5.8	8.3	3.0
of which collective general government expenditure	–1.1	–9.9	15.6	0.1	–1.7	–0.1	–0.2	0.1	0.0	0.3	0.3	0.2	–0.8	2.8	0.3
Gross fixed capital formation (GFCF)	–9.3	–14.4	24.0	2.4	1.1	2.0	0.3	–0.3	0.6	0.5	0.4	0.3	–8.4	11.4	1.7
of which Non-financial enterprises (NFE)	–8.6	–13.3	24.4	1.8	0.9	2.0	0.5	–0.4	0.4	0.6	0.5	0.5	–6.9	11.4	1.7
Households	–13.5	–16.9	29.2	5.8	0.9	3.4	1.4	–0.7	0.0	0.4	0.2	0.0	–11.9	17.0	1.3
General government	–4.9	–12.6	17.2	0.4	–1.3	0.5	–1.8	–0.4	1.8	0.2	0.2	0.1	–5.4	2.7	0.9
Exports	–6.8	–25.6	24.3	2.4	–0.6	2.6	3.2	2.6	1.2	–0.4	0.4	0.8	–17.0	8.6	5.6
Contributions (in points)															
*Domestic demand excluding inventory***	–5.9	–12.3	20.2	–2.6	0.3	1.1	3.9	0.2	–0.6	0.3	0.3	0.2	–6.6	7.0	2.2
*Changes in inventories***	0.7	0.3	–1.8	0.6	0.6	–0.2	–1.4	0.6	0.2	0.1	0.1	0.1	–0.2	–0.3	0.1
Foreign trade	–0.5	–1.7	0.9	0.6	–0.7	0.1	0.7	–0.4	0.2	–0.1	–0.1	0.0	–1.1	0.1	0.1

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 Q2 2022, exports would decrease by –0.4% compared to the first quarter of 2022; the contribution of foreign trade to quarterly GDP growth would be slightly negative at –0.1 point.
Source: INSEE

The business climates from the business tendency surveys remain favourable in June, above their average level for both the overall climate and the sectoral climates, except in retail trade. They point to an overall increase in activity for the coming months, even if the composite indicator levels may eventually be adjusted: they partly reflect the automatic rebound after the Omicron wave (especially in certain services) and some particularly high balances of opinion regarding expected prices, especially in building construction (as an increase in prices is usually favourable from the point of view of business leaders).

At sector level activity is therefore likely to be driven by relatively sustained growth in market services in Q2 2022, in contrast to Q1, whereas manufacturing industry looks set to see a downturn after a dynamic Q1 (**Figure 5**). In services, several sub-sectors are still well below their pre-health crisis level and thus have the potential for catch-up (**Figures 6** and **7**): this is particularly the case for accommodation and catering, which are expected to rebound strongly, after a notable decline in Q1 due to the Omicron wave. The transport sector should also remain dynamic. In trade, however, the situation is expected to deteriorate further in Q2, in line with a drop in household consumption of goods, and consistent with signals from the latest business tendency surveys (**Figure 8**). Similarly, in industry, production is expected to fall back: this is because the majority of manufacturing branches appear to be penalised by problems with supply (**Focus** on responses from business leaders on the consequences of the war in Ukraine). This is the case in agrifood, for example, and capital goods. Finally, activity in construction is expected to be a little more buoyant than in Q1.

In H2, some of these sectoral contrasts are expected to persist, with growth in activity driven mainly by market services, albeit with a slight slowdown after the catch-up in the previous quarter. Industry and construction are expected to rebound only modestly, given the continuing difficulties with supply.

These forecasts remain strongly dependent on possible changes in the various difficulties in terms of supply chains, prices and also hiring. In particular, a gradual easing of these difficulties would be a positive factor for industrial activity. However, if the war in Ukraine continues, or if economic sanctions and reprisals by Russia were to worsen, then this could continue to exacerbate these difficulties, firstly over commodity prices (energy, agricultural products, etc.). In addition, the health situation in China remains an area for vigilance, given their "zero-Covid" strategy which could have a significant impact on global value chains. On the domestic front, uncertainty persists regarding the behaviour of households in the face of new economic conditions, with high inflation but also measures in place to support purchasing power. ●

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

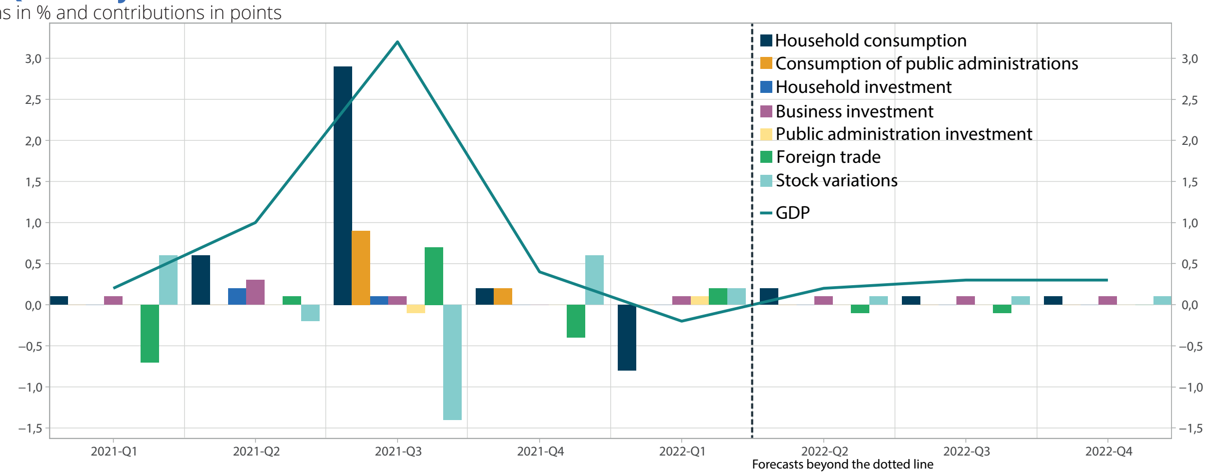
difference to Q4 2019, in %, seasonally adjusted data - YTD

	2020				2021				2022			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Gross domestic product	–5.7	–18.6	–2.8	–4.2	–4.0	–3.0	0.1	0.5	0.3	0.5	0.8	1.2
Imports	–5.2	–23.3	–9.2	–9.0	–7.5	–5.5	–4.9	–1.1	–0.6	–0.6	0.1	0.9
Total resources	–5.4	–19.4	–4.2	–4.7	–4.2	–2.9	–0.4	0.7	0.9	1.0	1.4	1.7
Household consumption expenditure	–5.5	–16.4	–0.6	–6.2	–6.0	–4.9	0.6	1.0	–0.6	–0.2	0.0	0.3
General government consumption expenditure**	–3.4	–14.8	0.5	–0.2	–0.3	–0.3	3.2	3.8	4.0	3.8	4.0	4.2
of which individual general government expenditure	–4.8	–16.9	–0.2	–1.2	–0.6	–0.6	4.4	5.0	5.3	4.8	5.0	5.1
of which collective general government expenditure	–1.1	–10.8	3.1	3.2	1.5	1.4	1.1	1.3	1.2	1.6	1.9	2.0
Gross fixed capital formation (GFCF)	–9.3	–22.4	–3.7	–1.4	–0.4	1.6	1.9	1.5	2.1	2.6	3.1	3.4
of which Non-financial enterprises (NFE)	–8.6	–20.7	–1.4	0.4	1.4	3.4	3.9	3.5	3.9	4.5	5.1	5.5
Households	–13.5	–28.1	–7.1	–1.8	–0.9	2.5	4.0	3.2	3.2	3.6	3.8	3.8
General government	–4.9	–16.9	–2.6	–2.3	–3.5	–3.1	–4.9	–5.2	–3.5	–3.4	–3.2	–3.1
Exports	–6.8	–30.7	–13.9	–11.8	–12.3	–10.0	–7.2	–4.7	–3.6	–4.0	–3.6	–2.8

■ 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 Q2 2022, exports are expected to be around –4.0% below its Q4 2019 level.
Source: INSEE

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

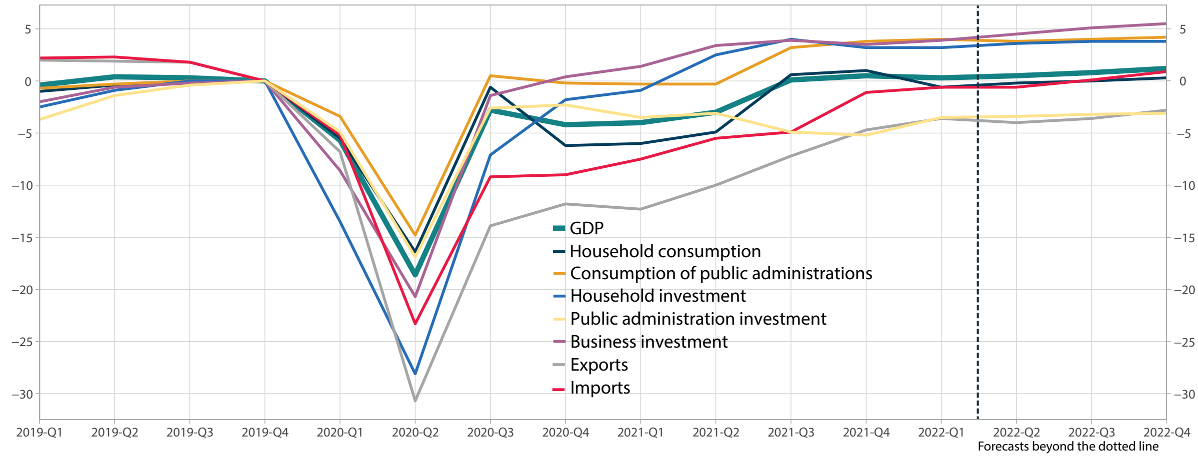
variations in % and contributions in points



How to read it: in Q2 2022, GDP is expected to increase by 0.2% compared to Q1 2022; the contribution of investment by non-financial enterprises (NFE) is expected to be about 0.1 points.
Source: INSEE

►3b. Quarterly changes in GDP, imports and main demand items difference to Q4 2019

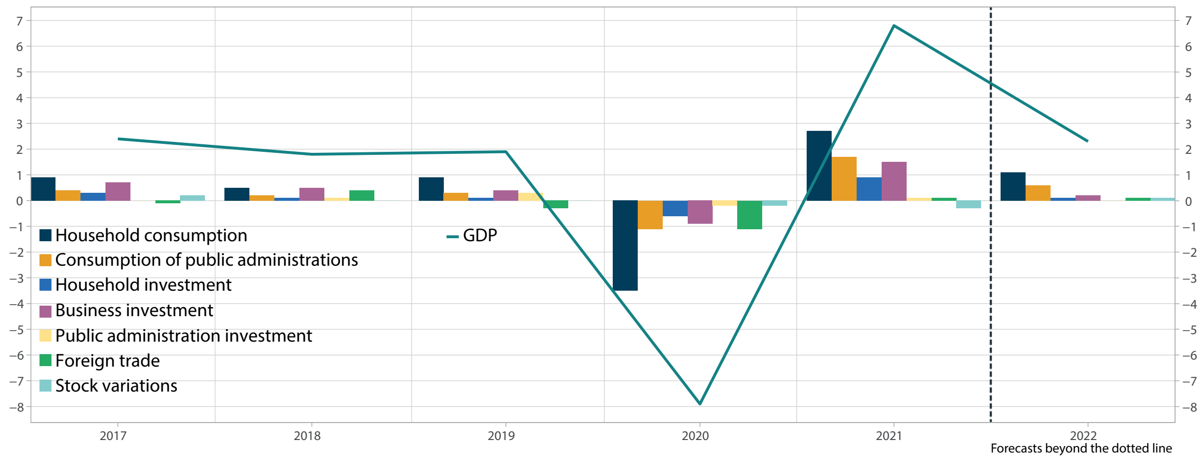
difference to Q4 2019, in %



How to read it: in Q2 2022, exports are expected to be around −4,0% below their Q4 2019 level.
Source: INSEE

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

quarterly variations (in %) and contributions in points



How to read it: In 2022, GDP would increase by an annual average of 2.3%; the contribution of household consumption would be 1.1 points.
Source: INSEE

►5. Quarterly changes in economic activity by industry

quarterly changes in %, forecast from Q2 2022

Branch	weight	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2021 Q1	2021 Q2	2021 Q3	2021 Q4	2022 Q1	2022 Q2	2022 Q3	2022 Q4
Agriculture, forestry and fishing	**2**	**–2.4**	**–2.0**	**–0.6**	**–0.3**	**0.3**	**0.2**	**0.2**	**–0.3**	**–0.4**	**0.7**	**0.7**	**0.7**
Industry	**14**	**–5.8**	**–17.5**	**19.4**	**2.7**	**–0.9**	**–0.6**	**–0.1**	**–0.5**	**0.0**	**–0.4**	**0.2**	**0.2**
Manufacture of food products, beverages and tobacco-based products	2	–1.5	–9.0	7.6	–0.7	1.3	0.1	0.6	0.1	0.3	–0.6	0.2	0.1
Coke and refined petroleum	0	0.6	11.5	13.1	8.9	-31.3	–1.5	–12.6	2.6	21.5	–0.6	0.0	0.0
Manufacture of electrical, electronic. computer equipment; manufacture of machinery	1	–7.0	–18.5	22.1	3.9	1.5	–0.5	1.0	0.0	1.8	–0.6	0.0	0.1
Manufacture of transport equipment	2	–19.9	–49.6	70.0	3.9	–4.7	–4.2	–0.4	–1.1	–4.3	1.3	0.4	0.8
Manufacture of other industrial products	6	–5.4	–18.3	22.7	3.3	0.2	–0.9	–1.0	–0.6	2.2	–0.6	0.4	0.2
Extractive industries, energy. water, waste treatment and decontamination	3	–1.7	–9.1	9.5	2.9	–3.5	0.7	1.0	–0.8	–4.8	–0.3	–0.3	0.5
Construction	**6**	**–12.0**	**–22.8**	**38.9**	**–0.6**	**2.9**	**1.8**	**0.1**	**–0.2**	**0.2**	**0.5**	**0.5**	**0.3**
Mainly market services	**–5**	**–4.9**	**–13.0**	**16.9**	**–2.5**	**0.1**	**2.0**	**4.7**	**1.0**	**–0.2**	**0.5**	**0.4**	**0.4**
Trade; repair of automobiles and motorcycles	10	–6.3	–11.7	22.3	–2.3	0.0	–0.3	2.2	0.2	–1.4	–0.6	0.1	0.1
Transport and storage	5	–8.1	–27.5	40.0	–7.5	4.1	2.8	5.6	2.4	0.8	0.7	0.6	0.7
Accommodation and catering	3	–18.1	–47.5	87.4	–29.3	–12.7	32.4	41.2	–0.4	–3.5	6.5	0.5	0.5
Information and communication	5	–1.8	–5.8	7.7	1.8	2.2	1.5	2.7	1.4	0.7	0.5	0.6	0.6
Financial and insurance activities	4	–3.4	–8.7	13.2	0.1	1.7	1.6	3.1	1.4	1.0	0.3	0.3	0.4
Real estate activities	13	–1.2	–2.4	2.9	0.0	–0.1	0.4	0.8	0.3	0.3	0.1	0.2	0.2
Scientific and technical activities; administrative and support services	14	–3.8	–13.3	16.2	0.0	–0.2	1.5	2.6	0.5	–0.2	0.5	0.6	0.6
Other service activities	3	–11.5	–34.1	39.7	–11.1	–1.6	4.9	24.4	6.5	–0.5	1.5	1.0	0.4
Mainly non-market services	**22**	**–5.2**	**–12.3**	**21.2**	**–1.2**	**0.7**	**–0.7**	**2.0**	**0.1**	**0.1**	**–0.3**	**0.0**	**0.2**
Total VA	**100**	**–5.4**	**–13.8**	**18.9**	**–1.4**	**0.3**	**1.0**	**3.1**	**0.5**	**–0.1**	**0.2**	**0.3**	**0.3**
Taxes and subsidies		*–7.5*	*–13.3*	*23.4*	*–1.5*	*0.0*	*1.1*	*4.1*	*–0.1*	*–1.0*	*0.0*	*0.2*	*0.2*
GDP		**–5.7**	**–13.7**	**19.4**	**–1.4**	**0.2**	**1.0**	**3.2**	**0.4**	**–0.2**	**0.2**	**0.3**	**0.3**

Forecast

How to read it: in Q1 2022, the value added of the manufacture of transport equipment branch decreased by 4.3%. It is expected to increase by 1.3% in Q2 2022.

Source: INSEE calculations from various sources

►6. Economic activity gaps by industry, compared to the pre-health crisis level

quarterly changes in %, forecast from Q2 2022

Branch	weight	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2021 Q1	2021 Q2	2021 Q3	2021 Q4	2022 Q1	2022 Q2	2022 Q3	2022 Q4
Agriculture, forestry and fishing	**2**	**–2.4**	**–4.3**	**–4.9**	**–5.2**	**–4.9**	**–4.8**	**–4.6**	**–4.9**	**–5.3**	**–4.7**	**–4.0**	**–3.4**
Industry	**14**	**–5.8**	**–22.3**	**–7.2**	**–4.6**	**–5.5**	**–6.0**	**–6.1**	**–6.5**	**–6.6**	**–7.0**	**–6.8**	**–6.6**
Manufacture of food products, beverages and tobacco-based products	2	–1.5	–10.3	–3.5	–4.2	–2.9	–2.8	–2.2	–2.1	–1.8	–2.3	–2.2	–2.1
Coke and refined petroleum	0	0.6	12.2	26.9	38.2	–5.0	–6.4	–18.2	–16.1	2.0	1.4	1.4	1.4
Manufacture of electrical, electronic. computer equipment; manufacture of machinery	1	–7.0	–24.2	–7.4	–3.8	–2.4	–2.9	–1.9	–1.9	–0.2	–0.8	–0.8	–0.7
Manufacture of transport equipment	2	–19.9	–59.6	-31.4	–28.7	-32.1	–34.9	–35.2	–35.9	–38.7	-37.9	-37.6	-37.1
Manufacture of other industrial products	6	–5.4	–22.7	–5.2	–2.1	–1.9	–2.8	–3.8	–4.3	–2.2	–2.8	–2.4	–2.3
Extractive industries, energy. water, waste treatment and decontamination	3	–1.7	–10.6	–2.2	0.7	–2.8	–2.1	–1.2	–1.9	–6.7	–6.9	–7.2	–6.7
Construction	**6**	**–12.0**	**–32.1**	**–5.7**	**–6.2**	**–3.5**	**–1.8**	**–1.7**	**–1.9**	**–1.7**	**–1.2**	**–0.6**	**–0.3**
Mainly market services	**–5**	**–4.9**	**–17.2**	**–3.2**	**–5.7**	**–5.6**	**–3.7**	**0.8**	**1.8**	**1.6**	**2.1**	**2.5**	**3.0**
Trade; repair of automobiles and motorcycles	10	–6.3	–17.2	1.2	–1.1	–1.1	–1.4	0.8	1.0	–0.4	–0.9	–0.9	–0.7
Transport and storage	5	–8.1	–33.4	–6.8	–13.8	–10.2	–7.7	–2.6	–0.2	0.5	1.2	1.8	2.5
Accommodation and catering	3	–18.1	–57.0	–19.5	–43.1	–50.3	–34.2	–7.1	–7.5	–10.7	–4.9	–4.5	–4.0
Information and communication	5	–1.8	–7.5	–0.4	1.4	3.6	5.2	8.0	9.5	10.3	10.9	11.5	12.2
Financial and insurance activities	4	–3.4	–11.8	–0.2	0.0	1.7	3.3	6.5	8.0	9.1	9.4	9.7	10.2
Real estate activities	13	–1.2	–3.6	–0.8	–0.8	–0.9	–0.6	0.2	0.5	0.8	1.0	1.2	1.4
Scientific and technical activities; administrative and support services	14	–3.8	–16.7	–3.1	–3.1	–3.3	–1.9	0.7	1.2	1.0	1.5	2.1	2.7
Other service activities	3	–11.5	–41.7	–18.5	–27.6	–28.8	–25.3	–7.1	–1.0	–1.5	0.0	1.0	1.4
Mainly non-market services	**22**	**–5.2**	**–16.8**	**0.8**	**–0.5**	**0.2**	**–0.4**	**1.5**	**1.6**	**1.7**	**1.4**	**1.5**	**1.7**
Total VA	**100**	**–5.4**	**–18.5**	**–3.1**	**–4.4**	**–4.2**	**–3.2**	**–0.2**	**0.3**	**0.2**	**0.4**	**0.7**	**1.1**
Taxes and subsidies		*–7.5*	*–19.8*	*–1.0*	*–2.4*	*–2.4*	*–1.3*	*2.7*	*2.7*	*1.7*	*1.7*	*1.9*	*2.2*
GDP		**–5.7**	**–18.6**	**–2.8**	**–4.2**	**–4.0**	**–3.0**	**0.1**	**0.5**	**0.3**	**0.5**	**0.8**	**1.2**

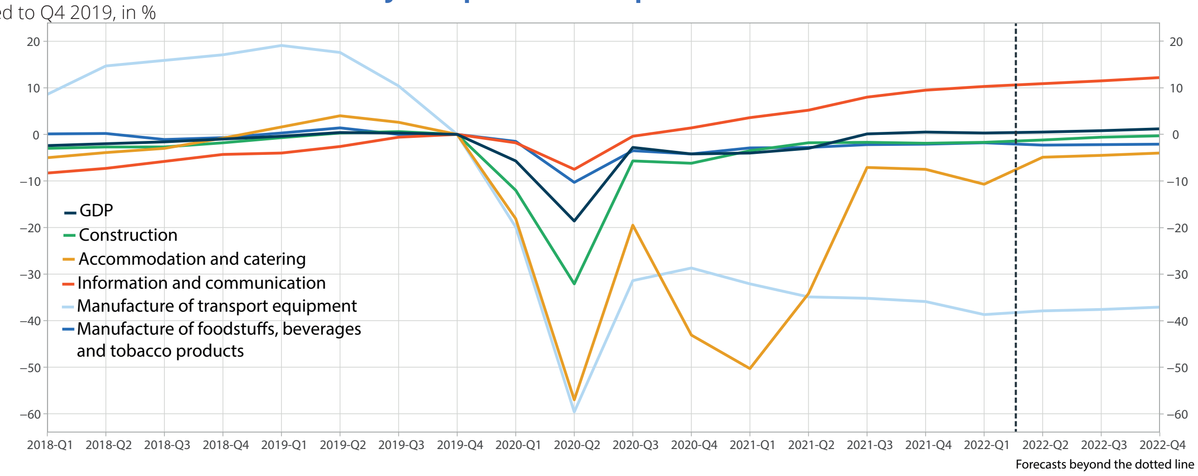
Forecast

How to read it: n Q1 2022, the value added of the manufacture of transport equipment branch stood at –38.7% below its Q4 2019 level. In Q2 2022, it is expected to move up to –37.9%

Source: INSEE calculations from various sources

► 7. Difference in economic activity compared to the pre-health crisis level, for different branches

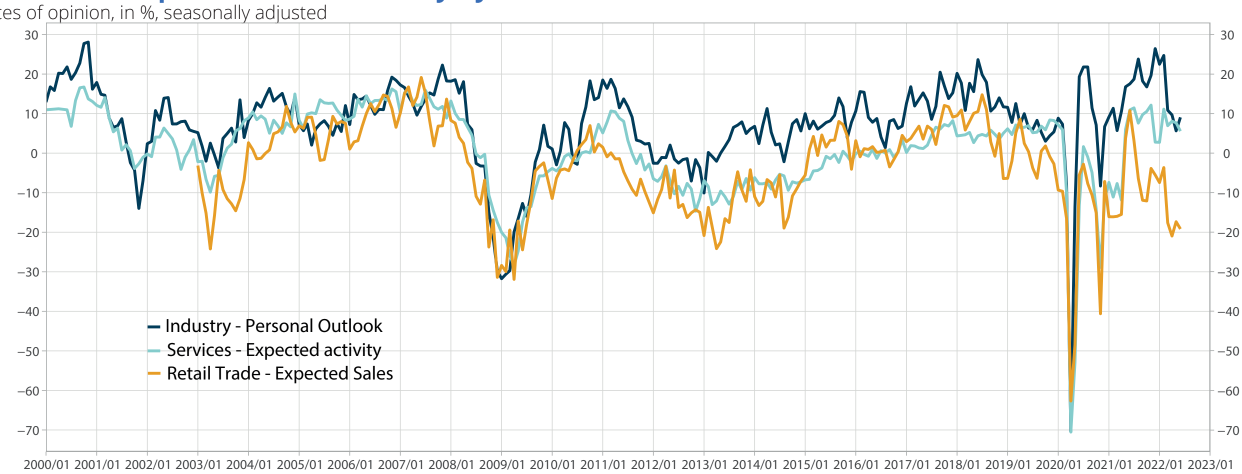
compared to Q4 2019, in %



How to read it: iin Q1 2022, value added of the construction branch stood at –1.7% below its Q4 2019 level. In Q2 2022, it is expected to move up to –1.2%.
Source: INSEE calculations from various sources

► 8. Personal expectations for activity by sector

balances of opinion, in %, seasonally adjusted



How to read it: in June 2022, the balance of opinion regarding personal expectations for industrial production was at +9%.
Note: results are weighted by turnover.
Last point: June 2022.
Source: INSEE, business surveys

The war in Ukraine has intensified supply chain difficulties in industry and building construction

In May 2022, in its economic outlook surveys, INSEE asked companies in the manufacturing industry and building construction about the link between any supply chain difficulties they were having and the war in Ukraine. In both sectors, about 30% of companies said that their production was restricted by supply chain difficulties linked, either directly or indirectly, with the war in Ukraine. Most of these companies reported only an indirect link, reflecting the fact that some of their suppliers source from Ukraine, Russia or Belarus. Companies that are supplied directly from these countries are for the most part in the minority. In addition, supply chain problems linked to the war in Ukraine are probably not the only difficulties these affected companies are experiencing: it is likely that the context of the war is merely exacerbating any difficulties that already existed before the end of February.

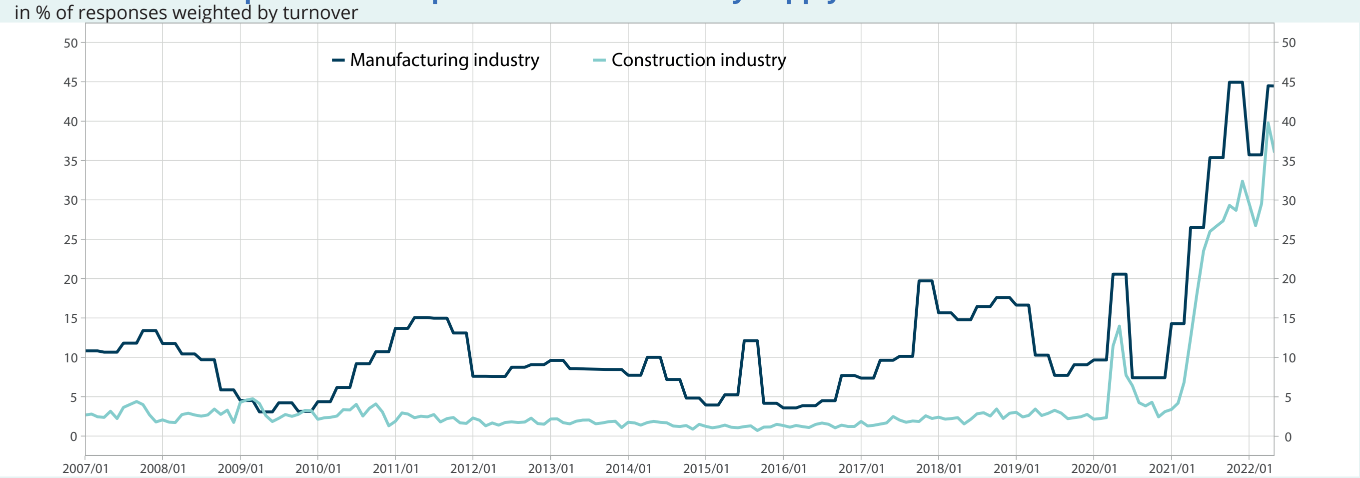
In its economic outlook surveys, INSEE regularly questions companies in the manufacturing industry and building construction on factors that limit their production, especially supply chain difficulties. This question was previously posed on a quarterly basis in the manufacturing industry, but in future it will be asked every month, as is already the case for the construction industry. In May 2022, the share of manufacturing industry companies who said that their production was limited as a result of supply chain difficulties remained overall at the same very high level as the previous month, at almost 45% (**►Figure 1**). In the building construction industry, the share of companies concerned slipped back, dropping to 36% after 40% in April, which was still a very much higher level than its long-term average.

In May 2022, a specific question on a possible link between any supply chain difficulties and the war in Ukraine was added to the questionnaire in the surveys in the manufacturing and building construction industries (**►Box**). Companies may be experiencing supply chain difficulties because they are supplied directly by Ukraine, Russia or Belarus (direct link); or because some of their suppliers are sourced from these countries (indirect link). In both instances, the supply chain difficulties encountered are not necessarily the only ones affecting these companies: in other words, they may also be experiencing other disruptions in their supply chains at the same time, for example as a result of the health situation in China. In this case, the context of the war in Ukraine may simply be exacerbating already existing problems.

In May 2022, the proportion of companies reporting that their production was limited by supply chain difficulties linked (directly or indirectly) to the war in Ukraine was around 30% in both manufacturing and construction (**►Figure 2**). In the building construction industry, this proportion represents the vast majority of companies with supply chain problems, while in the manufacturing industry it represents two thirds. Of the companies who said they were affected by the war in Ukraine, most were only affected indirectly. Those claiming that their production was restricted by supply chain problems linked directly to the war in Ukraine –i.e. those who were supplied directly from Ukraine, Russia or Belarus– were very much in the minority: 6% of manufacturing industry companies, 2% of those in building construction.

►1. Share of companies whose production is limited by supply chain difficulties

in % of responses weighted by turnover

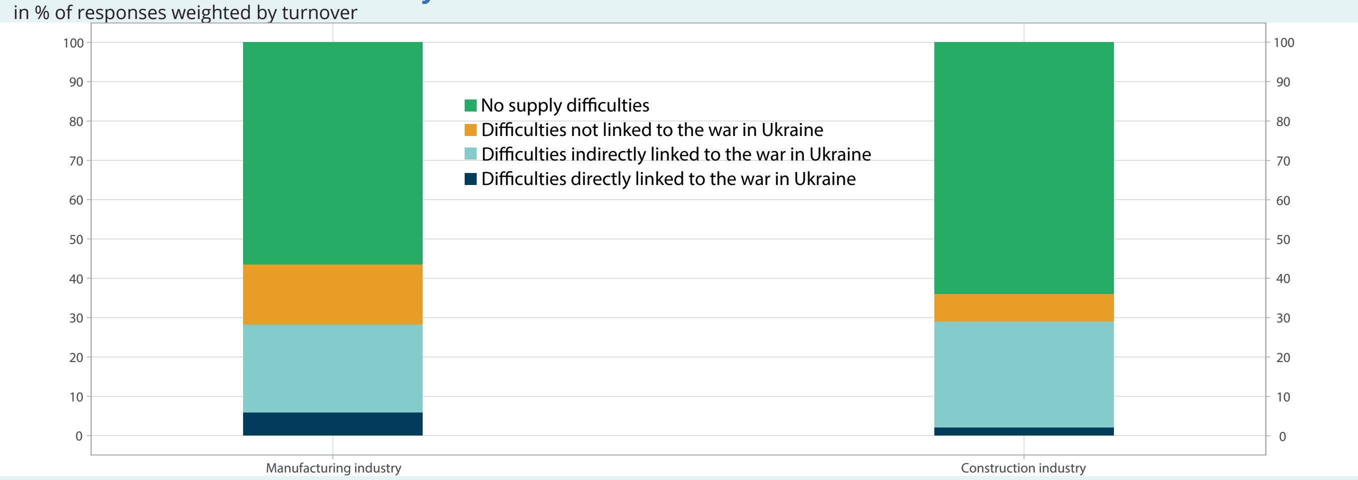


Note: responses weighted by turnover. Seasonally adjusted data.
Source: INSEE, business survey

In May 2022, within the manufacturing industry, the proportion of companies affected by supply chain difficulties related to the war in Ukraine varied according to the branches, from around 30% in transport equipment to almost 40% in the manufacture of capital goods (►**Figure 3**). Within transport equipment, the automobile industry appears to be much more exposed to supply chain difficulties linked to the war in Ukraine, with 45% of companies affected, for example due to shortages of cable harnesses produced in Ukraine. The manufacture of capital goods is the branch where, generally speaking, the largest number of companies encounter supply chain difficulties: more than 70% of companies in this sector are exposed to such problems, almost half of them with no particular link to the war in Ukraine. In this sector, companies may also be affected by other disruptions in global supply chains, especially with goods coming from China. Thus for the companies concerned, the context of the war in Ukraine is probably heightening the supply chain difficulties they were already experiencing.

►2. Share of companies reporting supply chain difficulties in May 2022, and degree of possible link to the war in Ukraine – industry and construction

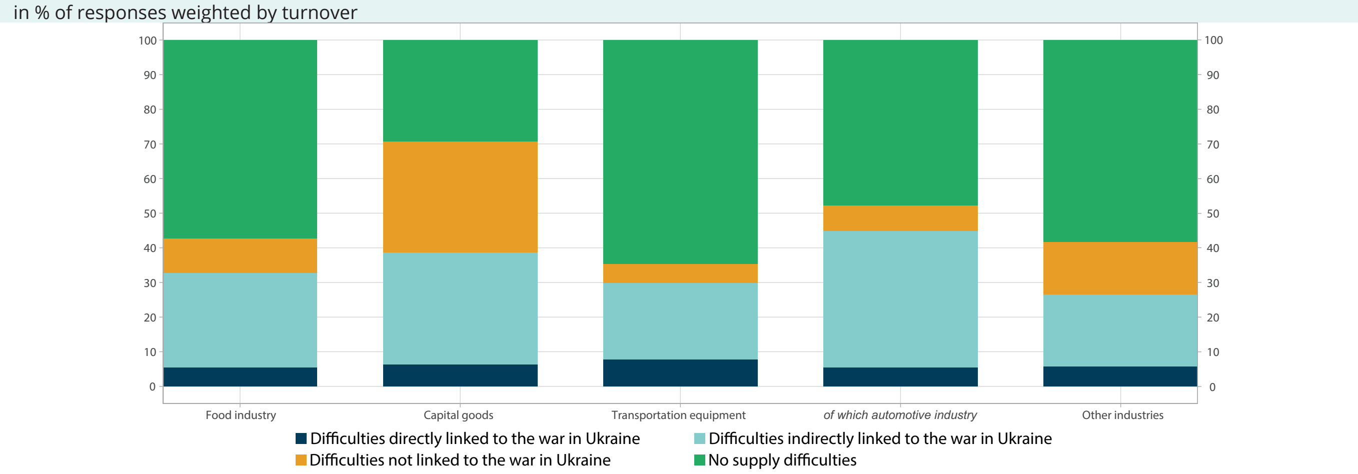
in % of responses weighted by turnover



Note: when a company reports that its production is limited as a result of supply chain difficulties but does not answer the question on the link between these difficulties and the war in Ukraine, then we consider that the difficulties are not linked to the war in Ukraine. This scenario concerns only 1% of the companies questioned. Those companies that say that their supply chain difficulties are linked both directly and indirectly to the war in Ukraine are grouped above with those that say their difficulties are directly linked to the war.
Data not seasonally adjusted.
Source: INSEE, business survey

►3. Share of companies reporting supply chain difficulties in May 2022, and degree of possible link to the war in Ukraine – industrial sub-sectors

in % of responses weighted by turnover



Note: when a company reports that its production is limited as a result of supply chain difficulties but does not answer the question on the link between these difficulties and the war in Ukraine, then we consider that the difficulties are not linked to the war in Ukraine. This scenario concerns only 1% of the companies questioned. Those companies that say that their supply chain difficulties are linked both directly and indirectly to the war in Ukraine are grouped above with those that say their difficulties are directly linked to the war.
Data not seasonally adjusted.
Source: INSEE, business survey

In May 2022, within the category "other industries", which notably includes the pharmaceutical industry, chemical products, textiles, also metallurgy and plastics, fewer than 30% of companies reported that they were affected by supply chain difficulties linked to the war in Ukraine. However, this proportion varies substantially according to the branch (►**Figure 4**): it is much higher in metallurgy, with a significant proportion of companies directly affected by the war (14% of companies in the sector), through Ukrainian, Russian or Belarusian suppliers. Supply chains for the pharmaceutical, chemical, plastics and textile industries, on the other hand, are affected relatively little by the war in Ukraine.

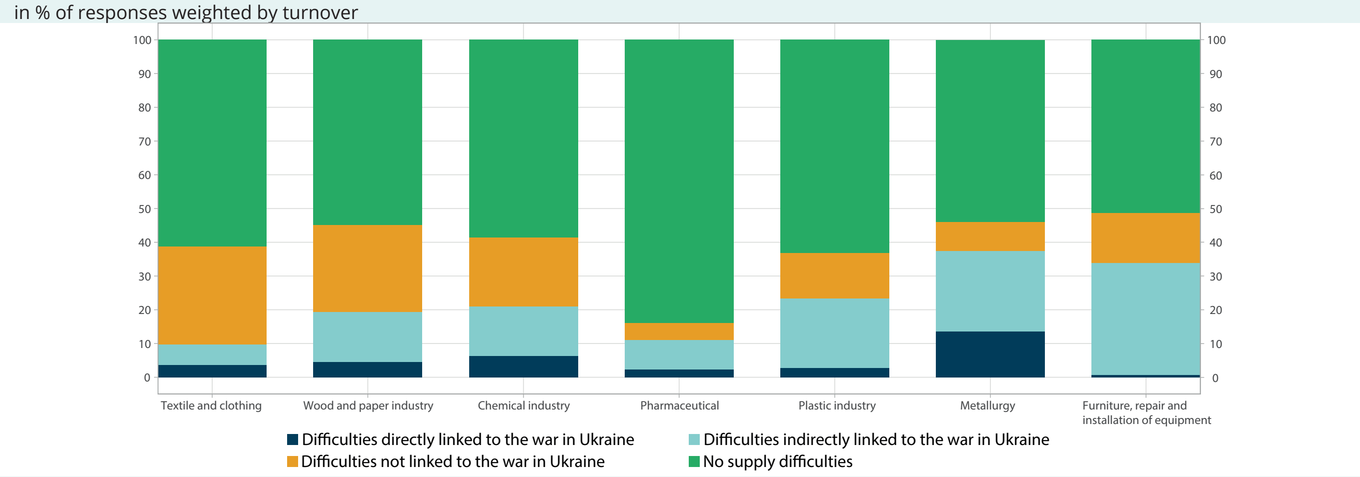
Lastly, the share of companies affected by supply chain difficulties linked to the war in Ukraine is relatively uniform across the building construction industry, whether they carry out structural work or finishing work, or whether they carry out building construction or specialised construction activities.

This analysis is based on results from the economic outlook surveys for May. Preliminary results from the June surveys suggest that there has been no major change. In the manufacturing industry, the proportion of companies affected by supply chain difficulties linked (directly or indirectly) to the war in Ukraine is expected to remain at 28% in June. In construction, it is likely to increase from 29% in May to 30% in June. Companies directly affected by the war in Ukraine are expected to remain very much in the minority. ●

Pierre Poulon

►4. Share of companies reporting supply chain difficulties in May 2022, and degree of possible link to the war in Ukraine

in % of responses weighted by turnover



Note: when a company reports that its production is limited as a result of supply chain difficulties but does not answer the question on the link between these difficulties and the war in Ukraine, then we consider that the difficulties are not linked to the war in Ukraine. This scenario concerns only 1% of the companies questioned. Those companies that say that their supply chain difficulties are linked both directly and indirectly to the war in Ukraine are grouped above with those that say their difficulties are directly linked to the war.
Data not seasonally adjusted.
Source: INSEE, business survey

The economic outlook surveys of the manufacturing industry and the building construction industry (building companies with ten or more employees) regularly ask businesses about factors that limit their production (insufficient demand, insufficient equipment or material, lack of workforce, financial constraints, supply chain difficulties, unfavourable climate conditions, etc.). This question appears every month in the building industry survey and has done since October 1998. In the manufacturing industry survey, this question has been asked every quarter since 1991 (in January, April, July and October) and the frequency has been monthly since May 2022.

After asking about factors that currently limit their production, the questionnaires for May and June 2022 ask companies about the link between any supply chain difficulties they may be encountering and the war in Ukraine (►**Figure 5**). If this is the case, the link may be direct or indirect, depending on whether they source directly from Russia, Ukraine or Belarus or whether some of their suppliers source from these countries. Of course, these situations are not exclusive and several responses to the question are possible. ●

►5. Wording of the question on the link between supply chain difficulties that companies have encountered and the war in Ukraine

2. Are the supply chain difficulties you have encountered linked directly or indirectly to the war in Ukraine?
Several responses possible

☐ Yes, directly as you usually source from Russia, Ukraine or Belarus

☐ Yes, indirectly as some of your suppliers located in other countries (including France) are directly affected

☐ No, your supply chain difficulties are not linked to the war

Foreign trade

Foreign trade was particularly buoyant in Q4 2021, but slowed in Q1 2022 with the worsening of the international environment due to supply chain disruptions and the outbreak of war in Ukraine at the end of February (► **Figure 1**). Exports of manufactured products increased moderately, driven by sizeable aeronautical and naval deliveries, but imports contracted, especially in transport equipment and coke and refined petroleum products. Trade linked with tourism also slowed substantially (spending by foreign tourists in France) and even fell back (spending by French tourists abroad). Trade in energy evolved in different ways, with imports accelerating strongly and exports slipping back. Only trade in services was dynamic, with the result that total imports were 0.6% below their pre-health crisis level (► **Figure 4**).

In Q2 2022, foreign trade is expected to be at a standstill. Exports are likely to fall back, affected both by the slowdown in world demand for French products and by the reduction in aeronautical and naval deliveries compared to the previous quarter. In the business tendency surveys for May, the balances of opinion among companies regarding their foreign order books declined, and since March, the PMI for new export orders has been below its expansion threshold. Meanwhile, imports seem likely to stagnate as a result of sluggish domestic demand and despite the upswing in spending by French tourists abroad. All in all, the contribution of foreign trade to GDP growth in Q2 is expected to be –0.1 points.

In H2 2022, foreign trade is expected to grow modestly. Despite a slight slowdown in trade related to tourism, it is likely to be driven by the gradual recovery in trade in manufactured products excluding transport equipment. Regarding trade in transport equipment, it is likely to be penalised once again by the ongoing supply chain problems in the automobile sector; in addition, it is expected that the trend in exports will automatically suffer in reaction to the naval deliveries in Q2. Across the whole of 2022, foreign trade is expected to make a positive contribution to GDP growth, at +0.1 points, mainly as a result of the buoyancy of services and tourism exports. ●

► 1. Foreign trade is expected to be at a standstill in Q2 2022

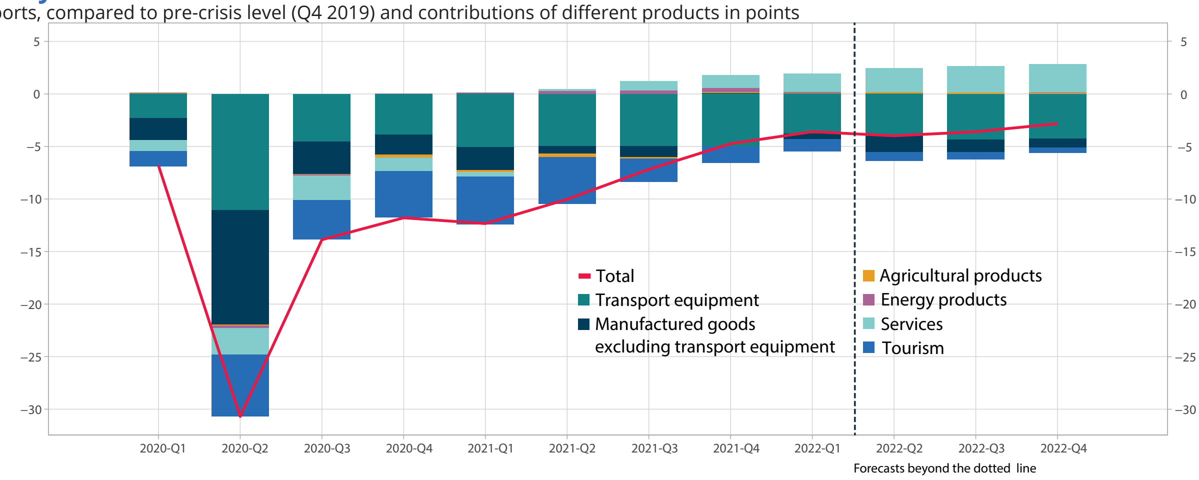
variation in %, volumes of previous year's chained prices, contributions in points

	Quarterly variations												Annual variations		
	2020				2021				2022				2020	2021	2022
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Exports															
Total	–6.8	–25.6	24.3	2.4	–0.6	2.6	3.2	2.6	1.2	–0.4	0.4	0.8	–17.0	8.6	5.6
Manufactured products (65%*)	–6.6	–28.2	32.0	3.1	–2.4	2.6	–0.6	1.8	1.1	–2.0	0.0	0.7	–15.9	7.0	1.4
Imports															
Total	–5.2	–19.1	18.3	0.3	1.6	2.1	0.7	3.9	0.5	0.0	0.7	0.8	–13.0	7.8	4.9
Manufactured products (69%)	–4.0	–21.0	25.4	–0.1	1.3	1.0	–2.0	4.9	–1.7	–1.1	0.3	0.3	–10.4	7.4	0.5
Contribution of foreign trade to GDP	**–0.5**	**–1.8**	**0.9**	**0.6**	**–0.7**	**0.1**	**0.7**	**–0.4**	**0.2**	**–0.1**	**–0.1**	**0.0**	**–1.1**	**0.1**	**0.1**

Forecast
How to read it: French exports are expected to fall back (–0.4%) in Q2 2022. Across the whole of 2022, exports are likely to increase +5.6% compared to 2021.
*Share of exports (or imports) of manufactured products in total exports (or imports), in 2020.
Source: INSEE

►2. Over the forecasting period, exports of transport equipment are expected to remain well rather markedly below their level before the health crisis

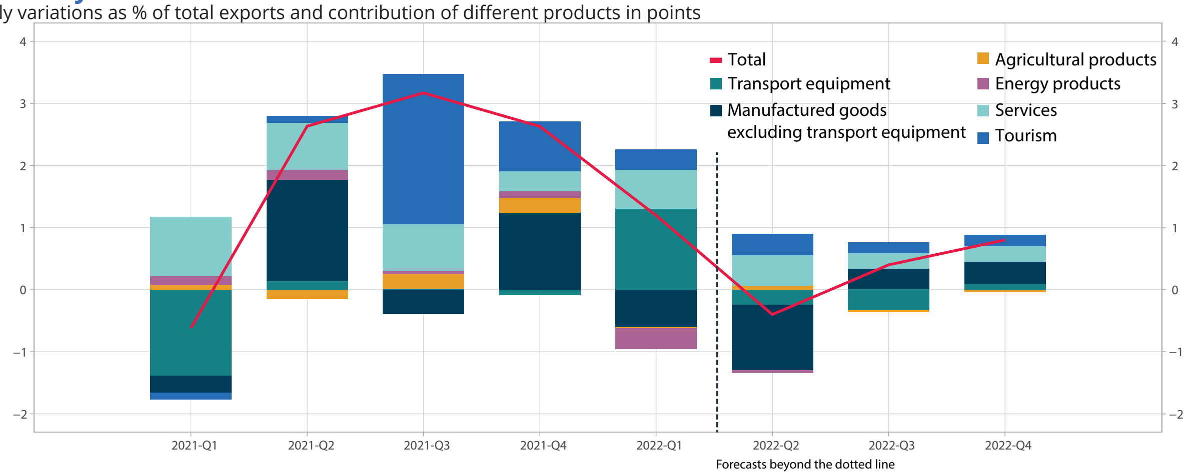
total exports, compared to pre-crisis level (Q4 2019) and contributions of different products in points



How to read it: in Q1 2022, French exports were 3.6% below their Q4 2019 level. Exports of transport materials contributed –3.8 points
Source: INSEE

►3. In Q2 2022, the decline in exports of manufactured products is expected to continue but they should rally in H2

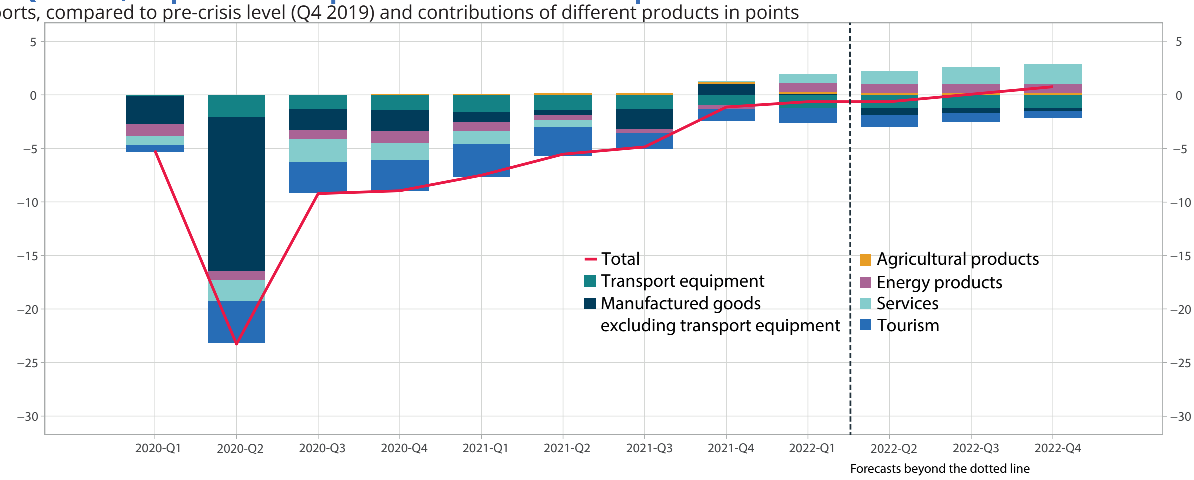
quarterly variations as % of total exports and contribution of different products in points



How to read it: in Q1 2022, French exports increased by 1.2%. Exports of transport equipment contributed 1.3 points.
Source: INSEE

► 4. In Q1 2021, imports are expected to exceed their pre-health crisis level

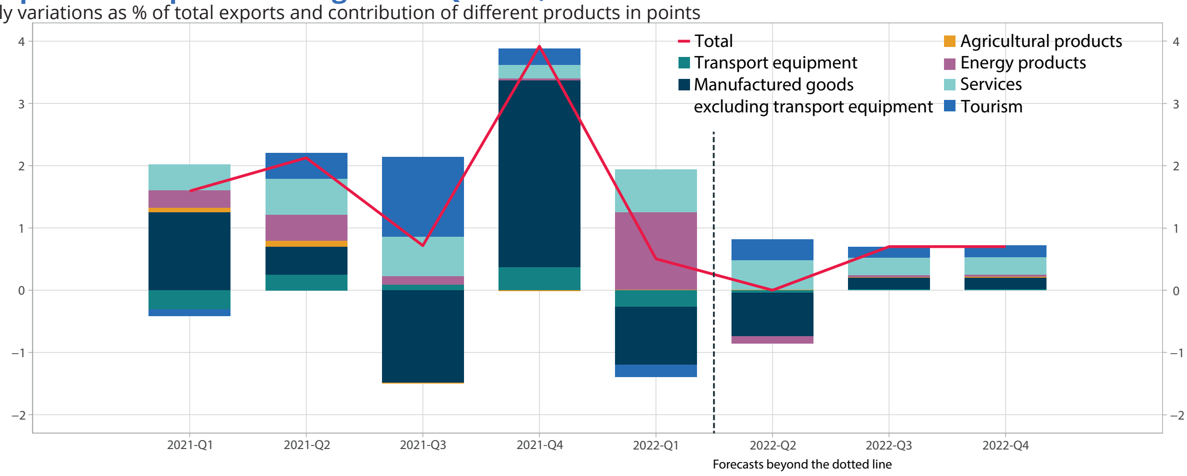
total imports, compared to pre-crisis level (Q4 2019) and contributions of different products in points



How to read it: in Q1 2022, French imports were 0.6% below their Q4 2019 level. Imports from tourism contributed –1.4 points.
Source: INSEE

►5. Imports are expected to stagnate in Q2 2022, then increase in H2

quarterly variations as % of total exports and contribution of different products in points



How to read it: in Q1 2022, French imports increased by 0.5%. Imports of energy products contributed 1.2 points.
Source: INSEE

Employment

In Q1 2022, despite the decline in activity, payroll employment continued to increase (+79,000 between the end of December 2021 and the end of March 2022, ►**Figure 1**) but less rapidly than in previous quarters. This was the fifth consecutive quarterly increase, with 855,000 payroll jobs being created throughout 2021, more than offsetting the 217,000 net destructions in 2020. The increase in payroll employment in Q1 2022 was due mainly to tertiary market employment (+64,000) and non-market (+16,000). All in all, at the end of Q1 2022, payroll employment had settled well above its level at the end of 2019, at 717,000 jobs, or +2.8%. About a third of the increase compared to pre-crisis was due to the dynamism of sandwich contracts, especially apprenticeship contracts. Payroll employment has now exceeded its pre-crisis level in all major sectors of activity (construction, market and non-market tertiary) with the exception of industry (►**Figure 2**). Nevertheless, employees' working time is less dynamic than the number of jobs. Absences linked to the health crisis (sick leave, isolation, childcare, etc.) contributed to the low per capita productivity at the end of 2021 (►**Focus** in *Economic Outlook* March 2022), and this was still the case in spring 2022.

In Q2 2022, payroll employment looks set to slow even further: +37,000 jobs between the end of March and the end of June, after +79,000 in Q1 2022. It is then expected to increase at this modest pace: +44,000 jobs in Q3 and +41,000 in Q4. This increase is likely to be much less vigorous than in 2021 and follow the same trend as activity, with the result that any increase in per capita productivity is likely to be very limited. Information from the latest business tendency surveys seems to confirm this momentum, with expectations for hiring in decline for several months, although always at relatively high levels in industry and services (►**Figure 3**). It is likely to be sustained by a further increase in sandwich contracts, after two years (2020 and 2021) of exceptional increases. However, in the non-market tertiary, and in the health sector in particular, payroll employment is expected to slow substantially in the summer after being bolstered in previous quarters by specific needs associated with the health crisis. Over the year as a whole, payroll employment looks set to rise by 200,000, i.e. a similar increase to its pre-crisis trend: between 2015 and 2019, 228,000 payroll jobs were created on average every year.

At the same time, self-employment is expected to slow slightly in 2022: +60,000 jobs after +110,000 in 2021. It will probably continue to be driven by micro-enterprise creations, although these are likely to slow a little in 2022. Total employment (payroll employment and self-employment) is expected to slow in 2022: +260,000 in 2022 after +965,000 in 2021 and –175,000 in 2020. ●

►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				2022									
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2020	2021	2022	End of Dec. 2020	End of Dec. 2021	End of Dec. 2022
Wage employment	**–523**	**–137**	**451**	**–8**	**183**	**314**	**199**	**159**	**79**	**37**	**44**	**41**	**–217**	**855**	**200**	**–217**	**638**	**838**
	–2.0%	*–0.5%*	*1.8%*	*0.0%*	*0.7%*	*1.2%*	*0.8%*	*0.6%*	*0.3%*	*0.1%*	*0.2%*	*0.2%*	*–0.8%*	*3.3%*	*0.8%*	*–0.8%*	*2.5%*	*3.2%*
Agriculture	–6	–3	1	11	0	3	1	3	–2	1	1	1	2	7	2	2	10	12
Industry	–14	–19	–10	–8	11	8	11	8	–2	–3	3	1	–51	37	–1	–51	–14	–14
Construction	–6	11	21	15	22	10	11	6	2	2	3	2	40	49	10	40	90	99
Commercial tertiary sector	–483	–50	339	–90	125	265	187	116	64	37	33	33	–284	693	167	–284	409	576
Tertiary non-trading	–14	–75	100	64	27	28	–12	26	16	0	3	3	75	68	22	75	143	166
Self-employment	**10**	**10**	**10**	**10**	**28**	**28**	**28**	**28**	**15**	**15**	**15**	**15**	**42**	**110**	**60**	**42**	**152**	**212**
All	**–512**	**–127**	**461**	**2**	**211**	**342**	**226**	**187**	**94**	**52**	**59**	**56**	**–175**	**965**	**260**	**–175**	**790**	**1 050**
	–1.8%	*–0.4%*	*1.6%*	*0.0%*	*0.7%*	*1.2%*	*0.8%*	*0.6%*	*0.3%*	*0.2%*	*0.2%*	*0.2%*	*–0.6%*	*3.4%*	*0.9%*	*–0.6%*	*2.7%*	*3.6%*

Forecast

How to read it: in Q1 2022, payroll employment increased by 0.3%, i.e. 79,000 net job creations.

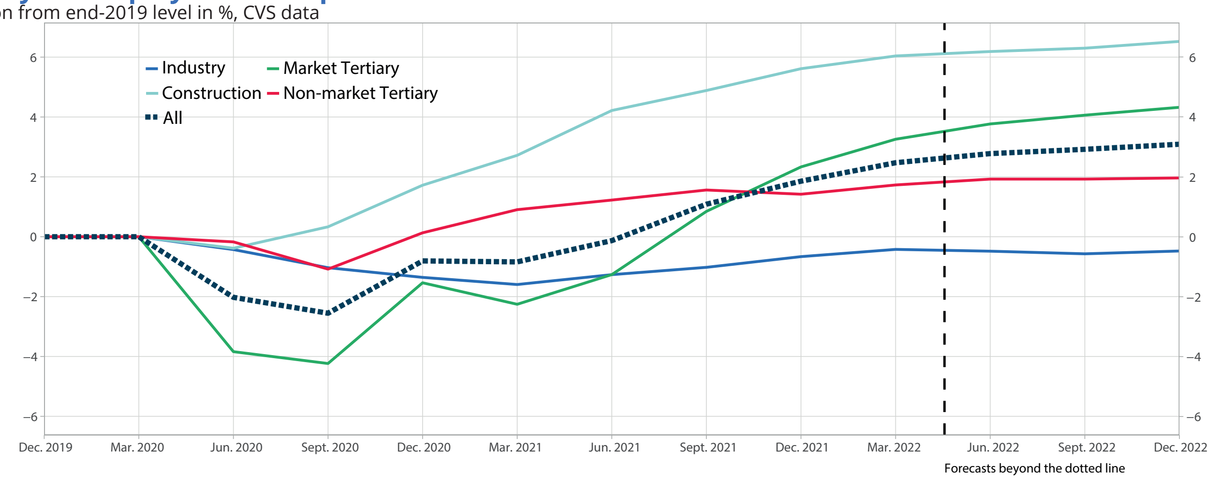
Note: in this table, temporary workers are counted in the sector tertiary non-trading.

Scope: France (excluding Mayotte)

Source: INSEE

►2. Payroll employment compared to the end of 2019

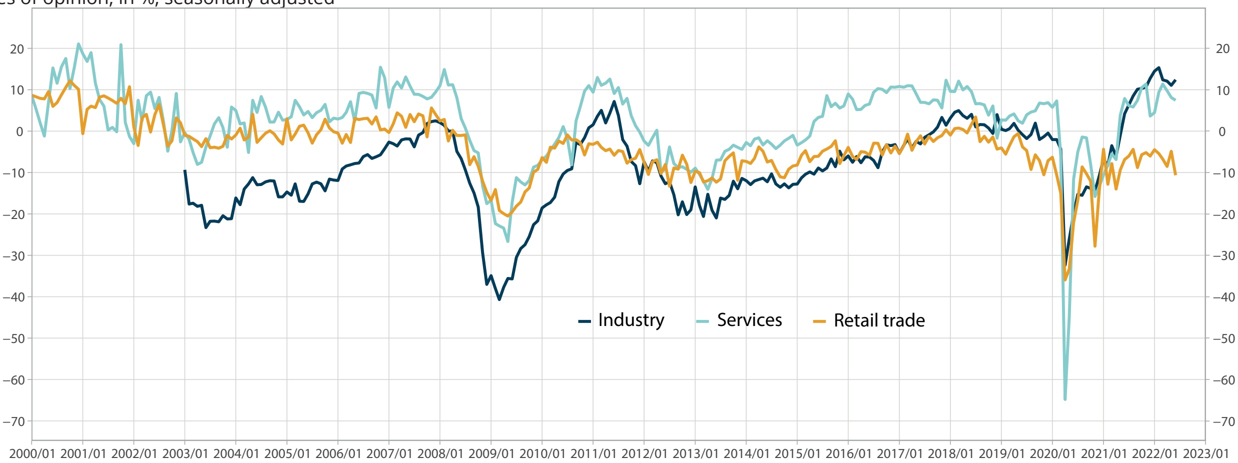
deviation from end-2019 level in %, CVS data



How to read it: at the end of March 2022, payroll employment was 2.8% higher on its level at the end of 2019.
Note: in this graph, temporary workers are counted in the sector tertiary non-trading.
Scope: France (excluding Mayotte)
Source: INSEE

►3. Balances of opinion on expected change in workforce by sector

balances of opinion, in %, seasonally adjusted



How to read it: in June 2022, the balance of opinion on workforce expectations in industry stood at +12%.
Note: results are weighted by workforce numbers
Last point: June 2022
Source: NSEE, business surveys

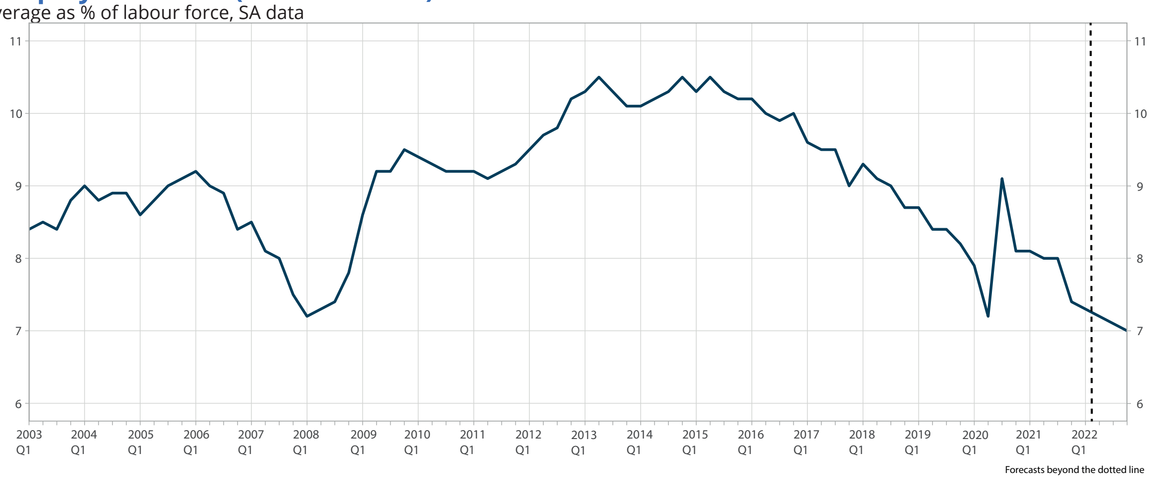
Unemployment

In Q1 2022, the unemployment rate according to the ILO definition remained almost unchanged compared to the previous quarter: –0.1 points, to 7.3% of the active population (► **Figure 1**). After a drop of 0.6 points in the previous quarter, this near-stability was the result of accompanying increases in the labour force (+122,000 as a quarterly average, after +21,000 in Q4 2021) and employment (+140,000, after +206,000). Thus both the labour force participation rate (73.4%) and the employment rate (68.0%) of 15-64 year-olds rebounded, by 0.2 points in Q1 2022, reaching or returning to their highest level since INSEE has been measuring them (1975).

In Q2 2022, the labour force is expected to slow significantly (+32,000), as any increase is driven mainly by sandwich contracts. It is likely to increase at a similar pace to that in Q3 and Q4 2022 (+37,000 then +35,000). Given the increase forecast for employment (as a quarterly average, +73,000 in Q2 2022, then +55,000 and +57,000), the number of unemployed according to the ILO definition looks set to decline a little in Q2 2022 (–41,000), then even less in Q3 and Q4 (–18,000 then –22,000). The unemployment rate is therefore expected to drop gradually to 7.0% of the labour force by the end of 2022 (► **Figure 2**). ●

► 1. Unemployment rate (ILO definition)

quarterly average as % of labour force, SA data



Scope: France (excluding Mayotte), persons aged 15 or over living in ordinary housing
Source: INSEE, Labour Force Survey

2. Change in employment, unemployment and the active population

variation in quarterly average in thousands, SA data

	2020				2021				2022				Cumulative change from Q1 2020 to Q4 2022
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Employment (1)	–14	–711	386	198	123	276	284	206	140	73	55	57	1 073
reminder: employment at the end of the period	–512	–127	461	2	211	342	226	187	94	52	59	56	1 051
Unemployment (2)	–98	–285	632	–300	35	–46	37	–185	–18	–41	–18	–22	–309
Active population = (1) + (2)	–111	–995	1018	–102	158	230	320	21	122	32	37	35	765
Trend labour force (a)	7	7	7	7	7	7	5	4	5	2	2	2	62
Effect of work-linked training on youth activity (b)	–1	–71	39	20	12	28	28	21	14	7	6	6	109
Pre-crisis» cyclical bending effect (c)	3	–1	10	22	28	29	41	37	22	23	30	27	271
Residue (d)	–120	–930	963	–151	111	166	246	–40	82	0	0	0	327
Variation in unemployment rate	–0.3	–0.7	1.9	–1.0	0.0	–0.1	0.0	–0.6	–0.1	–0.1	–0.1	–0.1	–1.2
Unemployment rate	7.9	7.2	9.1	8.1	8.1	8.0	8.0	7.4	7.3	7.2	7.1	7.0	

■ Forecast

How to read it: between Q4 2021 and Q1 2022, employment increased by 140,000 on average, unemployment decreased by 18,000 and the active population decreased by 122,000. The unemployment rate fell by 0.1 points, reaching 7.3%.

Note: Employment corresponds here to total employment (payroll employment including sandwich contracts + self-employment), measured as a quarterly average

(a)Trend based on adjusted active population projections.

(b) Effect based on sandwich contract numbers from DARES, calculations by INSEE.

(c) This flexibility effect represents the fact that new workers enter the labour market when the employment situation improves. It was estimated over the pre-crisis period.

(d) In 2020 and 2021, the remainder covers the specific effect of the health crisis on activity behaviour, i.e. mainly the massive withdrawal of activity during the 1st lockdown in spring 2020.

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

Source: INSEE, Labour Force Survey, Quarterly employment estimates

Consumer prices

Year-on-year, consumer prices have continued to increase substantially in recent months, reaching 5.2% in May 2022 (after 4.8% in April). The main contributor to inflation is still energy (2.2 percentage points in May), a situation that has been relatively stable since March. The momentum of inflation in April and May stems mainly from other goods and services: the prices of food and manufactured goods have continued to accelerate in reaction to earlier increases in production prices, while inflation in services has remained vigorous, notably in the wake of recent increases in the minimum wage. At the same time, the price of oil, having fallen back in April, rebounded in May and so the year-on-year increase in energy prices remained very strong. This was despite being tempered by the "tariff shield" on regulated sales tariffs for gas and electricity and by the "fuel price rebate". These measures do indeed appear to have reduced headline inflation by 2 points in May (►**Box**).

Over the next six months, inflation is first expected to continue to increase, reaching 5.9% year-on-year in June then slightly below 7% in September, before stabilising overall between 6.5% and 7% by the end of the year. As an annual average, inflation within the meaning of the CPI looks set to reach 5.5% in 2022, after 1.6% in 2021. This forecast is based on the assumption that the price of a barrel of Brent is $120 (and €111.1) across the whole of the forecasting period.[1] Based on these assumptions, there should be a gradual reduction in energy inflation through to the end of the year, due to the "base effect". This is despite the slight increase in fuel prices forecast from September, under the conventional assumption that the "fuel price rebate" will be gradually reduced from September to the end of 2022. Energy prices year-on-year are expected to increase in December, however, again due to the base effect, as oil prices fell at the end of 2021 with the emergence of the Omicron variant.

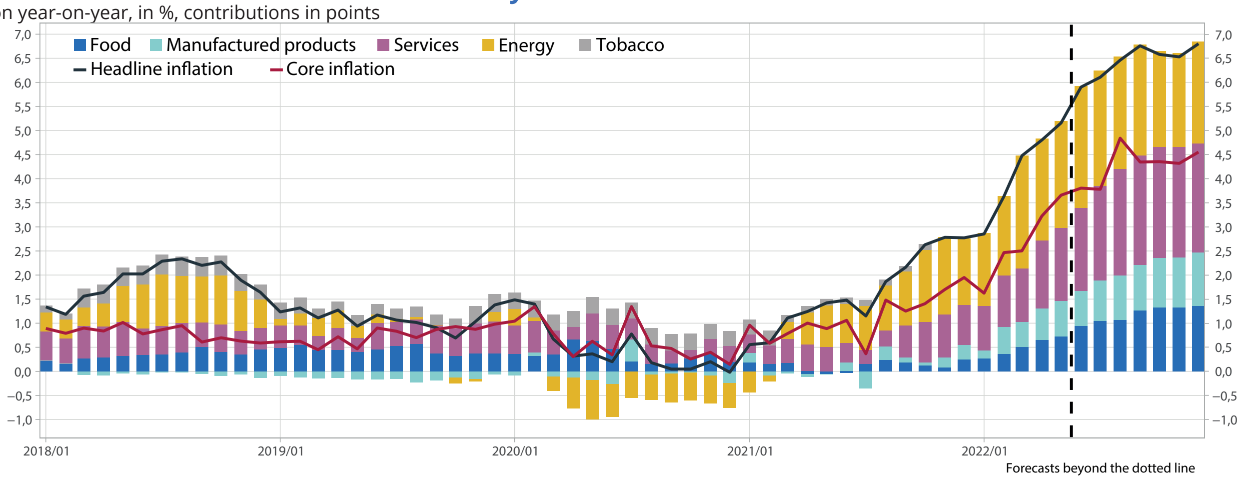
The rise in inflation through to September is likely to be due mainly to increases in products other than energy. This is expected to be especially the case for food and manufactured products, in line with the substantial increases in agricultural output (+31% year-on-year in April) and industrial output (+13% for industry excluding energy). The profile of inflation in manufactured products is also likely to be affected by the dates of the summer sales, which were postponed by one week in 2021 due to the exceptional health measures in place. Prices of services are also expected to accelerate, in the wake of recent increases in fuel prices (especially air transport) and in line with the successive increases in the minimum wage: our inflation forecast does indeed assume another automatic increase during the summer or in early autumn. From October, inflation excluding energy should stabilise as a result of the "base effect", given the upward momentum that began a year earlier. The repercussions of the increases in production prices on the price of food and manufactured products should ease by the end of the year, provided that commodity prices do not accelerate once again. Core inflation, at 3.7% year-on-year in May, is expected to continue to increase in the coming months then stabilise from September at around 4.5%.

This forecast is obviously still surrounded by uncertainty, mainly over the dynamics of the prices of oil, gas and commodities in the coming months. In addition, not all the details of the economic policy measures intended to contain price rises in the next few months were known at the time this forecast was made. Finally, this forecast relates to average inflation, i.e. for all households: some categories of household may be exposed to higher levels of inflation, mainly due to the weight of energy in their consumption (►**Focus**). ●

1 It is also assumed that the tariff shield on regulated gas sales tariffs will be extended until the end of 2022. Regarding electricity regulated sales tariffs, which are usually revised twice a year (in February and August), it is assumed that they too will remain stable until the end of the year, after their price rise was capped at +4% in February 2022

► 1. Headline inflation and contributions by item

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



Source: INSEE

► 2. Consumer prices

change in %, contributions in points

CPI groups* (2021 weightings)	April 2022		May 2022		June 2022		September 2022		December 2022		Annual averages	
	yoy	cyoy	yoy	cyoy	yoy	cyoy	yoy	cyoy	yoy	cyoy	2021	2022
Food (16.5%)	**3.8**	**0.6**	**4.3**	**0.7**	**5.6**	**0.9**	**7.6**	**1.3**	**8.2**	**1.4**	**0.6**	**5.4**
including: fresh food (2.5%)	7.1	0.2	1.8	0.0	6.0	0.2	6.5	0.2	5.4	0.1	1.9	5.5
excluding: fresh food (14.0%)	3.3	0.5	4.7	0.7	5.6	0.8	7.7	1.1	8.7	1.2	0.4	5.4
Tabacco (2.2%)	**−0.1**	**0.0**	**−0.1**	**0.0**	**−0.1**	**0.0**	**−0.1**	**0.0**	**−0.1**	**0.0**	**5.5**	**−0.1**
Manufactured products (24.4%)	**2.6**	**0.7**	**3.0**	**0.7**	**2.9**	**0.7**	**3.8**	**0.9**	**4.6**	**1.1**	**0.3**	**3.1**
including : clothing and footwear (3.4%)	4.3	0.1	4.1	0.1	3.6	0.1	4.5	0.2	7.0	0.2	0.1	4.8
medical products (4.0%)	−1.2	−0.1	−1.4	−0.1	−1.4	−0.1	−1.1	0.0	−1.1	0.0	−1.2	−1.3
other manufactured products (17.1%)	3.2	0.6	3.8	0.7	3.8	0.7	4.8	0.8	5.3	0.9	0.6	3.8
Energy (8.9%)	**26.5**	**2.1**	**27.8**	**2.2**	**31.3**	**2.5**	**27.3**	**2.3**	**23.9**	**2.1**	**10.5**	**25.7**
including : oil products (4.3%)	34.0	1.3	36.7	1.4	45.5	1.8	44.5	1.8	43.1	1.9	13.5	38.7
Services (48.1%)	**3.0**	**1.4**	**3.2**	**1.5**	**3.6**	**1.7**	**4.7**	**2.3**	**4.7**	**2.3**	**1.2**	**3.7**
including : rent-water (8.0%)	1.7	0.1	2.3	0.2	2.1	0.2	2.6	0.2	3.4	0.3	1.1	2.3
health services (7.0%)	0.2	0.0	0.0	0.0	−0.1	0.0	0.5	0.0	−0.1	0.0	−0.5	−0.1
transport (2.0%)	15.7	0.3	9.0	0.2	13.0	0.2	19.3	0.3	18.0	0.4	3.8	13.5
communications (2.3%)	2.3	0.1	0.3	0.0	0.6	0.0	1.0	0.0	0.6	0.0	2.9	1.1
other services (28.9%)	3.3	1.0	4.0	1.2	4.5	1.3	5.7	1.7	5.7	1.6	1.1	4.5
All (100%)	**4.8**	**4.8**	**5.2**	**5.2**	**5.9**	**5.9**	**6.8**	**6.8**	**6.8**	**6.8**	**1.6**	**5.5**
All excluding energy (91.1%)	*2.9*	*2.7*	*3.2*	*2.9*	*3.7*	*3.4*	4.9	4.5	*5.2*	*4.7*	*1.0*	*3.7*
All excluding tabacco (97.8%)	*4.9*	*4.8*	*5.3*	*5.2*	*6.1*	*5.9*	6.9	6.8	*7.0*	*6.8*	*1.5*	*5.7*
Core inflation (59.2%)**	**3.2**	**1.5**	**3.7**	**2.2**	**3.8**	**2.3**	**4.3**	**2.6**	**4.6**	**2.7**	**1.1**	**3.6**

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

Estimated effect of the tariff shield and the reduction at the pump on inflation

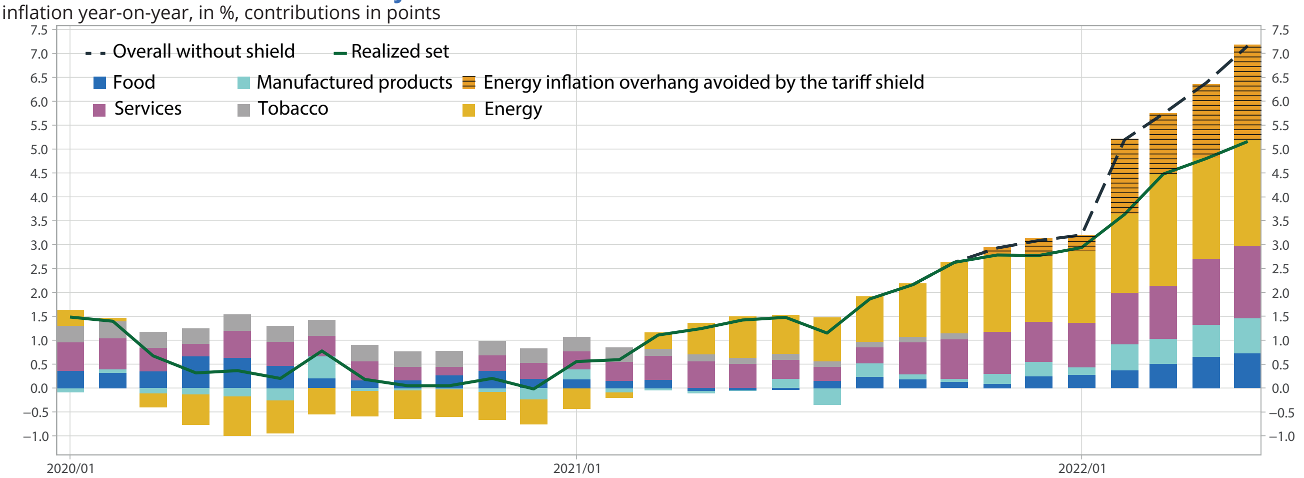
Since October 2021, several measures have been introduced to help offset the rise in energy prices. First, the "tariff shield" froze regulated sales tariffs (TRV) for gas and capped the usual February increase in TRV for electricity at 4%. In addition, a "reduction at the pump" of 15 centimes excluding tax has been applied to fuel purchases since 1st April.

In the *Economic Outlook* of March 2022,[1] the effect of the tariff shield on the TRVs of gas and electricity was estimated at 1.5 points on headline inflation for February, otherwise, without these measures, inflation in February would have been over 5% year-on-year. This estimate was based on changes that there would have been in electricity and gas consumer prices if no measures had been implemented –recommendations of the French Energy Regulation Commission (CRE) regarding change in TRVs and economic modelling of change in market offer prices. Using this method, the effect of the tariff shield would have been similar for May but slightly less in March and April. In fact, for March and April, the CRE recommended a temporary reduction in the gas TRV:[2] in the absence of a tariff shield for gas, the consumer price of gas in March and April would therefore have been closer to the price actually observed than it was in February.

From April, the reduction on the price of fuel at the pump was introduced, in addition to earlier measures limiting increases in the price of energy: its impact on inflation year-on-year is expected to be around 0.4 points and it should remain stable subsequently. Thus the combined effect of the different schemes would appear to have been 1.5 points in April and 2.0 points in May: without these measures, inflation in May would have been over 7% year-on-year (against 5.2% observed). ●

►1. Estimated counterfactual inflation without the tariff shield and without the reduction at the pump, and headline inflation ultimately observed

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



Source: INSEE calculations

►2. Breakdown of the effect of the tariff shield and the reduction at the pump on headline inflation

in points

	Nov-21	Dec-21	Jan-22	Feb-22	March-22	Apr-22	May-22
Effect of the "tariff shield" and the "fuel price rebate" on headline inflation	−0.1	−0.3	−0.3	−1.5	−1.3	−1.5	−2.0
of which:							
Contribution linked to the tariff shield on gas	−0.1	−0.3	−0.3	−0.6	−0.3	−0.2	−0.7
Contribution linked to the tariff shield on electricity	*	*	*	−0.9	−0.9	−0.9	−0.9
Contribution linked to the "fuel price rebate" on fuel prices	-	-	-	-	-	−0.4	−0.4

* the regulated sales tariff for electricity is usually revised twice a year, in February and August. Thus the tariff shield significantly limited the February 2022 revision, but in any event, no revision was planned between the announcement of this shield in autumn 2021 and January 2022.
Source: INSEE calculations

1 The "tariff shield" on electricity and gas prices substantially cushioned the rise in inflation in February, Economic Outlook, March 2022. The methodology used to produce our estimate is described here in a Box.
2 Publication of the scales applicable to regulated natural gas sales by Engie – April 2022, Energy Regulation Commission, 21 March 2022.

Depending on their energy and food expenditure, some household categories are exposed to apparent inflation that may differ by more than one point from the average

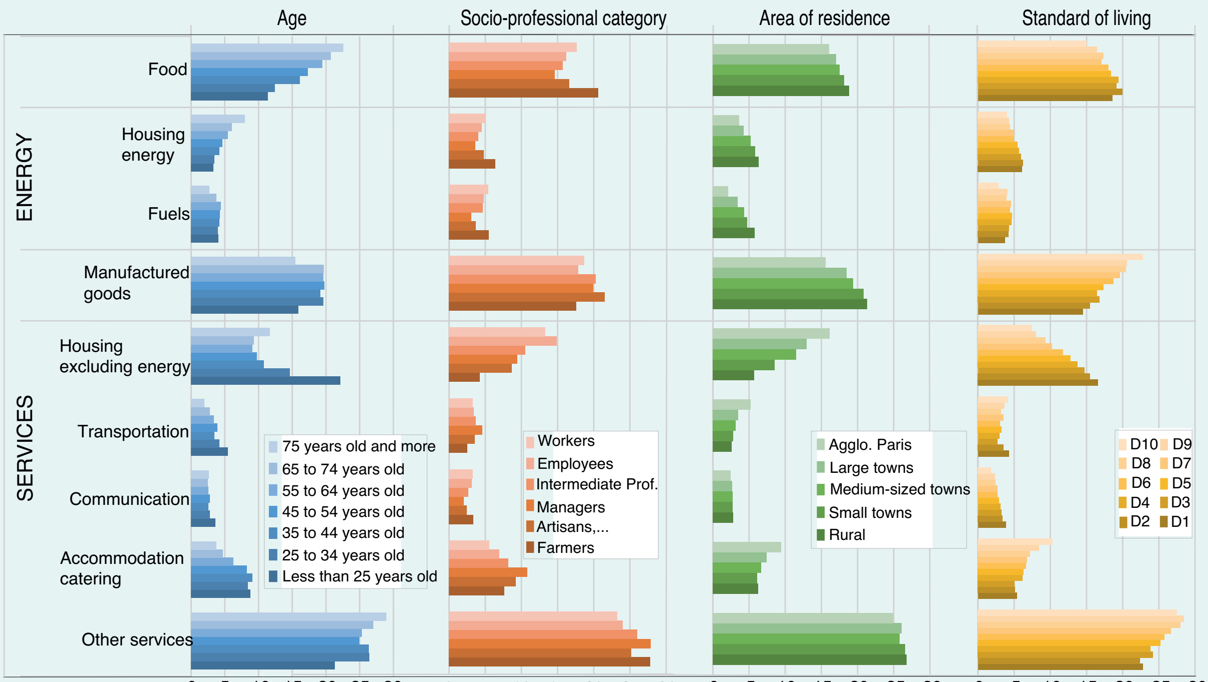
After 2020, a year when prices changed very moderately, and since the start of 2021, inflation differentials according to household category have widened, as consumption structures can differ from one household to another. For an average of 4.9% in April 2022 across Metropolitan France, inflation can range, for example, from 4.0% for the under-30s to 5.9% for households living in rural areas. Energy is the main contributing factor to these differences, with food to a lesser extent.

The rise in prices since the start of 2021 is reflected in more and more pronounced inflation differentials between categories of household

In April 2022, the year-on-year change in consumer prices was 4.9% over one year in Metropolitan France. This inflation level is calculated for a basket of goods and services that reflect the average structure of household consumption. It may therefore differ from the inflation experienced from one household to another, as their structure of consumption can vary significantly, depending on their characteristics and their preferences. For example, the weight of spending on housing energy tends to increase with age. Working-class households or households headed by employees, on the other hand, spend more on their housing as a proportion of their income (excluding energy) but less than executives on accommodation-catering. People living in rural areas spend more on fuel and housing energy (►**Figure 1**). These different categories of analysis may of course intersect. In addition, within the same household category, spending on certain items may vary substantially, or may even be zero for a large number of items, such as fuel.

Every year, INSEE produces and disseminates consumer price indices by household category, differentiating according to several socio-demographic dimensions (socio-professional category, age, composition of household, standard of living, etc.). Using the baskets of goods and services that underpin the construction of these annual indices, here we have constructed monthly indices, from which inflation can be determined according to household type in the last known month, i.e. April 2022 when this study was carried out (►**Box**). A consumer price index by area of residence of households was also estimated, a dimension that does not appear in the annual indices usually published.

►1. Average spending by household category and product
as % of total expenditure



How to read it: Households whose reference person is under 25 years old devote on average 22% of their spending to housing excluding energy, and the least well-off households (in the 1st standard of living decile) about 17%.
Note: for more clarity, the modalities for the socio-professional category are limited to active households, thus excluding retired people and inactive households.
Scope: Metropolitan France.
Source: Family Budget 2017, Insee calculations

The upward trend in inflation since the beginning of 2021, which intensified at the end of February 2022 with the outbreak of the war in Ukraine, is accompanied by ever-increasing inflation differentials between categories of household (►**Figure 2**). This movement is continuing what was already a pronounced surge in 2021, apart from two temporary slowdowns linked to the health situation. While exposure to inflation may be uneven according to household, 2020 was nevertheless a year of moderate inflation, when those who are most exposed today were, in general, less affected before. In April 2022, differences between categories can be more than one point, depending on socio-professional category, age or type of municipality of residence.

For an average of 4.9% in April 2022 across Metropolitan France, inflation could range from 4.0% for the under-30s to 5.9% in rural areas

In April, when headline inflation in Metropolitan France was 4.9% year-on-year, people living in rural areas were faced with an additional +1.0 point, i.e. inflation for them was 5.9% over one year (►**Figure 3**). By socio-professional category, farmers were particularly affected (+1.1 points), and, by age, people over 75 years old. According to income decile, these differentials were also almost 0.5 points.

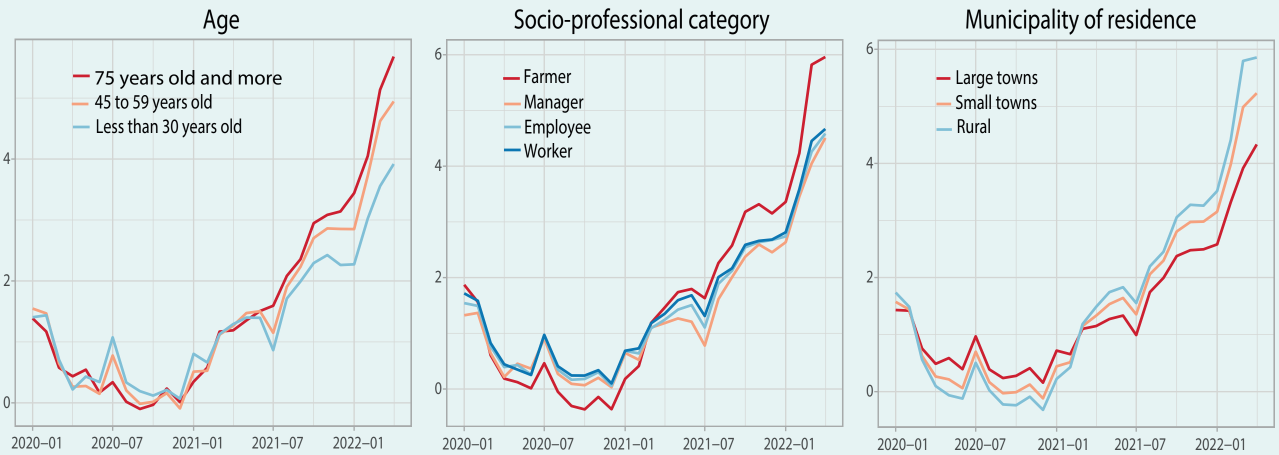
The recent period as a whole differs significantly from the last six years (2015-2021) when inflation was on average 1.3% year-on-year and when disparities according to household category did not exceed 0.1 points. We have to go back to the end of the 2000s to look at inflation when it was well above 2%: for example, when the year-on-year increase in consumer prices was 3.3% in May 2008, considerable divergences between categories could be seen, especially for modest-income households and/or those living in rural areas (the latter in particular experiencing an inflation rate 0.6 points above the average).[1]

Irrespective of the household characteristic considered, energy made the greatest contribution to estimated disparities between categories in April 2022 (►**Figure 4**).

1 "L'inflation accélère et touche davantage les ménages modestes ou ruraux", Accardo, Guédès, Herpin and Pujol, France, portrait social, 2008

►2. Estimated change in inflation for certain household categories

year-on-year change in the estimated consumer price index by household category, in %



Scope: Metropolitan France.
Source: Consumer price indices, Family Budget survey, INSEE calculations

►3. Inflation differentials for certain household categories compared to the whole

	Overall inflation	Deviation from headline inflation														
		AGE			SPC			COMPOSITION OF HOUSEHOLD			MUNICIPALITY			STANDARD OF LIVING		
		Under 30 years old	45 to 59	75 and over	Execu-tive	Worker	Farmer	Person living alone	Couple with 1 child	One-pa-rent family	Large towns	Small towns	Rural	decile 1	decile 5	decile 10
April 2022	**+4,9**	–0,9	+0,1	+0,8	–0,4	–0,2	+1,1	–0,2	–0,1	+0,2	–0,5	+0,4	+1,0	+0,4	+0,1	–0,1
annual average 2015-2021	**+1,3**	–0,1	+0,0	+0,1	–0,0	–0,0	+0,1	–0,0	+0,0	–0,0	–0,0	+0,0	+0,1	–0,0	+0,0	+0,0

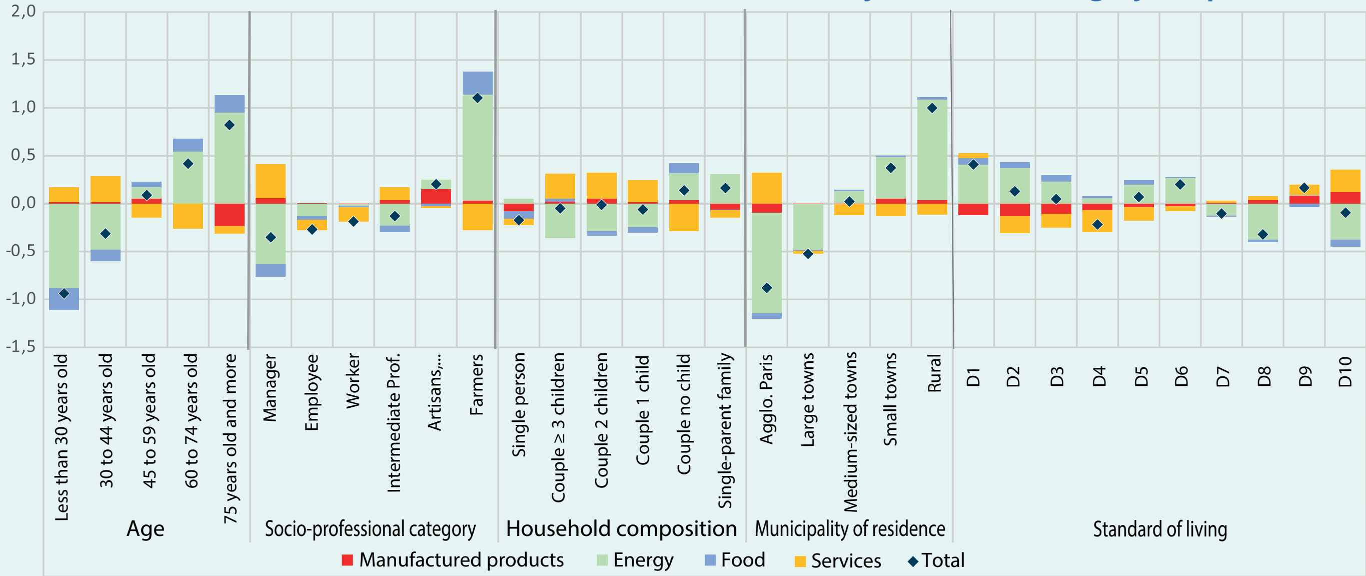
Note: the household categories shown are for illustrative purposes and are only those with the most notable differentials, with an intermediate category in addition.
How to read it: in April 2022, inflation was 0.8 points higher for households where the reference person was over 75.
Scope: Metropolitan France.
Source: Consumer price indices, Family Budget survey, INSEE calculations

Food came in second, but its differential from the average was no more than 0.2 points: for example, for those aged 75 and over, the contribution of food is 0.2 points (for a differential of +0.8 points). Lastly, the weight of services is also not to be ignored: for executives in particular, services contribute a relative increase in prices of +0.4 points, although ultimately the inflation estimated for this category is lower than the average, given that energy has less weight in the structure of their consumption.

These first estimates illustrate the disparities between the different household categories in the current situation, but they only partially reflect the diversity of situations. Within the same category, individual situations can in fact potentially be quite different. ●

Charles-Marie Chevalier

►4. Contribution of different items to the inflation differential by household category in April 2022



Note: the graph shows all household categories according to each socio-demographic dimension, and more specifically it shows active persons in the socio-professional categories.
How to read it: in April 2022, inflation was 0.8 points higher for households where the reference person was over 75. Food contributed +0.2 points to this differential, against +1.0 point for energy and –0.2 points for manufactured goods.
Scope: Metropolitan France.
Source: Consumer price indices, Family Budget survey, INSEE calculations

Methodology

Since 1998, INSEE has published annual Consumer Price Indices (CPI) by household category for a large number of different socio-demographic dimensions (excluding type of municipality of residence or region), within the scope of Metropolitan France. These indices give an idea of changes in consumer prices according to the specific budgets of each household category: in relation to the weight of each item in the total consumption of all households, as obtained from the national accounts, a correction coefficient is applied, calculated from the Household Budget Survey (► detailed figures at insee.fr). For each item of consumption this coefficient, called the budget coefficient, reflects spending by a given type of household compared to all households.

In addition, an estimate was made here of inflation by type of municipality of residence, by calculating the associated budget coefficients from household spending by municipality of residence, for Metropolitan France, as provided in the Household Budget Survey 2017.

However, CPIs estimated in this way by household category do not take changes in behaviour into account, especially in order to reduce the impact of a rise in inflation on the household budget, in food for example by turning towards products on special offer or of lesser quality. Nor is any distinction made for estimates by type of municipality of residence in terms of transport services (whether rail, road or air). ●

Wages

In H1 2022, the nominal average wage per capita (SMPT) in the non-agricultural market branches is expected to accelerate: it increased by +0.8% in Q1 and looks set to grow by +1.2% in Q2. It will probably receive a boost when rising consumer prices and hiring difficulties are taken into account in wage negotiations in several branches, and as a result of the two increases in the minimum wage (SMIC) that were applied over the half-year (+0.9% on 1st January and +2.65% on 1st May). In addition, in Q2, the substantial reduction in the amount of sick leave taken due to the slowdown of the Covid-19 epidemic is likely to contribute to a rise in the SMPT, as sickness benefits paid by social security are not considered as wages. Conversely, the withdrawal of the extraordinary purchasing power bonus mechanism (PEPA) on 31 March (before a possible resumption in the summer) is likely to affect SMPT growth in Q2. Short-term working had already declined at the end of 2021, and is expected to fall back a little further, but this is unlikely to make anything but a modest contribution to changes in the SMPT.

In H2 2022, nominal wages should continue to accelerate, and should increase steadily (+1.4% in Q3 then +1.7% in Q4 for the SMPT). This dynamism is expected to be driven mainly by branch wage agreements as the inflationary context of 2022 could increase the possibility of renegotiations in the course of the year. It could also be driven by a further increase in the SMIC, either during the summer or at the beginning of autumn. Finally, the possible reintroduction and tripling of the extraordinary purchasing power bonus (PEPA) in H2 2022, which could be part of the purchasing power support measures voted in the summer, would also support the SMPT.

However, real wages have been eroded by the rise in consumer prices, and are expected to be much less buoyant than nominal wages in 2022: in real terms, the SMPT is likely to decline slightly in Q2 (–0.4%) and Q3 (–0.3%), having slipped back more sharply in Q1 (–0.5%). It looks set to rise again at the end of the year with the easing of the expected increase in consumer prices (+0.6% forecast for the real SMPT in Q4).

In general government, the nominal SMPT increased by 2.2% on average in 2021, after +2.6% in 2020. This was mainly driven by revisions to hospital civil service wages, planned in the “Ségur de la santé” agreements and in place since autumn 2020. Given the rise in prices, general government wages were less dynamic in real terms (+0.6% in 2021, after +1.7% in 2020). In 2022, the nominal general government SMPT is expected to bounce back (+3.8% as an annual average) mainly as a result of the increase in the wages of category C personnel and the probable revision of the index point value in the summer (assumed to be +3% in this scenario). All in all, however, the purchasing power of the general government SMPT in 2022 is likely to weaken (–0.9% forecast for the annual average).

► 1. Variation in the basic monthly wage and the average wage per capita

changes in %, seasonally adjusted data

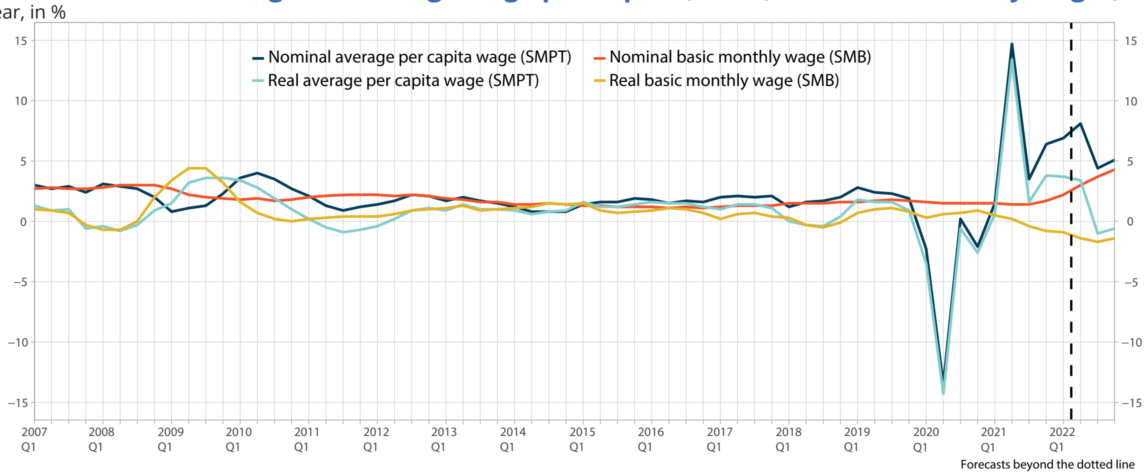
	Quarterly growth rates								Average annual change			
	2021				2022							
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	2019	2020	2021	2022
Average wage per capita (SMPT) in non-agricultural market branches	0.3	0.1	4.9	1.0	0.8	1.2	1.4	1.7	2.3	–4.4	6.3	6.1
Basic monthly wage (SMB)	0.3	0.3	0.4	0.7	0.8	1.1	1.1	1.2	1.7	1.5	1.5	3.3
SMPT in general govemment (GG)									1.4	2.6	2.2	3.8
Household consumer prices (national quarterly accounts)	0.7	0.2	0.7	0.8	1.3	1.6	1.7	1.1	0.8	0.9	1.6	4.7
Real WPS in the non-agricultural market branches	–0.4	–0.1	4.2	0.1	–0.5	–0.4	–0.3	0.6	1.5	–5.3	4.6	1.3
Real WPS	–0.4	0.0	–0.3	–0.1	–0.5	–0.5	–0.5	0.1	0.9	0.6	–0.1	–1.4
Real WPS in GG									0.5	1.7	0.6	–0.9

■ Forecast

Source: DARES, INSEE

►2. Nominal and real changes in average wage per capita (SMPT) and basic monthly wage (SMB)

year-on-year, in %



Scope: non-agricultural market sector.
Source: INSEE

Household income

In Q1 2022, household gross disposable income (GDI) decreased (–0.5% after +1.9% in the previous quarter), mainly as an automatic reaction to the payment of the "inflation allowance" at the end of 2021.[1] In addition, given the acceleration in consumer prices, the purchasing power of GDI per consumption unit declined sharply (–1.9%). In Q2, household GDI is expected to pick up, boosted by the dynamism of payroll and especially wages, despite the accompanying decrease in social benefits paid for short-time working and sick leave.

For H2, the forecast for household income was prepared on the basis of available public announcements on purchasing power support measures. This is not a prediction of any specific measures that will ultimately be introduced, the terms and conditions of which are likely to change before they are actually implemented. Rather, the aim is to show how overall household income could change in the light of the assumptions listed in the **Box**.

Given these assumptions, household GDI is expected to be very dynamic, both in Q3 and Q4, driven by wages in the market and public sectors and by support measures that take the form of payments of allowances and reductions in contributions. All in all, household GDI looks set to increase by 4.1% in current euros in 2022, with about one percentage point of this due to the support measures included in this scenario.

In Q3 in particular, earned income is expected to benefit from the dynamism of wages after the reintroduction of the PEPA bonus (with the ceiling tripled), the review of the index point value for civil service personnel (assumed to be +3% in July in our scenario) and probably a further increase in the minimum wage (SMIC) (which could happen over the summer). In addition, social benefits are likely to rise as a result of the anticipated increase in retirement pensions, social minima, the activity bonus and family allowances (+4% increase assumed, effective from 1st July). Property income is expected to be supported by a further increase in the Livret A interest rate (which should rise to about 2% on 1st August in the scenario chosen here).

In Q4, household GDI should continue to be driven by earned income but also by a drop in taxes and social contributions. This reduction would be the result of the abolition of the television and radio licence fee, assumed to be applied in 2022, to which should probably be added the continuation of housing tax relief for the 20% most well-off households (as this tax has already been abolished for other households).

Due to the trend in consumer prices, which are expected to remain very dynamic before slowing at the end of the year, the purchasing power of household GDI is likely to decline in Q2 (–1.0%) then pick up sharply in H2 (by around +1% each quarter). Across the whole of 2022, it is expected to decrease by 0.6% (i.e. –1.0% per consumption unit). ●

1 The "inflation allowance" refers to the payment of €100 to French residents whose earned income or replacement income is less than €2,000 net per month, the aim being mainly to offset the impact of the recent increase in fuel prices on purchasing power. This payment concerned about 38 million people. The allowance was paid at the end of 2021 or the beginning of 2022, depending on the situation. However, as the right to the payment was established at the end of 2021 (eligibility based on people's situation as of October 2021), the full allowance is therefore recorded for accounting purposes in Q4 2021, in accordance with the principle of recording on accrual basis.

►1. Components of household gross disposable income

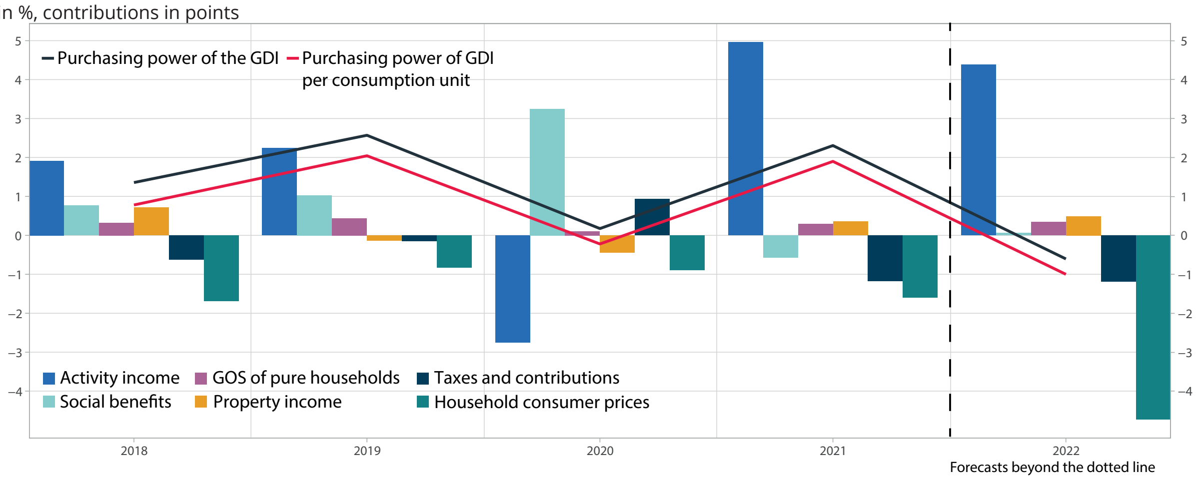
variations in %

	Quarterly changes								Annual changes			
	2021				2022				2019	2020	2021	2022
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Gross disposable income (100%)	**–0.2**	**0.6**	**1.4**	**1.9**	**–0.5**	**0.6**	**2.6**	**2.2**	**3.4**	**1.1**	**4.0**	**4.1**
including:												
Earned income (72%)	0.8	0.9	3.8	1.1	0.9	1.1	2.0	1.4	3.1	–3.8	7.2	6.2
Gross wages and salaries (64%)	0.9	1.0	4.6	1.3	1.0	1.2	2.2	1.5	3.2	–3.9	7.4	7.1
GOS of sole proprietors* (8%)	–0.1	0.1	–2.1	–0.7	0.0	0.3	0.5	0.2	2.4	–2.9	6.0	–1.1
Social benefits in cash (35%)	–0.3	0.1	–2.7	2.7	–1.5	–0.8	3.1	0.7	2.9	9.3	–1.5	0.2
GOS of “pure” households (14%)	–0.1	0.5	0.8	1.0	–0.7	1.1	1.8	0.9	3.2	0.8	2.2	2.6
Property income (6%)	2.3	0.3	1.0	1.8	3.9	2.3	2.1	1.3	–2.3	–7.8	6.9	9.2
Social contributions and taxes (–27%)	3.2	0.6	1.9	0.4	2.8	0.7	1.0	–2.8	0.5	–3.5	4.6	4.6
Household consumer prices	**0.7**	**0.2**	**0.7**	**0.8**	**1.3**	**1.6**	**1.7**	**1.1**	**0.8**	**0.9**	**1.6**	**4.7**
Purchasing power of gross disposable income	**–0.9**	**0.4**	**0.6**	**1.1**	**–1.8**	**–1.0**	**0.9**	**1.1**	**2.6**	**0.2**	**2.3**	**–0.6**
Household purchasing power by consumption	**–1.0**	**0.3**	**0.5**	**1.0**	**–1.9**	**–1.1**	**0.8**	**0.9**	**2.0**	**–0.2**	**1.9**	**–1.0**

Forecast
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

►2. Annual variation in purchasing power of household gross disposable income (GDI) and its main contributions

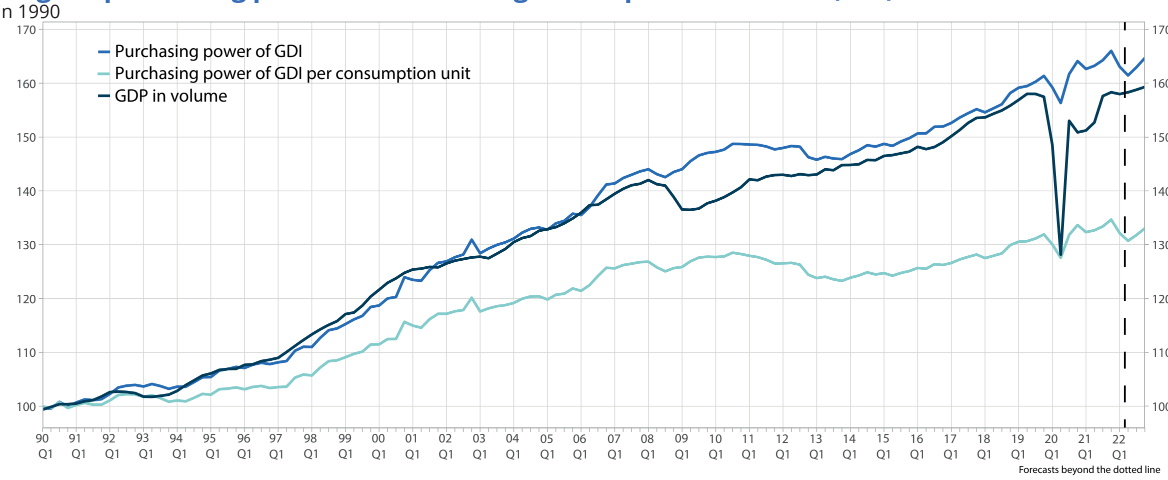
changes in %, contributions in points



How to read it: the purchasing power of household GDI is expected to decline by 0.6% in 2022. The main contribution to this change is likely to be household consumer prices, which are expected to account for –4.7 points.
Source: INSEE

► 3. Change in purchasing power of household gross disposable income (GDI) and of GDP since 1990

base 100 in 1990



Source: INSEE

Assumptions made to forecast the purchasing power of household GDI in 2022

Support measures for household purchasing power can take several forms, contributing either to increasing income, or to limiting price rises.

Concerning prices, the forecast presented in this *Economic Outlook* (►**Sheet** Consumer prices) includes measures already in force, which contributed to limiting the rise in inflation in H1, and which it has been announced publicly are to be extended until the end of 2022: this is notably the case for the tariff shield on regulated gas and electricity sales. For the fuel reduction at the pump by €15 centimes excluding VAT, in force since 1st April, our forecast assumes that this will be extended until the end of August, then reduced gradually until the end of the year.

Concerning income, several support measures have already been announced publicly and are therefore incorporated into our scenario. However, not all details of how they will operate are known at the time of making this forecast. The following assumptions are therefore included in the forecast, as an illustration, without drawing any conclusions as to what will ultimately be adopted by the authorities:

-**Wages:** our scenario assumes that the extraordinary purchasing power bonus (PEPA) will be continued into H2 2022 and that its ceiling will be tripled (Sheet Wages). In addition, concerning the civil service, a 3% increase in index point value from 1st July is incorporated into the forecast. Overall, these two measures are expected to contribute to increasing household gross disposable income by 0.3 points in 2022 (+0.1 points for the extension of the PEPA, +0.15 points for the revision to the civil service index point value);

-Social benefits: a 4% increase in pensions and social benefits (including social minima, family allowances and the activity bonus) is included in the forecast (estimated effect is +0.4 points on household GDI in 2022). Other one-off measures to assist with spending on fuel and food may also be introduced to bolster household GDI. As an illustration, the assumption used here is an inclusive effect of +0.1 points on GDI in 2022;

-**Taxes and social contributions:** our scenario assumes that the television and radio licence fee is abolished in Q4 2022. It also includes a drop in social contributions to the level of the minimum wage (SMIC) for self-employed workers. These two measures are expected to support household GDI by +0.2 points, mainly the result of abolishing the television licence.

These different income support measures should help to raise household GDI by around one point in 2022 (►**Table**). GDI is also expected to be supported by some automatic increases (indexing of the SMIC, probable increase in the Livret A interest rate). Change in purchasing power, calculated as the difference between change in GDI and change in household consumer prices, is also likely to benefit from measures to limit price rises, as listed at the beginning of this Box.

►Support measures for household income (excluding limiting prices) included in the forecast scenario and estimated impact on gross disposable income in 2022

Measures included in the forecast scenario	Impact on household gross disposable income in 2022 (in points)
Wages	
Reintroduction and tripling of PEPA bonus	
3% increase in index point value for civil service personnel	+0.3
Social benefits	
4% increase in pensions, social minima, activity bonus and family allowances	
One-off measures to assist with spending on fuel and food	+0.5
Taxes and social contributions	
Abolition of television and radio licence fee	
Reduction in contributions by self-employed workers	+0.2
All household income support measures included in the forecast scenario	**+1.0**

How to read it: this table proposes figures for the assumptions selected in the forecast scenario, regarding household income support measures planned in 2022.
Source: INSEE calculations

Household consumption and investment

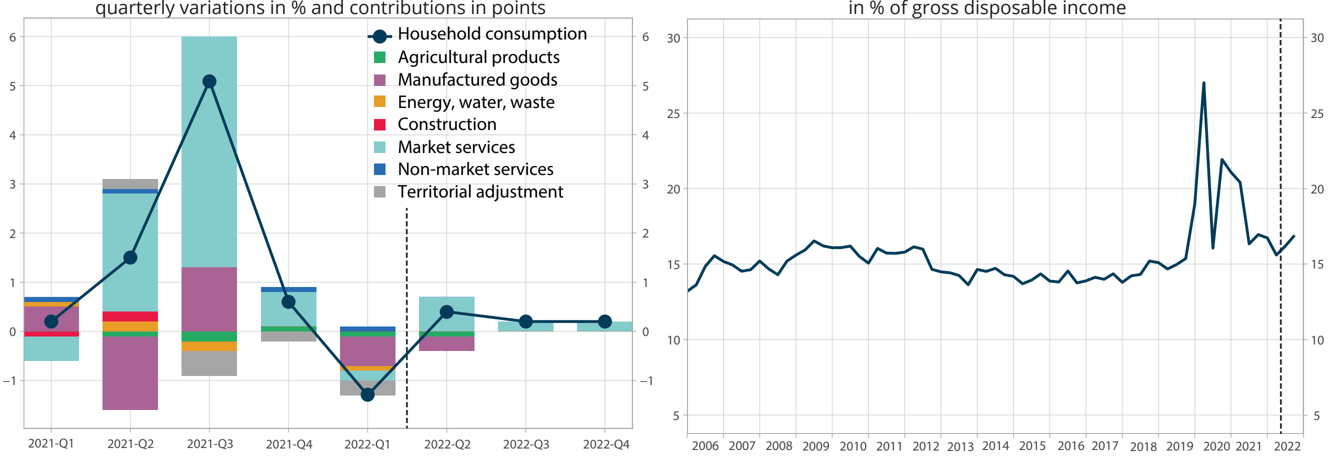
In Q1 2022, household consumption fell back sharply (–1.5% compared to previous quarter), dropping below its pre-health crisis level (level in Q4 2019). The deterioration in the health situation and the use of teleworking in January affected spending on accommodation and catering particularly badly, as well as spending on fuel and clothing. In February and March, consumption certainly picked up as far as services were concerned, but the continuing rise in inflation affected spending on food and also on fuel. Lastly, purchases of vehicles and also spending on transport services remained well below their pre-crisis level.

In Q2 2022, household consumption is expected to pick up moderately (+0.4%), with some contrasting changes. As the health context gets back to normal, this should benefit transport services, leisure activities and also accommodation and catering, for which the bank card transactions indicate a positive change for May (►**Box**). On the other hand, growing inflation is likely to continue to affect consumption of goods: spending on fuel is expected to decline again, also purchases of vehicles, which have also been penalised by supply chain problems; at the same time, the increase in spending observed since the start of the health crisis is expected to be maintained for capital goods.

In H2, the context of high inflation is expected to continue to moderate household purchasing decisions. Consumption looks set to increase moderately, driven mainly by a continued recovery in transport services, while it should stabilise in goods. The household savings ratio is expected to continue to decline in Q2, on account of the drop in household purchasing power. On the other hand, the upturn in purchasing power in H2 as support measures are introduced should bring about a rise in the savings ratio, reaching 16.9% at the end of the year, still well above its pre-crisis level (15.0% in 2019).

Finally, household investment was stable in Q1, and should pick up in Q2 (+0.4%). It is then expected to gradually decelerate in H2, as single-family housing starts could slow down after their strong momentum in 2021, and the volume of activity in housing maintenance-improvement looks set to stagnate over the rest of the year. ●

►1. Past and expected quarterly consumption (left) and Household savings ratio (right)



How to read it: in Q2 2022, household consumption is expected to be 0.3% higher than in Q1. The household savings ratio would be 15.7% of their gross disposable income.
Source: INSEE

►2. Estimated and projected quarterly household consumption levels

difference to the Q4 of 2019, in %

Products	weight*	2020				2021				2022			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Agriculture, forestry and fishing	**3%**	**4.2**	**–1.8**	**0.7**	**0.4**	**0.8**	**–2.4**	**–3.2**	**–2.1**	**–4.9**	**–5.8**	**–6.0**	**–6.0**
Industry	**44%**	**–6.5**	**–13.1**	**4.1**	**–0.9**	**0.7**	**–2.1**	**1.1**	**0.8**	**–1.3**	**–1.7**	**–1.7**	**–1.7**
Manufacture of food products, beverages and tobacco-based products	15%	3.3	5.3	3.0	4.9	5.2	2.5	3.3	3.5	1.8	1	0	0
Coke and refined petroleum	4%	–6.3	–32.4	–4.3	–14.2	–5.6	–7.8	2.4	2.4	–0.7	–3	–3	–4
Manufacture of electrical, electronic, computer equipment; manufacture of machinery	3%	–7.4	–4.5	13.2	13.8	15.2	10.5	10.4	7.5	7.7	9	9	9
Manufacture of transport equipment	6%	–22.3	–37.6	6.0	–8.8	–8.3	–11.0	–12.1	–12.9	–15.0	–16	–16	–17
Manufacture of other industrial products	12%	–12.1	–22.3	5.9	–4.3	–1.8	–7.4	2.4	1.8	–0.3	0	0	0
Extractive industries, energy, water, waste treatment and decontamination	5%	–1.1	–2.1	2.5	3.8	3.2	8.0	3.9	4.9	0.3	1	1	1
Construction	**2%**	**–10.2**	**–24.8**	**0.0**	**0.9**	**–1.7**	**6.0**	**6.2**	**5.7**	**2.3**	**2.3**	**2.3**	**2.4**
Mainly market services	**47%**	**–5.7**	**–20.9**	**–5.8**	**–13.6**	**–14.9**	**–10.4**	**–0.7**	**0.6**	**0.3**	**1.7**	**2.2**	**2.7**
Trade; repair of automobiles and motorcycles	1%	–12.9	–23.7	3.5	–4.4	–1.3	–0.3	0.5	1.6	0.5	2	1	0
Transport and storage	4%	–12.7	–68.1	–30.6	–49.6	–46.3	–42.3	–19.7	–13.5	–10.8	–9	–7	–6
Accommodation and catering	8%	–17.6	–63.2	–13.7	–45.8	–57.8	–37.5	–2.3	–3.2	–6.9	–1	0	1
Information and communication	3%	–2.4	–4.9	–1.9	–2.7	–2.8	–1.5	0.8	1.5	1.3	1	1	1
Financial and insurance activities	5%	–0.2	–0.7	1.0	1.3	2.4	3.1	3.8	4.2	4.4	4	5	5
Real estate activities	19%	0.2	0.1	0.5	0.5	1.3	1.7	1.9	2.5	2.8	3	3	4
Scientific and technical activities; administrative and support services	2%	–6.8	–19.5	–9.5	–7.8	–7.8	–3.6	3.1	4.5	4.9	5	6	7
Other service activities	4%	–12.4	–42.4	–13.0	–24.7	–25.6	–22.4	–3.3	2.3	2.1	4	4	5
Mainly non-market services	**5%**	**–8.0**	**–27.1**	**–3.1**	**–4.4**	**–1.9**	**–1.2**	**0.3**	**2.4**	**2.6**	**2.2**	**2.4**	**2.7**
Territorial correction	*–1%*	*–38.0*	*–86.4*	*–35.1*	*–65.7*	*–65.4*	*–80.8*	*–36.7*	*–13.4*	*12.4*	*12*	*11*	*10*
Imports of tourism services		*–11.8*	*–70.6*	*–52.4*	*–53.0*	*–54.8*	*–47.9*	*–26.0*	*–21.4*	*–25*	*–19*	*–16*	*–12*
Exports of tourism services		*–18.5*	*–74.7*	*–47.9*	*–56.3*	*–57.6*	*–56.3*	*–28.8*	*–19.4*	*–15*	*–11*	*–9*	*–7*
Total	**100%**	**–5.5**	**–16.4**	**–0.6**	**–6.2**	**–6.0**	**–4.9**	**0.6**	**1.0**	**–0.6**	**–0.2**	**0.0**	**0.3**

* weight in household final consumption expenditure in current euros in Q4 2019

■ Forecast

How to read it: in Q2 2022, the level of household consumption of accommodation and food services would be 1% lower than in the Q4 of 2019.

Source: INSEE calculations from various sources

►3. Household consumption and investment

quarterly changes and difference to Q4 2019, in %

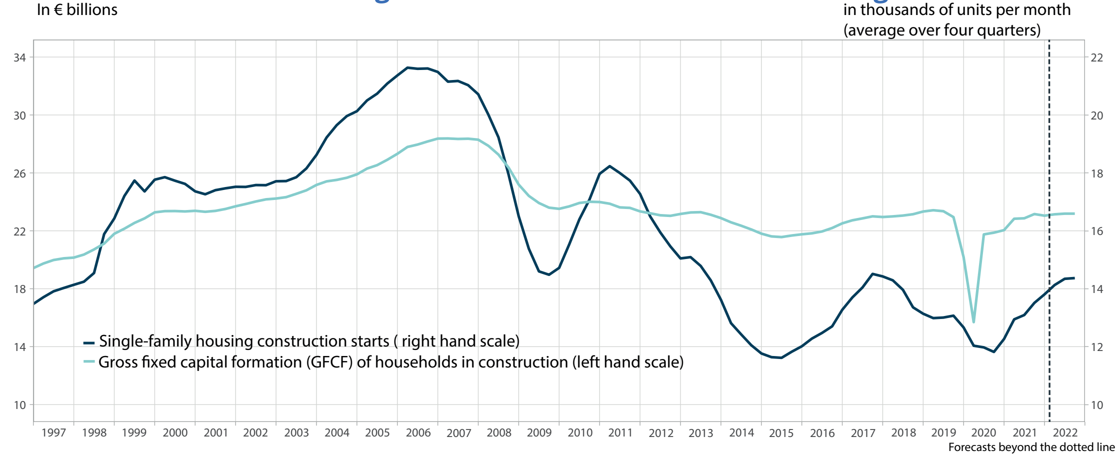
	2020				2021				2022				2020*	2021*	2022*
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Consumption:															
quarterly changes	–5.5	–11.5	19.0	–5.6	0.2	1.2	5.8	0.3	–1.5	0.4	0.2	0.2	–6.8	5.2	2.3
difference to Q4 2019	–5.5	–16.4	–0.6	–6.2	–6.0	–4.9	0.6	1.0	–0.6	–0.3	0.0	0.2	–	–	–
Savings ratio:															
as % of gross disposable income	19.0	27.0	16.1	21.9	21.1	20.4	16.3	17.0	16.7	15.6	16.2	16.9	21.0	18.7	16.3
difference in points from Q4 2019	3.6	11.6	0.7	6.6	5.7	5.0	1.0	1.6	1.4	0.2	0.8	1.5	–	–	–
Investment:															
quarterly changes	–13.5	–16.9	29.2	5.8	0.9	3.4	1.4	–0.7	0.0	0.4	0.2	0.0	–11.9	17.0	1.3
difference to Q4 2019	–13.5	–28.1	–7.1	–1.8	–0.9	2.5	4.0	3.2	3.2	3.6	3.8	3.8	–	–	–

■ Forecast

* Annual variations (or carry-over for 2022) for the last three columns.

Source: INSEE

►4. Household investment in building construction and authorised housing starts



Note: for single-family housing, data correspond to real date, i.e. the date of the housing start, which was sometimes several months before the information was passed on. Real date figures can be subject to several successive revisions before they gradually stabilise.
Source: INSEE, SDES

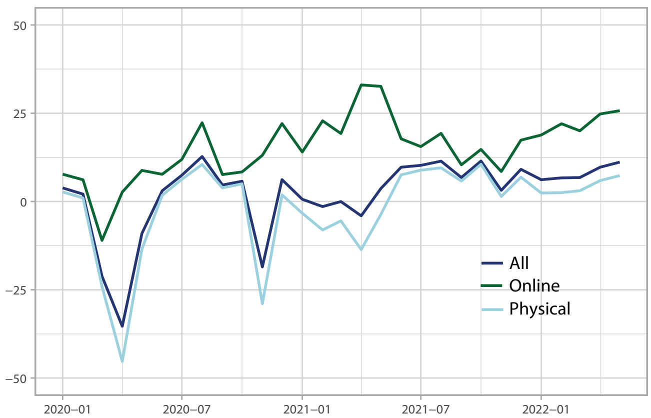
Bank card transaction amounts, adjusted for price change, are moving slightly upwards

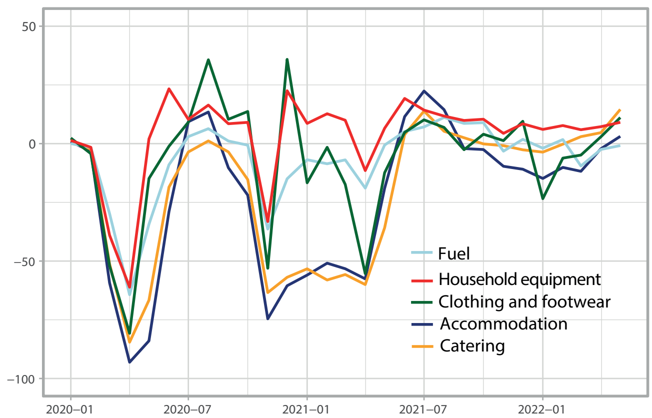
Using aggregated amounts from bank card transactions, up to 31 May 2022, we are able to make an advance analysis of household consumption. Total monthly amounts, taken year-on-year compared to 2019 and adjusted for the overall change in prices, show a profile trending slightly upwards in April and May (►**Figure 5**, left). In addition, this total appears significantly higher than the level for these months in 2019, although this is partly because the use of bank cards has increased over the last two years.

After a low point at the beginning of the year, the real amounts of transactions in catering and accommodation have started to rise again slightly, probably due mainly to the normalisation of the health situation (►**Figure 5**, right). In clothing-footwear, the real amounts of transactions were up in April and then in May; in household equipment, they have maintained a relatively stable level since last autumn. For fuel, figures in May signal a return to the level at the end of 2021, after a very volatile period between March and April. ●

►5. Real monthly bank card transaction amounts per type of transaction (left) and for various points of sale (right)

real monthly amounts (adjusted for price changes) compared to a comparable month in 2019, in %





How to read it: during May 2022, total bank card transaction amounts were 11.9% higher than the total for May 2019.
Note: amounts are adjusted for inflation using aggregated monthly consumer price indices specific to each item. As each amount is compared to a comparable month in 2019, for the differences shown for December 2021 and January 2022 there is therefore a break in the reference month (December 2019 then January 2019). Note that the dynamism of the real bank card transaction amounts from March 2020 onwards may reflect a higher use of payment by bank card. This trend has been taken into account in the forecast for losses or increases in consumption compared to the pre-health crisis level.
Last point: May 2022.
Source: Cartes Bancaires CB, INSEE calculations

Enterprises' earnings

The downturn in the margin rate of non-financial corporations (NFC) that began in mid-2021 continued into Q1 2022. Productivity affected margin rate, as employment had been more dynamic than the value added of NFCs. In addition, subsidies brought in during the health crisis, which sustained companies' gross operating surplus, continued to decline. As a result, the margin rate of NFCs stood at 31.6% of value added.

In Q2 and Q3 2022, the margin rate is expected to increase very slightly (31.8%). It is likely that the terms of trade will increase their pressure on the margin rate, as the rise in inflation is still mainly due to imports, while subsidies paid to NFCs should support them, especially with the economic and social resilience plan put in place to cope with the consequences of the war in Ukraine (sectoral aid and support for energy-intensive businesses).

By the end of the year, the NFC margin rate is expected to decline slightly. Despite a further increase in the subsidies paid out, it is likely to be penalised by the buoyancy of real wages (stimulated by the possible reintroduction of the PEPA bonus with the ceiling tripled and by the probable increase in the minimum wage (SMIC) during the summer or at the beginning of autumn) and penalised to a lesser extent by a further decline in the terms of trade.

Across the whole of 2022, the margin rate is expected to be 31.7% on average, a similar level to 2018 (31.5%) and 2.5 points lower than 2021. The reason for such a sharp drop is the deterioration in the terms of trade, but also the end of the emergency aid associated with the health crisis: in fact, the reduction in the take-up of short-time working is likely to lead automatically to a rise in the real cost of labour per capita, while the phasing out of other specific support schemes is likely to result in a significant reduction in subsidies compared to 2021. ●

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

margin rate and variation in %, contributions in points

	2021				2022				2019	2020	2021	2022
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
Margin rate	**36.3**	**35.9**	**32.7**	**32.0**	**31.6**	**31.8**	**31.8**	**31.6**	**33.4**	**31.8**	**34.2**	**31.7**
Variation in margin rate	**1.9**	**–0.4**	**–3.2**	**–0.7**	**–0.5**	**0.2**	**0.0**	**–0.2**	**1.9**	**–1.6**	**2.4**	**–2.5**
Contributions to variation in margin rate:												
productivity gains	–0.1	0.2	1.3	–0.3	–0.4	0.0	0.1	0.1	0.8	–5.4	2.8	0.2
real cost of labour per capita	0.2	0.1	–2.4	–0.1	0.1	0.3	0.1	–0.4	0.9	3.3	–2.9	–0.9
ratio of price of value added to consumer prices	–0.2	0.3	0.0	–0.3	0.0	–0.3	–0.6	–0.1	0.7	0.7	0.5	–0.6
other factors (including subsidies and taxes on production)	2.0	–1.0	–2.1	–0.1	–0.2	0.2	0.4	0.1	–0.4	–0.3	2.0	–1.2

■ 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 *(Pva/Pc)*, which have a positive effect;
- changes in the real cost of labour (*W/Pc*, 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:

$$TM = \frac{EBE}{VA} \approx 1 - \frac{WL}{Y\,P_{VA}} + other\ factors = 1 - \frac{L}{Y}\frac{W}{P_C}\frac{P_C}{P_{VA}} + other\ factors$$

Source: INSEE

►2. Margin rate of non-financial corporations (NFC)

in % of value added

Source: INSEE

Corporate investment

Investment by non-financial enterprises (NFE) bounced back in Q1 2022 (+0.4% after –0.4% in Q4 2021, ►**Figure 1**) but with contrasting changes depending on the product. Investment in manufactured products fell back further (–1.6% after –2.4%), to 4% below its Q4 2019 level. Most notably, the purchase of transport equipment by companies declined for the fourth consecutive quarter and is now 29% below its pre-crisis level: deliveries of automobiles have suffered as a result of supply chain difficulties with constructors, and these have only worsened with the war in Ukraine and the lockdown in several major Chinese cities. NFE investment in construction improved slightly in Q1 (+0.4% after 0.0%), settling at almost 1% above its pre-health crisis level. Finally, investment by NFEs in services retained its momentum (+1.9%) and has exceeded its pre-health crisis level by 12%. It is driven mainly by investment in information and communication services.

In Q2 2022, investment by NFEs should continue to increase, accelerating slightly (+0.6%). Investment in manufactured products is expected to fall back further (–0.8%), although less than in the previous quarter, once again driven down by investment in transport equipment and due to supply chain disruptions that are still severe. Investment in services, on the other hand, is expected to remain dynamic, although it will slow slightly (+1.7%). Lastly, NFE investment in building construction is expected to slow (+0.2%), but will probably be sustained by the upturn in building starts on non-residential buildings at the end of 2021, which until then had been far below their 2019 level. Their effect on production is likely to be felt throughout 2022, meanwhile, the volume of activity in building maintenance and improvement work on non-residential buildings is expected to stagnate, hampered by supply chain difficulties that are more severe in building companies as a consequence of the war in Ukraine.

In H2, corporate investment is expected to maintain a similar pace of growth (+0.5% in Q3 then in Q4). Investment in manufactured products is likely to continue its downward trend, in a context of sluggish activity and high uncertainty, even if supply chain difficulties are not expected to deteriorate further. Investment in construction should continue to increase in Q3, then come to a standstill in Q4, slowed down because activity in building maintenance and improvements have edged down (affected by the higher cost of supplies). Lastly, investment in services is expected to slow slightly, penalised by the rise in interest rates, which is pushing up the cost of capital. Annual growth in corporate investment is likely to be around 1.7% in 2022, after +11.4% in 2021. ●

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

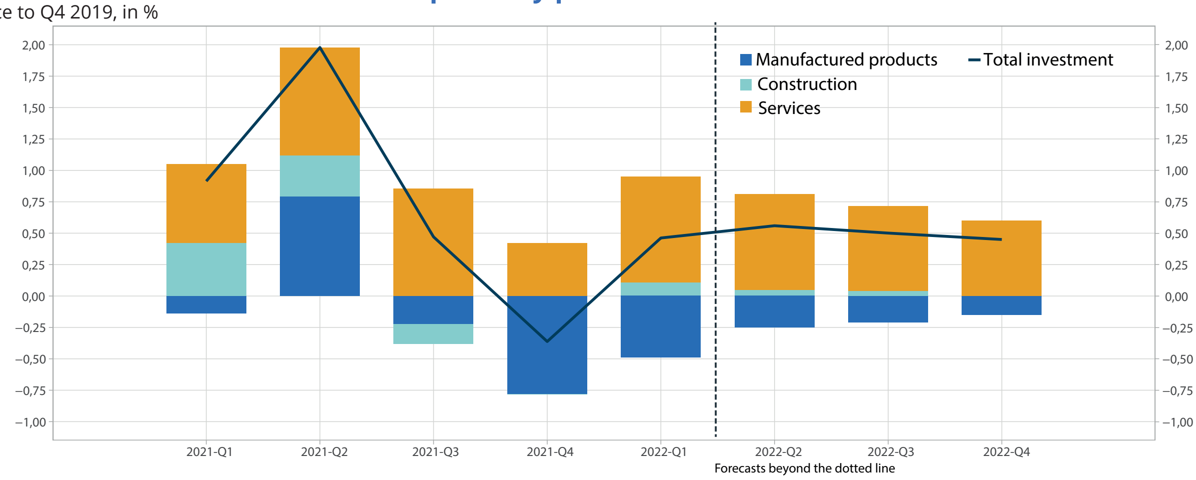
at previous year's prices, chain-linked, seasonally adjusted, in %

	Quarterly changes												Annual changes		
	2020				2021				2022				2020	2021	2022 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
Manufactured product (33%)	–15.4	–18.1	40.2	1.5	–0.4	2.4	–0.7	–2.4	–1.6	–0.8	–0.7	–0.5	–12.9	13.3	–4.2
Construction (22%)	–13.4	–28.1	59.2	–1.4	1.8	1.4	–0.7	0.0	0.4	0.2	0.2	0.0	–14.0	15.9	0.7
Services (44%)	–0.6	–3.1	3.4	3.8	1.4	2.0	1.9	0.9	1.9	1.7	1.5	1.3	1.8	8.0	6.5
All NFEs (100%)	**–8.6**	**–13.3**	**24.4**	**1.8**	**0.9**	**2.0**	**0.5**	**–0.4**	**0.4**	**0.6**	**0.5**	**0.5**	**–6.9**	**11.4**	**1.7**

Forecast
Source: INSEE

►2. Investment of non-financial enterprises by product

difference to Q4 2019, in %



How to read it: in Q2 2022, investment by NFEs is expected to increase by +0.6% compared to Q1 2022; the contribution of NFE investment in manufactured products is likely to be –0.25%.
Source: INSEE

International economic outlook

Synthesis international

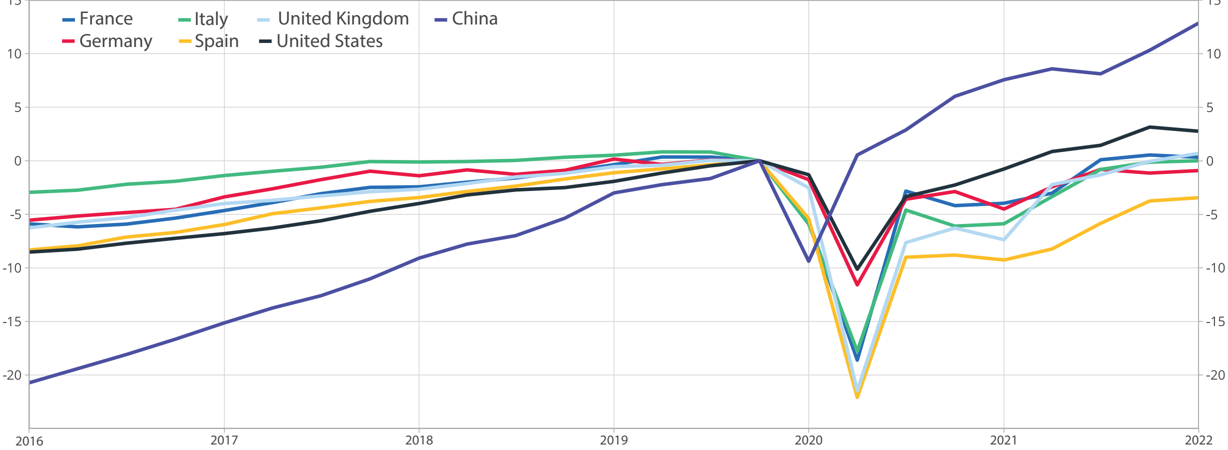
In Q1 2022, in an already inflationary context, the geopolitical shock of the war in Ukraine, combined with a health situation that is deteriorating in some places, has affected all of the main world economies. The GDPs of the western economies have evolved in different ways: decline in France and the United States, slowdown in Italy, Spain and the United Kingdom, moderate rebound in Germany after a downturn at the end of the year (▶**Figure 1**). Meanwhile, the Chinese economy accelerated slightly over the quarter, despite a slowdown in March with their "zero Covid" strategy. In the four main Eurozone economies, household consumption fell back, penalised by the deteriorating health situation at the beginning of the year and the sharp rise in prices: inflation has continued to increase in all the western economies (▶**Figure 2**), fuelled by the increase in commodity prices, which the war in Ukraine helped accentuate. However, in the United Kingdom and the United States, household consumption, especially of services, has managed to maintain its pace of growth, sustained by increasing wage income, which is more dynamic than in the Eurozone, and by a more pronounced drop in the savings ratio.[1] At the same time, imports increased substantially in the United States and the United Kingdom at the start of 2022, contributing to growth in world trade in goods and services (+2.5% in Q1, ▶**Figure 3**).

In Q2 2022, developments in activity are still likely to be closely linked to developments in the health situation and inflation. In the Eurozone, the sharp decline in the epidemic and the almost total lifting of health restrictions since the beginning of spring have maintained the dynamism of the services sector (▶**Figure 4**). In contrast, lockdowns in China, especially in Shanghai, are weighing heavily on household consumption and hampering production in many industries. The decline in Chinese production and the resulting disruption to value chains, also accentuated by the war in Ukraine, are likely to heighten supply chain problems in the main western economies, problems that have already been considerable since 2021 (▶**Figure 5**). As a result, world trade is expected to come to a standstill in Q2, as is world demand for French products. Sustained by fluctuations in the price of oil and other commodities, which are linked to geopolitical tensions and the sanctions imposed on Russia, inflation is expected to remain high in Q2 in the western economies. It is likely that it will continue to affect household consumption, and production too by increasing the cost of inputs even more. Thus GDP is expected to increase at a moderate pace in the main world economies (▶**Figure 6**).

1 Compared to its pre-crisis average for the period 2014-2019, the household savings ratio in the four main Eurozone economies at the end of 2021 was between 2.5 and 3 points higher (Focus Purchasing power in the Eurozone), whereas it was 0.6 points higher in the United Kingdom and 0.5 in the United States (and even 1.7 points lower in Q1 2022).

▶1. In Q1 2022, GDP slowed or fell back in the western countries

variation in GDP compared to Q4 2019, as a %



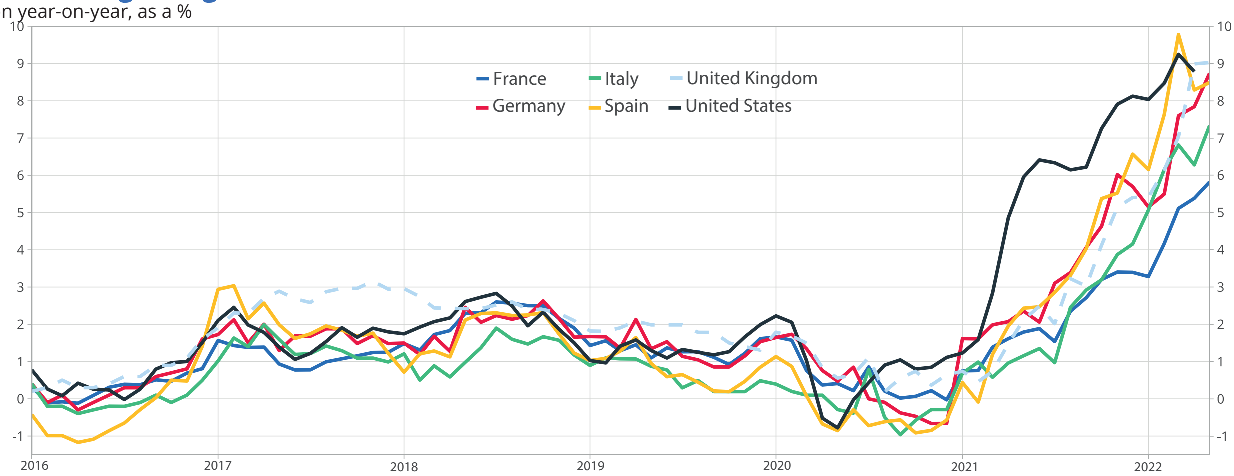
Source: INSEE, Destatis, Istat, INE, ONS, BEA, NBSC

International economic outlook

In H2, assuming that health restrictions will be eased, the upswing in Chinese activity is expected to drive the rebound in world trade, but could also contribute to increasing world prices. With this in mind, the trajectory of inflation will be an important factor for activity in the western economies: although always dependent on changes in the price of fossil energies, it could stabilise at some high levels in the course of H2, particularly as a result of aid measures applied in the different countries, and the tightening of monetary policies (▶ **Focus** Monetary Policies). However, these monetary policies are likely to weigh on demand and investment, especially in the United States. Thus US economic activity is likely to slow down over the forecasting period, but without falling back. ●

▶2. At the beginning of 2022, inflation continued to rise in the western economies

inflation year-on-year, as a %



Note: Eurostat provides the Harmonised Index of Consumer Prices (HICP), an indicator for countries of the European Union and the United States, but data for the United Kingdom stop at the end of 2020. For the United Kingdom, therefore, the index is the non-harmonised CPI provided by the UK ONS. Data for the most recent months are not available for all countries, in particular, the last point for the United States is December 2021
How to read it: in April 2022, in United States, consumer prices were 8.8% higher per year than their level in April 2021.
Last point: April 2022 for the United States, May 2022 for the other countries.
Source: Eurostat, ONS

▶3. World trade accelerated sharply in Q1 2022

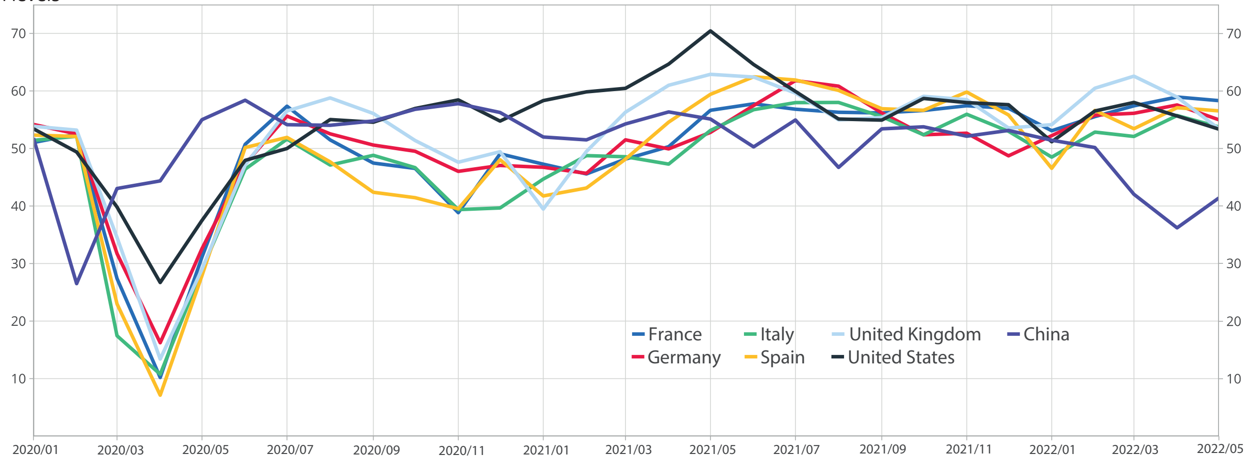
quarterly variations in % (annual variations in % for the last three columns)

	2020				2021				2022				2020	2021	2022 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4			
World trade	**–3.2**	**–14.8**	**12.1**	**4.8**	**2.0**	**2.2**	**1.1**	**2.6**	**2.5**	**0.0**	**0.9**	**1.1**	**–8.3**	**10.3**	**6.3**
Imports by advanced economies	–3.3	–16.3	13.4	5.0	0.2	2.8	1.5	2.6	3.0	1.1	1.2	0.9	–9.4	9.4	8.3
Imports by emerging economies	–3.0	–10.7	8.7	4.4	6.9	0.2	–0.1	2.6	1.1	–3.2	–0.1	1.5	–5.2	12.7	0.9
World demand for French products	–3.2	–16.3	12.9	5.3	0.7	2.9	1.6	2.4	2.7	0.4	1.0	1.0	–9.1	10.0	7.3

■ Forecast
Source : Statistiques équilibrées du commerce (OCDE), CHELEM – Commerce international (CEPII), INSEE calculations

►4. In May 2022, the Services PMI remained above its expansion threshold in the main western economies

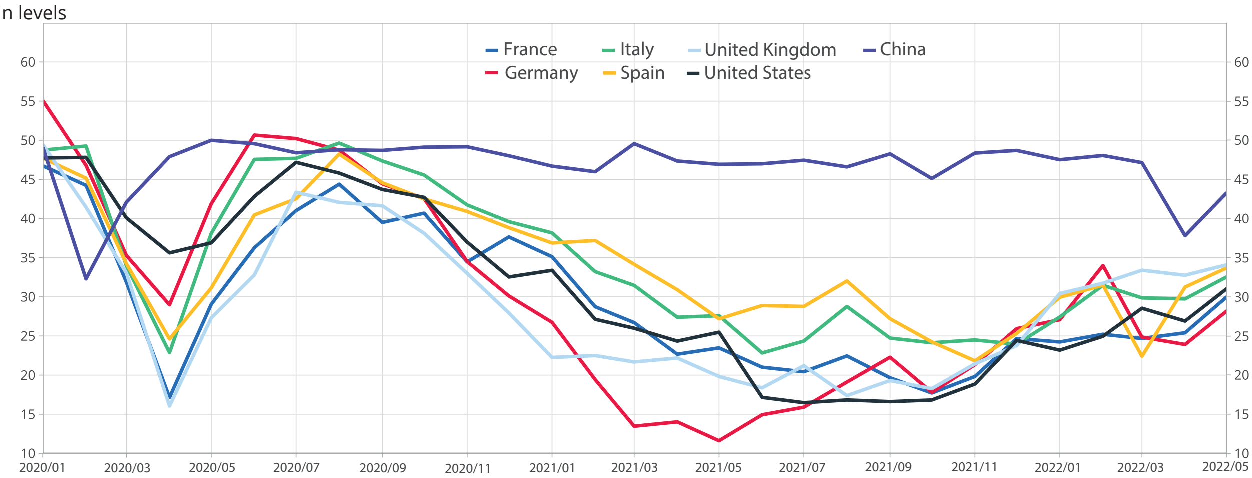
PMI, in levels



Note: in France, in May 2022, PMI Services in France stood at 55.8, above the expansion threshold of 50.
Source: Purchasing Manager's Index, IHS Markit

►5. In May 2022, the PMIs of input delivery times improved slightly but the situation has very much deteriorated

PMI, in levels



How to read it: in France, in May 2022, the PMI of input delivery times in the manufacturing industry was 30, well below the expansion threshold of 50, suggesting that input delivery times are lengthening.
Source: Purchasing Manager's Index, IHS Markit

►6. Past and forecast GDP growth in the main western economies and China

in %

	Q1 2022	Q2 2022	2020	2021	2022
France	–0.2	0.2	–7.9	6.8	2.3
Germany	0.2	0.3	–4.9	2.9	1.9
Italy	0.1	0.3	–9.1	6.6	2.9
Spain	0.3	0.6	–10.8	5.1	4.3
United Kingdom	0.8	–0.3	–9.3	7.4	3.6
United States	–0.4	0.7	–3.4	5.7	2.5
China	2.3	–1.5	1.8	8.6	4.0

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

Normalisation of monetary policies under duress

Rising inflation in the western economies is forcing the central banks to normalise their monetary policies, implementing rate increases and balance sheet reductions. The consequences of this tightening can already be seen on the bond markets and financial markets of these economies, as well as in the emerging economies through the exchange rate channel. The Russian central bank is using this monetary tool to reduce the impact of western sanctions.

The western central banks have started the normalisation of their monetary policies, though at varying paces

The health crisis prompted intervention by the central banks on an unprecedented scale to support the financing of governments and businesses (►**Focus** *Economic Outlook* of 1st July 2021[1]). Two years later, faced with the rise in inflation seen in western countries, the central banks have begun to tighten their monetary policies, in order to comply with the objective of price stability included in their mandate. The Bank of England (BoE) thus began to raise its base interest rate from December 2021, while the United States Federal Reserve (Fed) raised theirs first of all in March 2022 (+25 base points, probably less than it would have done had the war in Ukraine not happened[2]), then by 50 base points at the beginning of May, and by 75 base points on 15 June (►**Figure 1**). These two central banks also put an end to their asset purchases, which had reached unprecedented levels following the measures decided in 2020, and they decided on a gradual reduction of their balance sheet.

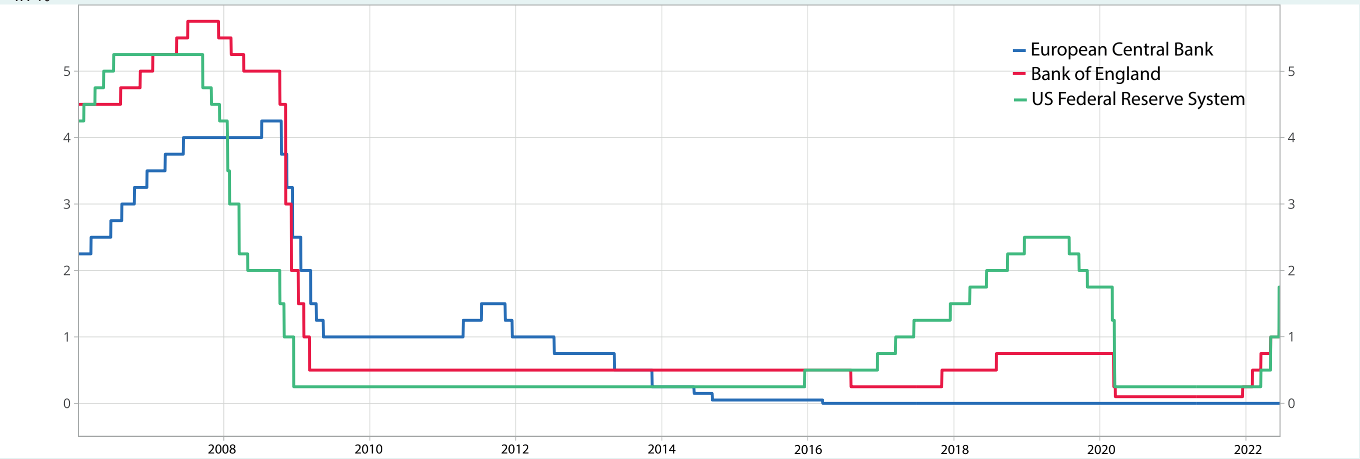
At the same time, the European Central Bank (ECB) has not yet started raising its interest rates. Faced with the diversity of economic situations among the Eurozone Member States, it hoped to maintain a certain flexibility in its decisions regarding the war in Ukraine and its economic consequences. In addition, the rise in inflation in the Eurozone remained essentially imported, linked more to the rise in energy prices and disruptions in value chains than to the dynamism of domestic demand. Nevertheless, since mid-May, the monetary normalisation of the ECB seems to be accelerating:[3] the ECB's asset purchase programme, which has been in place for several years,[4] will come to an end on 1st July 2022, paving the way for an increase in interest rates from July, faster than had previsously been expected.

After more than a decade of unconventional measures, monetary policy is expected to be a little less accommodative. This monetary tightening is already affecting financial asset prices, just as the sharp decline in the United States stock market has done for several months. Bond markets are also reacting to this monetary tightening: the rate of 10-year US government bonds rose sharply, from 1.5% at the end of 2021 to almost 3.5% in mid-June 2022. On the European bond market, sovereign rates have also risen since the start of the year (►**Figure 2** left), as have differentials between rates, especially between Germany and Italy.

1 "Central banks facing an unprecedented crisis", by Hadrien Leclerc, Focus of the *Economic outlook* 1st July 2021, INSEE.
2 Minutes of the Federal Open Market Committee, 16 March 2022.
3 Monetary policy decisions, Press release of 9 June 2022, European Central Bank.
4 *Asset Purchase Programme*, set up in 2014 and of which the ECB adjusts the pace as needed. At the beginning of the health crisis, an additional asset purchase programme was introduced (PEPP, Pandemic emergency purchase programme). It was ended in March 2022.

►1. Base interest rates of the main western central banks

in %



How to read it: Since 15 June, the Fed wants the US interbank rate to be between 1.5% and 1.75%. On 22 June, the main refinance rate of the ECB was 0%, while the marginal lending rate of the Bank of England was 1.25%.
Source: BCE, Fed, BoE

In addition, we have observed a flattening of the yield curve in the United States for several months (►Figure 2 right): the rate of 2-year government bonds, which are more sensitive to anticipated increases in base interest rates, rose from 0.6% to 3.3% between the end of 2021 and June 2022, thus clearly approaching the 10-year rate, and even exceeding it occasionally in April and June. The narrowing of the gap between these two rates (short-term and long-term) –usually called yield curve flattening, or inversion when the rate of the 2-year bonds becomes higher than that of the 10-year bonds– is often considered as a recession indicator. In Europe, the yield curve shows no sign of flattening: on the contrary, the differential between the 10-year rate and the 2-year rate has increased since the end of 2021.

The tightening of the Fed's monetary policy affects the economies of other countries, and especially the emerging economies

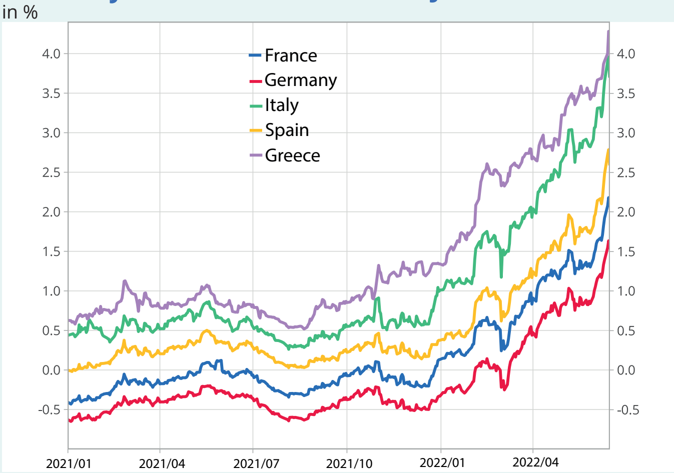
The Fed's monetary policy depends essentially on the economic situation in the United States, but it has consequences for all of the world's economies, in particular via the exchange rate channel. Hence the greater speed of monetary tightening in the United States than in the Eurozone has pushed the dollar up compared to the euro (►Figure 3), with the exchange rate falling from more than 1.2 dollars per euro in June 2021 to 1.05 in May 2022. The yen also depreciated, but more vigorously as the policy of the Japanese central bank is still very accommodative, dropping to its lowest level in twenty years. There are other factors to account for the appreciation of the dollar in 2022 against the majority of other currencies. In fact, the dollar serves as a safe haven currency in periods of crisis or high uncertainty, which partly explains its appreciation against the yuan, in the context of China's economic difficulties, or against the pound, in connection with a possible deterioration in activity in the United Kingdom (►Sheets). One of the economic consequences of the depreciation of these currencies is that it makes the economies concerned more vulnerable to a rise in the price of a barrel of oil, the price of which is determined in dollars. However, by mid-May, the markets' expectation of a slowdown in monetary tightening by the Fed reversed this trend, before the unexpected rise in inflation in May in the United States and the ensuing increase in the Fed's base interest rate shored up the dollar once again. The assumption used in this *Economic Outlook* is that of a constant euro-dollar exchange rate, fixed at 1.08 dollars for 1 euro, i.e. the level measured in late May.

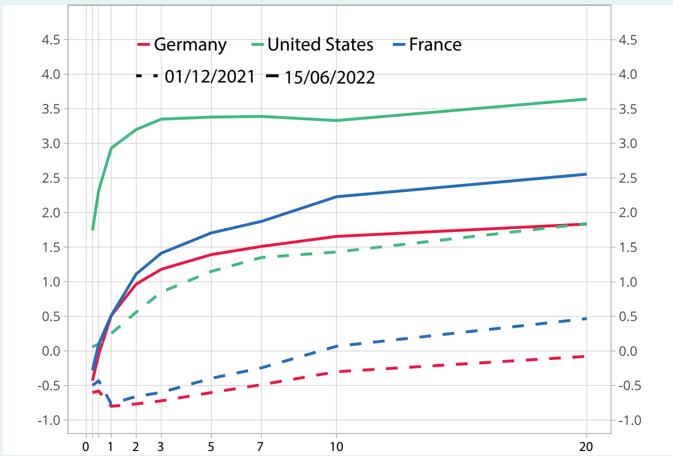
The appreciation of the dollar could affect the emerging economies even more: foreign investment in emerging countries is expected to be limited, resulting in a reduction in capital flows to these countries, while the cost of government debt looks set to increase. The exchange rates of emerging countries appear to have been volatile since the beginning of the year and closely linked to the decisions of the central banks: in a context where the Fed maintained its accommodative policy, the high levels of base interest rates in these countries[5] contributed to an appreciation of their currencies against the dollar, especially since these may also have been driven by the rise in commodity prices (food in Brazil,

5 In Turkey, the central bank's base interest rate stood at 14% at the beginning of May (against 8.25% at the height of the health crisis), 12.75% in Brazil (against 2%) and 4.25% in South Africa (against 3.5%).

►2. Ten-year sovereign yields in European countries and yield curve in the United States, France and Germany in December 2021 and June 2022

in %





How to read it: the yield curve on a given date (right) is the graphic representation of yield on government bonds on the y-axis against the maturity of the bond in years on the x-axis. For example, on 15 June 2022, the US government 10-year bond yield was 3.33%, whereas the US government 2-year bond yield was 3.20%. The difference between these two bonds (13 base points) is therefore less than on 1st December 2021 (87 base points): visually, the curve "flattens". Last point: 15 June 2022.
Source: IHS Markit

ores in South Africa). Increases in the Fed's rate, actual or planned, have then reversed this trend at certain times (►Figure 3).

The Russian central bank uses monetary policy in response to international sanctions

In Russia, monetary policy was used in response to economic sanctions imposed following the outbreak of the war in Ukraine. The various western measures taken at the start of the war, especially the freezing of Russian Central Bank (RCB) reserves held abroad and the exclusion of some Russian banks from the SWIFT system, in fact caused the rouble to fall by almost 50% (►Figure 4), and the Russian financial market to collapse (MOEX index fell by 46% on 24 February, closure of the Moscow Stock Exchange for almost a month). There was a risk that this depreciation of the currency would cause a significant increase in the cost of Russian imports, and would fuel an already high inflation (9.2% year-on-year in February). The RCB therefore reacted strongly,[6] by raising its base interest rate from 9.5% to 20% from 28 February, and it required Russian exporters to convert 80% of the foreign currency obtained into roubles.

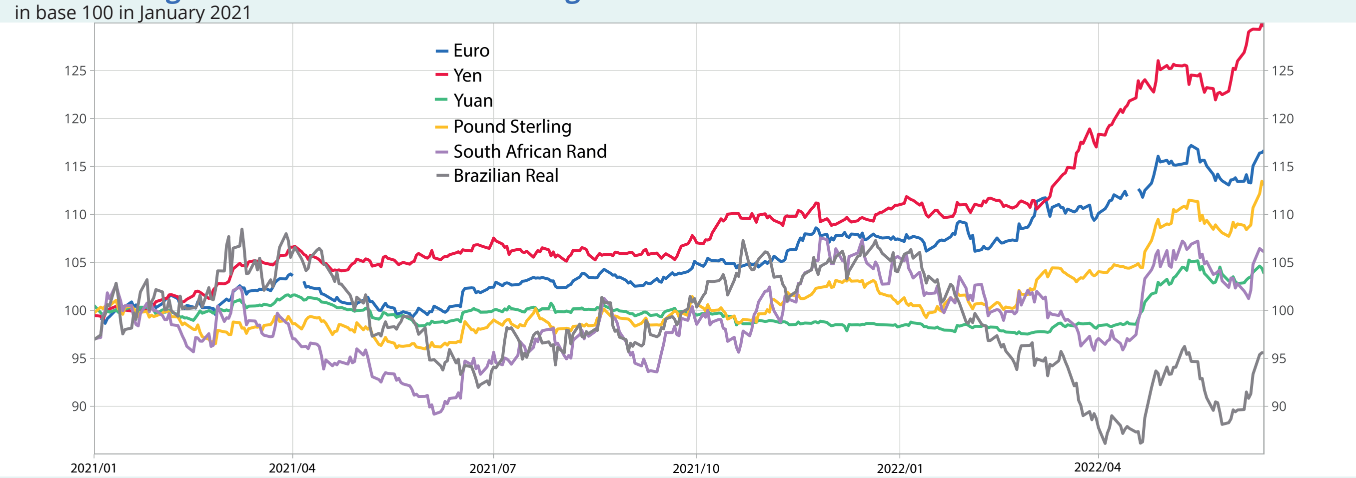
This monetary response was aimed at attracting capital flows to the rouble, and flows of revenue from hydrocarbon exports, and as a result the Russian currency was able to return to, and even exceed, its level prior to the start of the war. Since then, the RCB has reduced its rate four times, bringing the base interest rate to its level before the war. ●

Jules Baleyte

6 Meaille, D. et E. Perego (2022), L'impact des sanctions financières sur la Russie, blog de l'Association française de science économique (AFSE), April-May 2022.

►3. Exchange rate of several currencies against the dollar

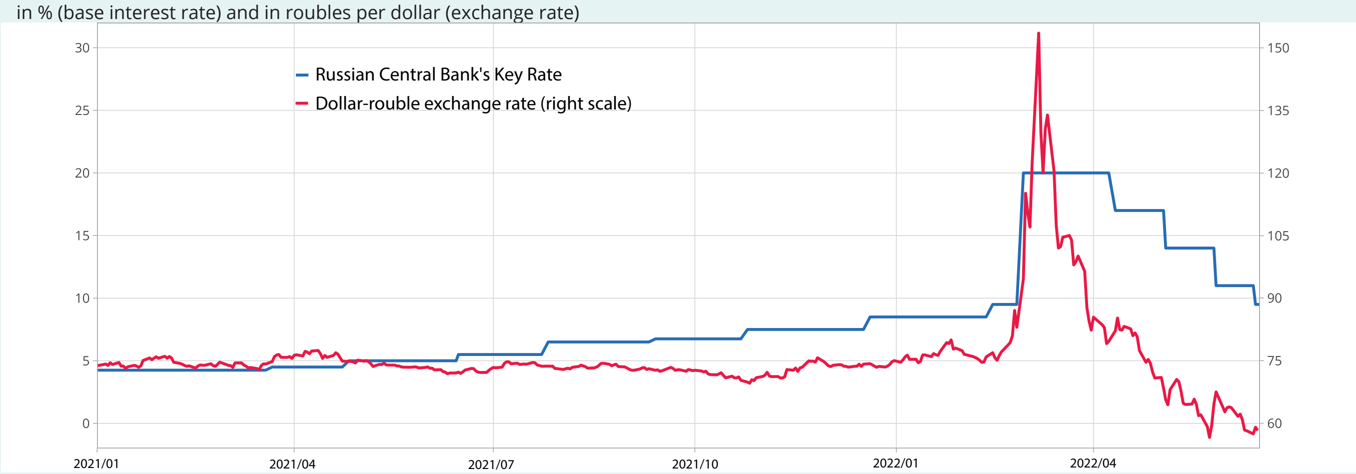
in base 100 in January 2021



How to read it: a growth in the curve means that the dollar appreciates compared to the currency concerned.
Last point: 15 June 2022.
Source: IHS Markit

►4. The RCB raised its base interest rate to offset the devaluation of the rouble

in % (base interest rate) and in roubles per dollar (exchange rate)



How to read it: on 15 June 2022, 1 dollar was worth 58.3 roubles, and the base interest rate of the Russian central bank was 9.5%.
Source: Banque centrale russe, IHS Markit

Energy and commodities

After their strong growth in 2021, energy prices once again increased vigorously in Q1 2022, mainly in connection with the start of the war in Ukraine. The price of oil averaged $100.8 per barrel over the quarter, up 65% year-on-year –with a peak in early March that exceeded $130, a level not seen since 2008 (▶**Figure 1**). This increase is even more pronounced in euros (+77.5% in Q1), due to the depreciation of the euro against the dollar over the period. Since the beginning of Q2, the price of oil has held steady at over $105 a barrel, fluctuating mainly in line with geopolitical tensions –the prospect of a European embargo on Russian oil causing it to rise again at the end of May to over $120. Meanwhile, the price of gas on the European market (TTF) averaged €100 per MWh in Q1, or more than 5.5 times its level of a year earlier (▶**Figure 2**). After a peak at the beginning of March, it remained significantly above its level from before the war in Ukraine: the heavy dependence of European countries on Russian gas –supplies of which are becoming increasingly uncertain– is helping to keep markets tense. In addition, the rebuilding of inventories after the winter started at a lower level than in the last three years (▶**Figure 3**). The price of coal, of which Russia is one of the world's main exporters, was also 3.5 times higher year-on-year in Q1. Lastly, after a downturn at the beginning of March, the price of carbon dioxide (CO2) on the European Union Emissions Trading System started to rise again, and is now once again around €90 per tonne.

At the same time, the entire world commodity market is following a sharply upward trajectory, with high volatility. Some supply chains have become disrupted, while the war in Ukraine and production uncertainties related to climate (especially extreme heat in India) raise fears of shortages of wheat, sunflower oil and nickel. As a result, the prices of imported food commodities increased in May by 41.4% year-on-year (▶**Figure 4**). The prices of agro-industrial and mineral commodities, although less buoyant in H2 2021, were back in May 2022 at their high levels of a year before, particularly in the wake of certain "critical" metals (lithium, cobalt, nickel, etc.).

For several months, price rises in energy and other commodities have impacted the dynamics of production prices: in industrial and agricultural products they continue to rise, with year-on-year change in April of +25.0% (+13.2% for prices in industry excluding energy) and +30.8% (of which +75.5% for cereals and +96.4% for oil seeds and oleaginous fruits and fats) respectively.

Over the forecasting period (end of 2022), the assumption is that oil prices will remain constant, fixed at $120 (i.e. €111.1 assuming a euro-dollar exchange rate of 1.08 dollars for 1 euro). The supply of oil could certainly exceed demand during 2022 and the momentum of inflation raises fears of a slowdown in world growth. However, the strong geopolitical tensions, the very high prices of other energies, and inventories at their lowest for 5 years, are expected to keep markets under pressure.

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

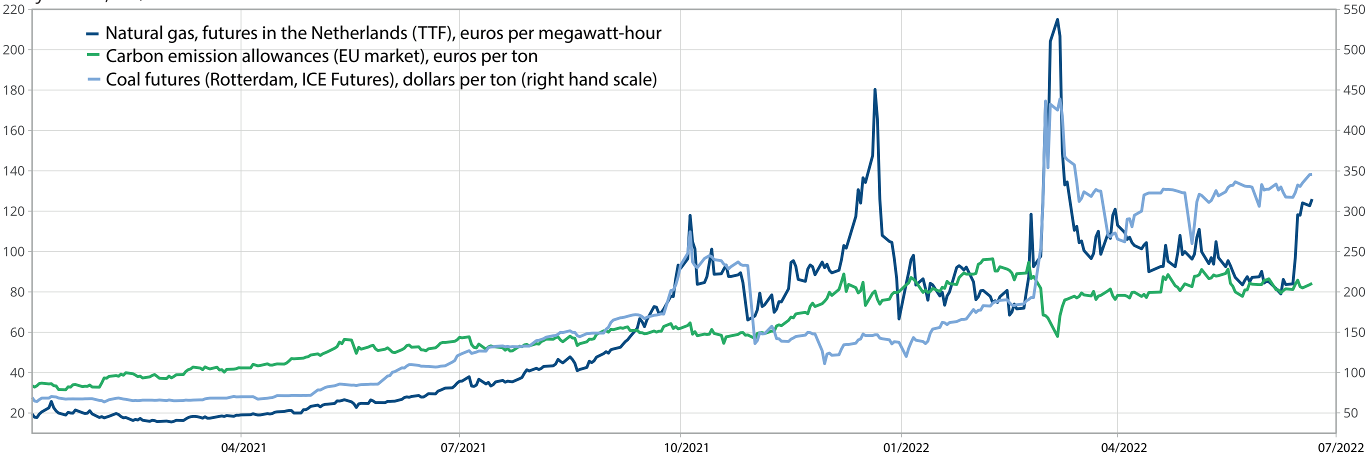
daily values

Last point: 21 June 2022.
How to read it: on 21 June 2022, the price of a barrel of Brent was $114.9
Source: Commodity Research Bureau

International economic outlook

►2. Prices of natural gas, coal and tonnes of CO_2

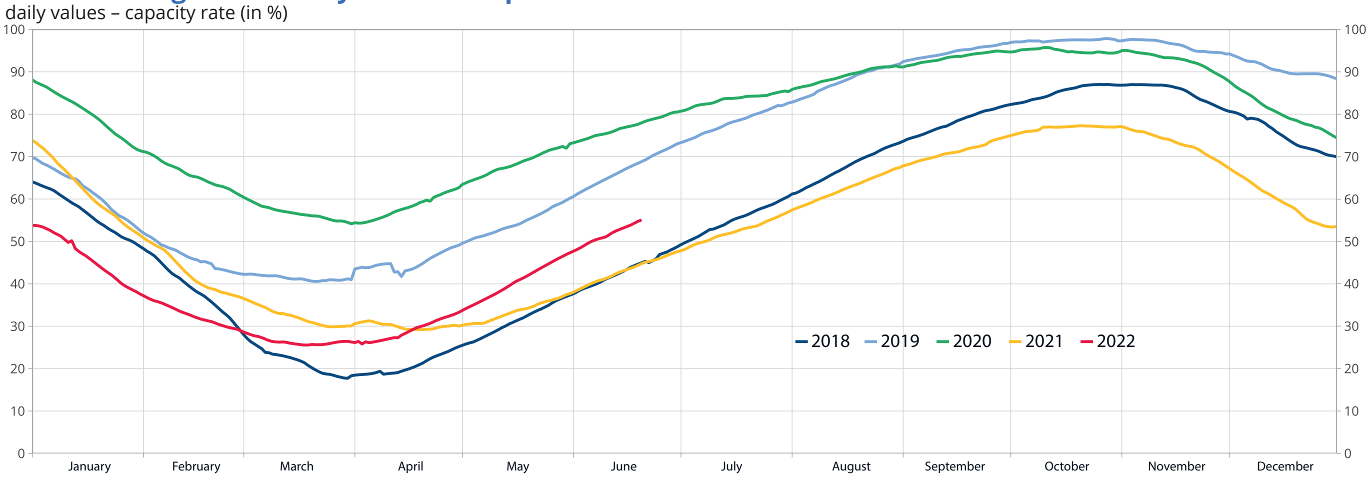
daily values, in $ and in €



Last point: 21 June 2022
How to read it: on 21 June 2022, the value of natural gas contracts at the next expiry date in the Netherlands (TTF) is €126 per megawatt hour.
Source: ICE Futures Europe

►3. Natural gas inventory in the European Union countries

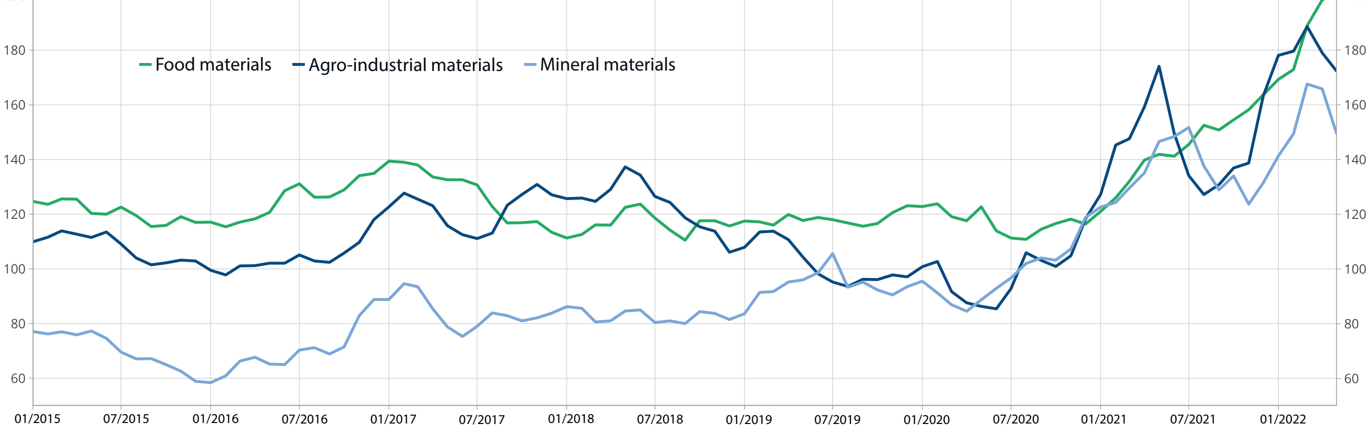
daily values – capacity rate (in %)



Last point: 20 June 2022.
How to read it: on 20 June 2022, natural gas inventory in the European Union countries stood at 55% of total inventory capacity
Source : Gas Infrastructure Europe - AGSI+

►4. Price indices for imported commodities in France

monthly index – in euros – base 100=2010



Last point: May 2022
How to read it: on May 2022, the price index in euros of industrial products was 200.7.
Source: INSEE

Eurozone

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

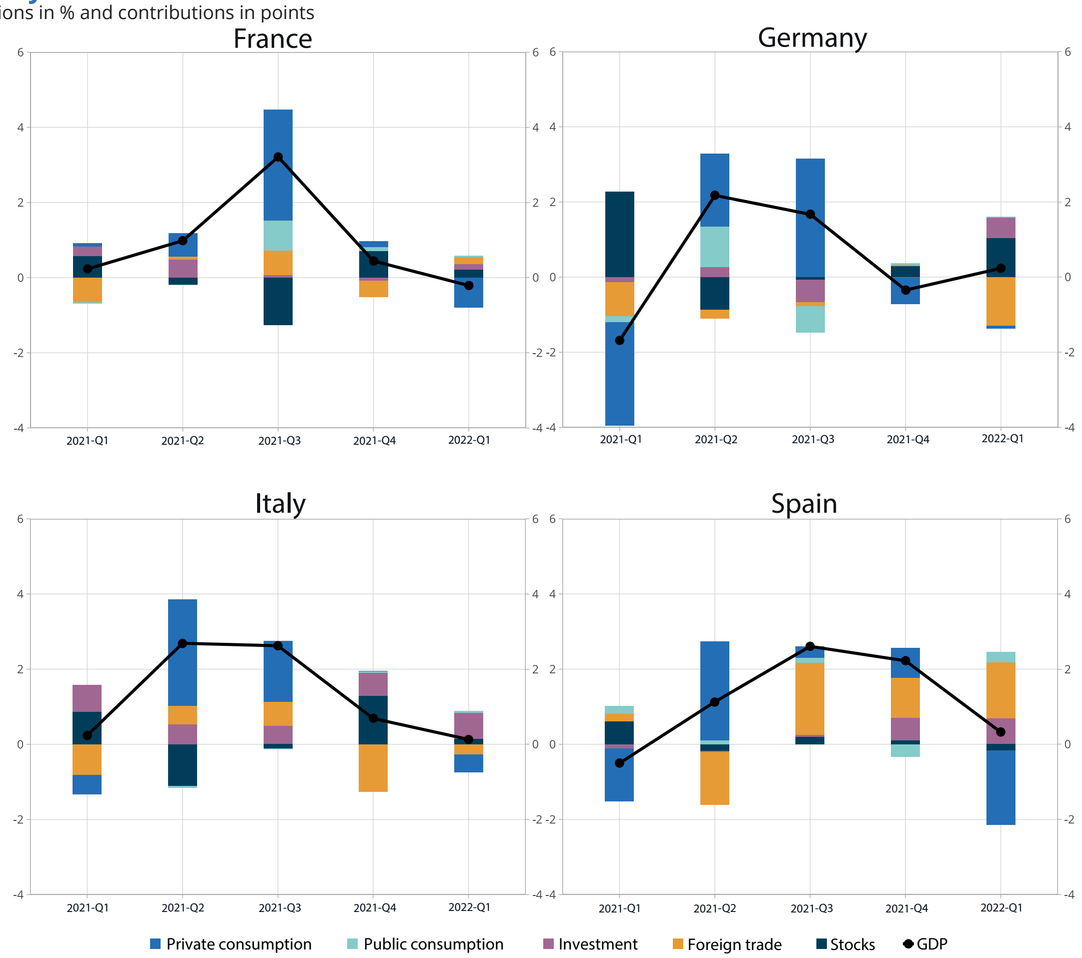
In Q1 2022, the continuing health crisis and the deteriorating geopolitical context hampered growth in the Eurozone

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

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

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

quarterly variations in % and contributions in points



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

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

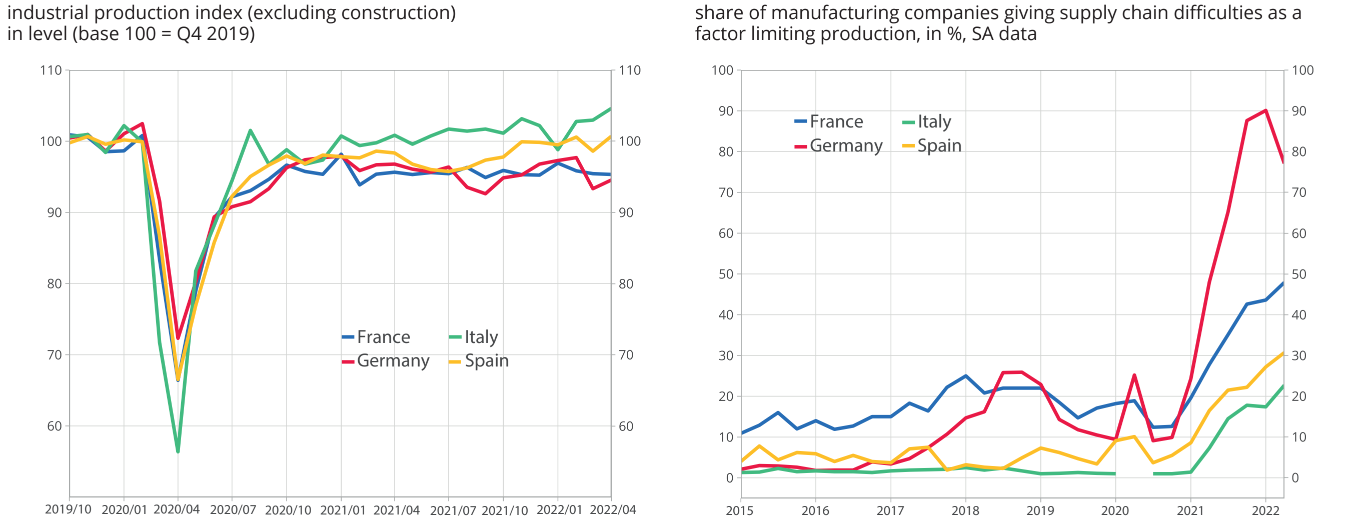
Investment was particularly dynamic in Italy (+3.9%), Spain (+3.4%) and Germany (+2.7%), thus providing a major boost to domestic demand. In Italy and Germany, it was above all investment in building construction that drove this momentum (especially in the case of Germany, due to mild weather conditions).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

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

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

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

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



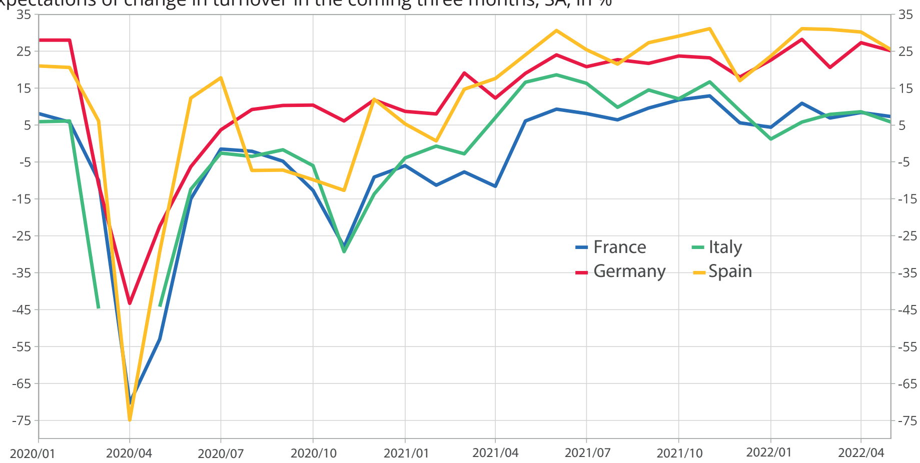
Note: data on supply chain difficulties come from business tendency surveys of companies. These are the proportions of manufacturing companies that identified supply difficulties as a factor limiting production. In April 2020, the surveys were not carried out in Italy. These statistics correspond to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

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

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

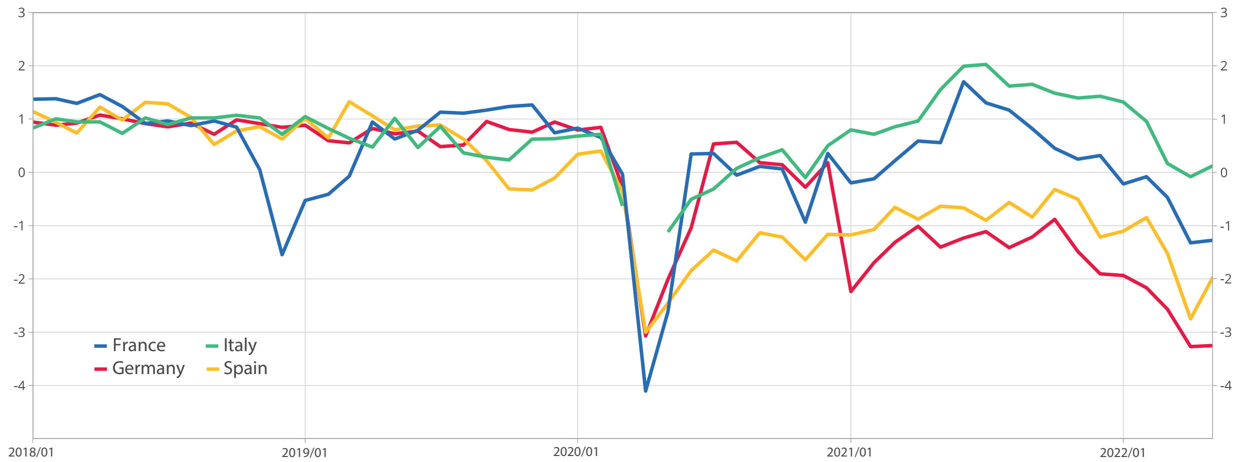
►3. In May 2022, after the health restrictions of the winter, business leaders in the services sector are slightly more optimistic about activity in the next three months

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



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

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



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

Faced with rising inflation, household confidence is waning

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

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

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

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

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

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

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

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

quarterly changes in GDP, in %

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

■ Forecast
Source: INSEE, Destatis, Istat, INE

In the main Eurozone economies, energy remains the primary factor of inflation, but with differences between countries

At the beginning of 2022, inflation continued to rise sharply in the main Eurozone economies. In May 2022, the Harmonised Index of Consumer Prices (HICP) thus increased by 8.7% year-on-year in Germany, 8.5% in Spain, 7.3% in Italy and 5.8% in France. In these four countries, the rise in the price of energy remained the main contributing factor, both to the high level of inflation reached in May and to its upward momentum for more than a year. In recent months, however, the momentum of food inflation has also contributed significantly to the rise in headline inflation. There can be several reasons for inflation differentials between countries, for example, the household consumption structure, the way prices are fixed, especially energy prices, the economic policy measures taken to support household purchasing power, etc.

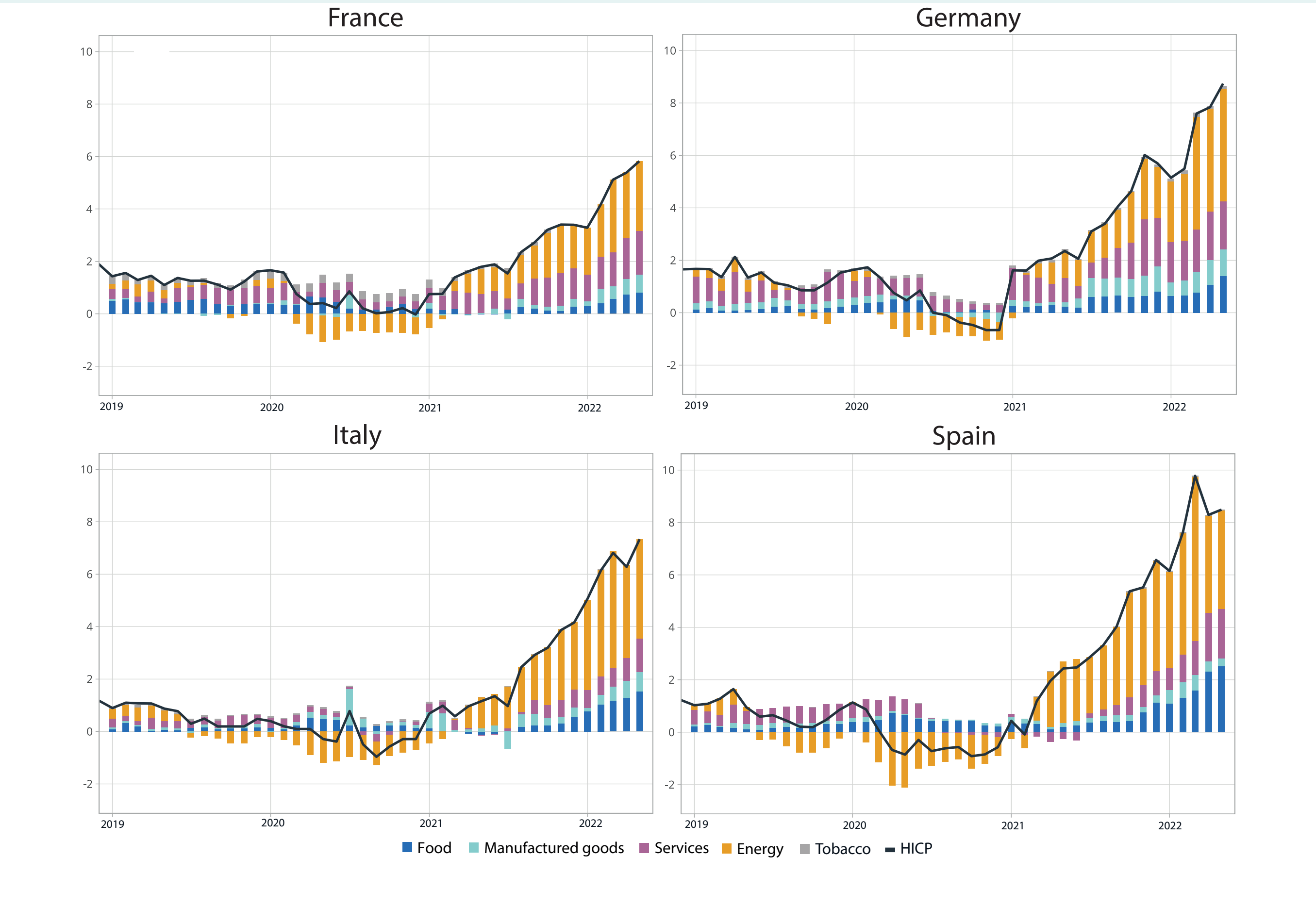
Amplified by the outbreak of war in Ukraine, rising energy prices remain the major contributor to inflation in the main Eurozone economies

The outbreak of war in Ukraine, in late February, resulted in a sharp peak in the contribution of energy to inflation in March, in the four main Eurozone economies (6.3 points in Spain, 4.5 points in Italy, 4.3 points in Germany and 2.8 points in France, ►**Figure 1**). Energy inflation then fell back in April then rose again only slightly in May in all four countries, while remaining the main contributor to the year-on-year HICP.

The differences in energy contributions to inflation in the various countries account for a large proportion of the differences in headline inflation. They may result from the different weights of energy in household consumption and the momentum of prices in each of the countries considered.

►1. Breakdown of year-on-year change in the HICP in the four main Eurozone economies

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



How to read it: in France, in May 2022, harmonised inflation was 5.8% year-on-year and food contributed 0.8 points.
Last point: May 2022.
Source: Eurostat, INSEE calculations

By way of illustration, the structure of consumption of France was used to simulate changes in the HICPs in Germany, Italy and Spain, while maintaining for these countries the price dynamics of the different items at a detailed level (▶ Box). These differences in weighting, for example, result in a differential of almost one percentage point between Spanish inflation and French inflation, with energy and food accounting for this difference equally.

Within the "energy" sub-sector of the HICP (▶ Figure 2), as well as the weightings, recent price dynamics may differ between countries, creating differences that may be due to price fixing methods and household support policies put in place in recent months.

Electricity accounts for a large proportion of the differences in the contribution of energy to inflation in the four countries. The contribution of electricity is smallest in France, because of the introduction of the "tariff shield" last autumn. Conversely, the contributions of electricity are very large in Italy and Spain where tariffs are not capped and are regularly updated. Thus the consumer price of electricity reflects the producer price fairly accurately. The fall in gas prices on the European market in April can therefore be clearly seen in the change in the contribution made by electricity.[1]

Concerning fuel, France, Italy and Spain implemented reductions on the price per litre of petrol in April. In Germany, this reduction did not come into force until the beginning of June, which explains the stronger momentum of fuel prices in April and May.

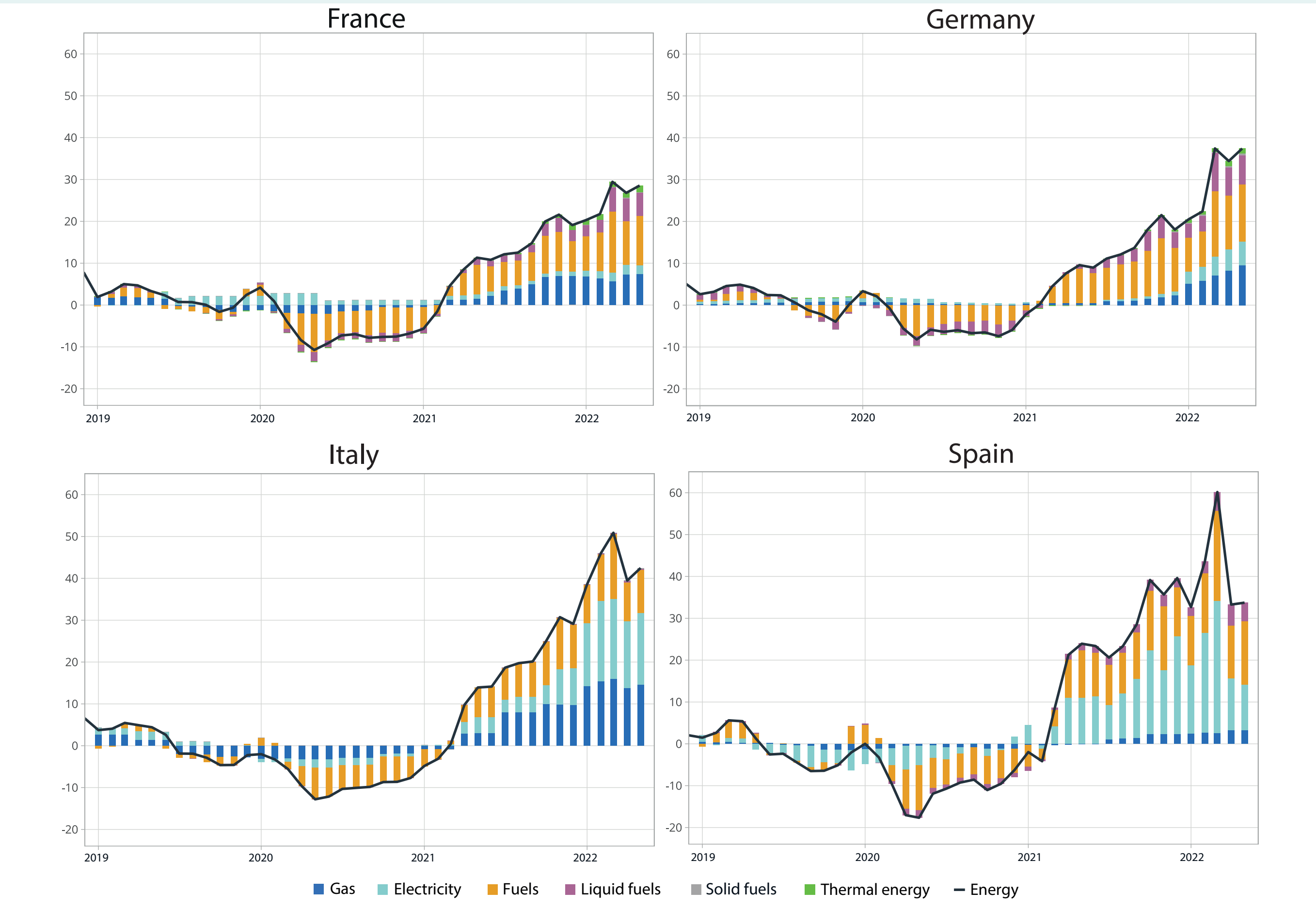
Inflation has also spread to food, manufactured goods and services

In France, Italy and Spain, the HICP for food has been rising steadily since the end of 2021. There was a sharp rise in Italy and Spain, resulting in an increase of +7.3% and +10.7% in food prices year-on-year in May (▶ Figure 3). The situation is more contained in France

1 As a reminder, the price of electricity does not correspond to the average cost of electricity produced in each country but to the variable cost of production of marginal units of the electricity mix for all energy traded between European market players. At the moment it is mainly the price of gas that determines the price of electricity.

▶ 2. Breakdown of changes in the "energy" sub-index in the four main Eurozone economies

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



How to read it: in France, in May 2022, energy inflation was 28.6% year-on-year and gas contributed 7.3 points.
Last point: May 2022.
Source: Eurostat, INSEE calculations

with a year-on-year increase of +4.3%. In Germany, after a substantial rise in H1 2020, food inflation was relatively stable until March[2] but rose very sharply in April (+7.1%) and May (+9.4%). Food therefore makes an important contribution to the total HICP for May, especially in Italy and Spain where the sharp rise in prices is combined with a greater weight for this aggregate in household consumption (►Figure 5).

In the four countries considered, cereals and meat were the most dynamic products in terms of price. However, increases in consumer prices of non-fresh food goods remain, at this stage, below the levels of production price increases in the agrifood industry. In April, these agrifood production prices reached +17% year-on-year in Germany, +15% in Spain and +13% in France. The smallest increases were seen in France, which is consistent with a weaker increase in the HICP for non-fresh food. Increases in production prices seem to impact consumer prices more quickly in Spain.

Regarding manufactured goods, they made a sizeable contribution to inflation in May in Germany (+1.0 point), where it was driven by a strong increase in vehicle selling prices (+9% year-on-year). The contribution of these products to headline inflation was less in France (+0.7 points), Italy (+0.7 points) and Spain (+0.3 points).

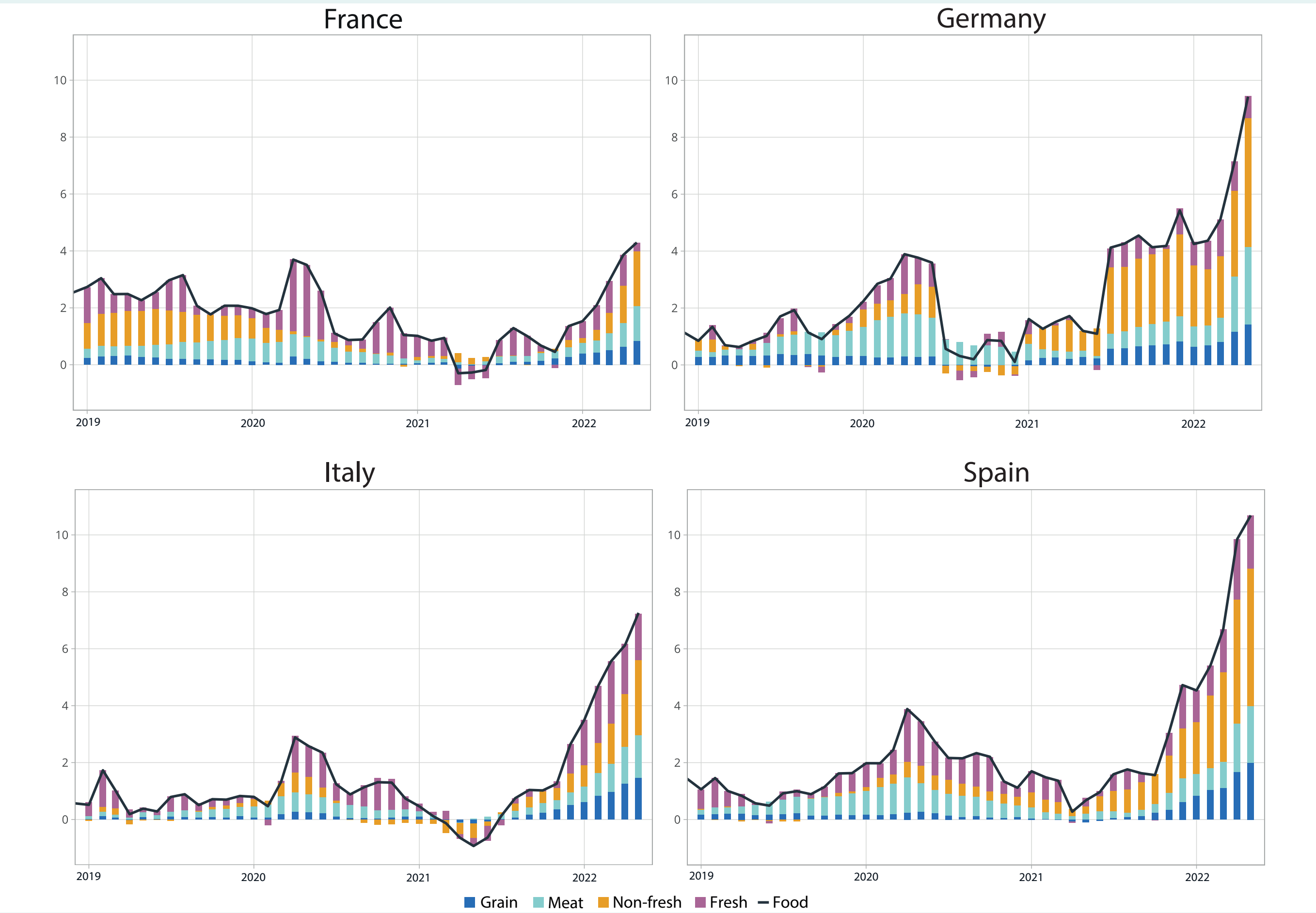
Finally, changes in the prices of services may seem more moderate in comparison with other products. However, their contribution to inflation in the different countries is of some significance, given their considerable weight in household consumption. It is difficult to find a single all-encompassing reason for differences between countries in the contribution of services. This aggregate includes a wide variety of services and the most dynamic sub-components differ from one country to another. ●

Hugues Ravier

2 Apart from the price shocks introduced by the reduction in VAT implemented in July 2020 and abolished in January 2021, of which the effect on year-on-year change in the HICP was felt automatically until January 2022.

►3. Breakdown of changes in the "food" sub-index in the four main Eurozone economies

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



How to read it: in France, in May 2022, food inflation was 4.3% year-on-year and cereals contributed 0.8 points.
Last point: May 2022
Source: Eurostat, INSEE calculations

Inflation differentials between France and its neighbours are partly the result of the composition of the HICP basket of goods and services

In each country, headline inflation (►Figure 4) results from changes in prices for the different consumer items, but also from the structure of household consumption. This structure can differ from one country to another (►Figure 5).

To assess the impact of the composition of the HICP basket of goods and services on inflation differentials between countries, the year-on-year change in the total HICP was simulated for Germany, Italy and Spain, by replacing for illustrative purposes the consumption structure of each country, at a detailed level, with the French structure.[1] ►Figure 6 shows the differences between this simulated inflation with the French consumption basket and the inflation actually measured in each of the three countries considered.

The composition of the HICP basket thus appears to be a relatively important explanatory factor for the inflation gap between France and Spain: with an identical basket of goods and services to France, Spanish inflation in May 2022 would be 0.9 points lower than inflation measured in this country. This represents a third of the inflation gap between the two countries. In particular, almost half of what is accounted for by the consumption structure is due to fuels: the shift in fuel prices was broadly similar in Spain and France, in April 2022, but Spain differs as the weight of fuel in its consumer basket is greater than in France.

The effect of the consumption structure is zero overall for Italy compared to France. In Germany, the composition of the basket contributes moderately to the inflation differentials with France: the simulation with the French basket gives an inflation 0.2 points lower than its true value. Nevertheless, at a more detailed level, the contrasts can be even greater. In particular, German inflation would be 0.8 points lower if the composition of Germany's energy basket alone were identical to that of France: the reason is the greater weight of gas and fuel oil in the German basket.

►4. Headline inflation (annual change in HICP) in the four main Eurozone economies in April 2022 and contributions by consumption item

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

	France		Germany		Italy		Spain	
	y-o-y change (%)	Contribution (in points)	y-o-y change (%)	Contribution (in points)	y-o-y change (%)	Contribution (in points)	y-o-y change (%)	Contribution (in points)
Food	4.3	0.8	9.4	1.4	7.3	1.5	10.7	2.5
of which fresh	1.9	0.1	5.1	0.1	8.5	0.3	8.9	0.4
of which non-fresh (including meat,cereals)	4.0	0.4	8.2	0.7	6.0	0.6	11.4	1.1
Tobacco	–0.1	0.0	4.3	0.1	0.2	0.0	2.3	0.0
Manufactured products	4.2	0.7	5.6	1.0	3.3	0.7	1.5	0.3
of which sale of vehicles	4.8	0.2	9.1	0.4	4.4	0.2	6.5	0.2
Energy	28.6	2.7	37.4	4.3	42.5	3.8	33.7	3.8
of which gas	49.2	0.7	38.7	1.1	62.3	1.3	23.0	0.3
of which electricity	6.5	0.2	21.5	0.6	73.4	1.5	30.2	1.4
of which fuels	29.6	1.1	40.6	1.6	20.4	0.9	29.2	1.6
Services	3.1	1.7	3.4	1.8	2.8	1.3	4.1	1.9
of which housing (including rents)	1.6	0.2	2.7	0.5	1.5	0.1	2.1	0.2
of which transport	9.5	0.2	3.6	0.1	14.1	0.2	2.0	0.0
of which recreation and culture	2.8	0.2	4.8	0.5	1.0	0.1	3.0	0.2
of which communications	0.4	0.0	0.3	0.0	–3.6	–0.1	–0.2	0.0
of which restaurants and hotels	5.1	0.4	7.1	0.3	6.1	0.6	7.9	1.1
Total inflation (in %)	**5.8**		**8.7**		**7.3**		**8.5**	

How to read it: in France, in May 2022, food inflation was 4.3% year-on-year and the contribution of food to harmonised inflation was 0.8 points.
Source: Eurostat, INSEE calculations

1 If an HICP item is present in the French basket of goods and services but not in that of another country, it is assigned a price change of 0% and its contribution is therefore zero.

►5. Weight in the HICP of the different aggregates and some of their components in the four main Eurozone economies in 2022

weight in %

weight	France	Germany	Italy	Spain
Food	19	15	21	23
of which fresh	*3*	*2*	*4*	*5*
of which non-fresh (including meat,cereals)	*16*	*13*	*17*	*18*
Tobacco	2	2	2	2
Manufactured products	16	18	23	18
of which sale of vehicles	*4*	*4*	*4*	*3*
Energy	10	12	10	12
of which gas	*2*	*3*	*2*	*2*
of which electricity	*3*	*3*	*2*	*4*
of which fuels	*4*	*4*	*5*	*6*
Services	53	53	45	46
of which housing (including rents)	*11*	*17*	*7*	*8*
of which transport	*2*	*2*	*2*	*1*
of which recreation and culture	*8*	*10*	*6*	*5*
of which communications	*3*	*3*	*3*	*3*
of which restaurants and hotels	*7*	*4*	*10*	*14*
HICP	**100**	**100**	**100**	**100**

Source: Eurostat, INSEE calculations

►6. Difference between inflation simulated in Germany, Italy and Spain by applying an identical consumer basket to that of France, and the inflation actually measured in these countries in April 2022

Contribution differential (in points)

	Difference in contribution (in points)		
	Germany	**Italy**	**Spain**
Food	0.4	–0.2	–0.5
of which fresh	*0.1*	*–0.1*	*–0.1*
of which non-fresh (including meat,cereals)	*0.1*	*–0.1*	*–0.2*
Tobacco	0.0	0.0	0.1
Manufactured products	–0.1	–0.2	0.2
of which sale of vehicles	*–0.1*	*0.0*	*0.0*
Energy	–0.8	0.3	–0.4
of which gas	*–0.4*	*–0.4*	*0.1*
of which electricity	*0.1*	*0.6*	*–0.1*
of which fuels	*–0.1*	*–0.2*	*–0.5*
Services	0.3	0.0	–0.2
of which housing (including rents)	*–0.1*	*0.1*	*0.1*
of which transport	*0.0*	*0.1*	*0.0*
of which recreation and culture	*–0.1*	*0.0*	*0.0*
of which communications	*0.0*	*0.0*	*0.0*
of which restaurants and hotels	*0.2*	*–0.2*	*–0.5*
Difference inflation (in point)	**–0.2**	**0.0**	**–0.9**

How to read it: in May 2022, in Germany, the year-on-year change in HICP would have been 0.2 points lower if the German consumer basket had been identical to the French basket. The contribution of energy inflation to headline inflation would have been 0.8 points lower.
Source: Eurostat, INSEE calculations

Although relatively resilient coming out of the health crisis, household purchasing power is now facing a rise in inflation in the main Eurozone economies

*The purchasing power[1] of household gross disposable income (GDI) in the main Eurozone economies has experienced major quarterly variations over the last two years (►**Figure 1**). It fell back in spring 2020, with the decline in income linked to the first lockdown, before rebounding from summer 2020. However, recent quarters have been impacted by high inflation, which, despite government aid put in place in the different countries, hampers purchasing power. In this context, household economic surveys suggest a form of wait-and-see with balances of opinion in decline in terms of consumption but high in terms of savings.*

Since autumn 2021, the increase in consumer prices has hampered the purchasing power of household gross disposable income

In 2021, the purchasing power of household gross disposable income evolved in contrasting ways inside the Eurozone: decline in Germany (–0.8% as an annual variation), stable in Spain and substantial increase in Italy (+2.0%) and France (+2.4%). During the first three quarters of the year, change in purchasing power mainly reflected that in household gross disposable income (►**Figure 2**). In France especially, household income accelerated, driven by the momentum of payroll employment (►**Figure 3**). In Spain, payroll employment was considerably more affected by the health crisis, and it was only in summer 2021 that the rebound in employment was able to sustain household purchasing power, although it was still not back to its pre-crisis level.

In Germany, the good performance of the labour market contributed to the dynamism of household income in Q2 and Q3 2021, but the ending of the reduced VAT rate in January 2021 affected purchasing power in Q1 2021.

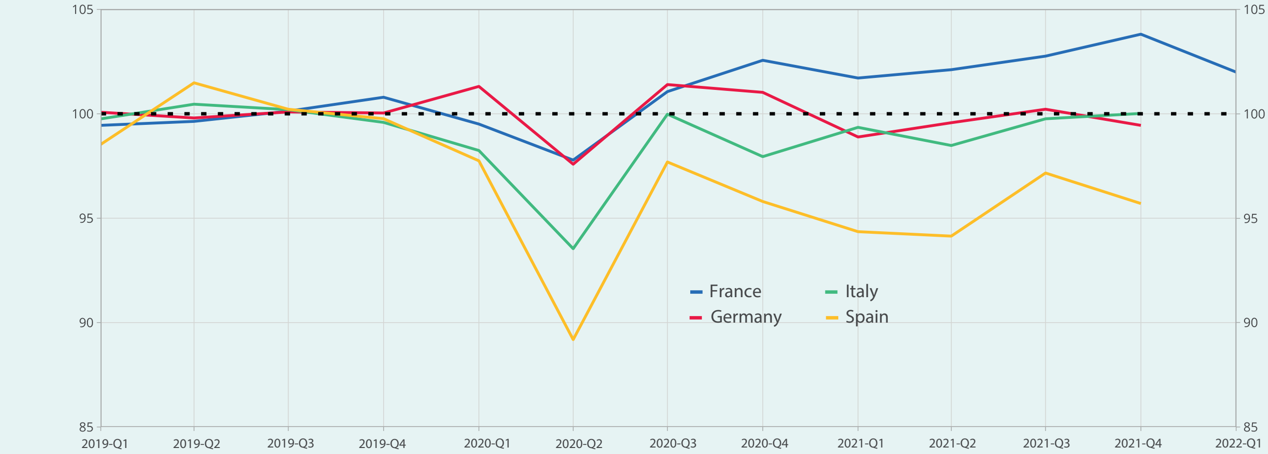
In Q4 2021, household income drove purchasing power in France and Italy, as in the previous quarters. In France especially, it was reinforced by the aid paid out[22] to households (mainly inflation compensation). In Germany and Spain, consumer prices severely hindered any increase in purchasing power at the end of the year.

In Q1 2022, the further acceleration of consumer prices weighed heavily on the growth of purchasing power[3] in the four main Eurozone economies (with an impact of up to –3 percentage points in Spain and –2.6 points in Germany). In France, income was also affected in accounting terms by the automatic reaction to the payment at the end of 2021 of the “inflation allowance”.

1 Within the meaning of the national accounts, this is the gross disposable income of households and non-profit institutions serving households (NPISH), compared to household consumer prices.
2 The inflation allowance was paid out to some households at the start of 2022, however, according to the accrual method, national accounting includes the full amount in the income of Q4 2021.
3 For Germany, Italy and Spain, the figure for purchasing power in Q1 2022 has not yet been published by the statistical institutes. Nevertheless, the consumption figures in value and in chained volume for Q1 2022 published by the statistical institutes suggest that the contribution of the deflator will be negative in these three countries.

►1. At the end of 2021, purchasing power returned to or exceeded its 2019 level in the main Eurozone economies, except Spain

in base 100 in 2019



How to read it: in France, in Q1 2022, the purchasing power of households and NPISH was 2.0 points above its 2019 average.
Note: purchasing power is the gross disposable income (GDI) of households and non-profit institutions serving households (NPISH), compared to the deflator of household consumption. For France, it may differ from the figure published on the INSEE website, where the scope is only households. For Germany, Italy and Spain, the figure for purchasing power in Q1 2022 has not yet been published by the statistical institutes.
Source: INSEE, Eurostat, INSEE calculations

This decline in purchasing power occurred in a context where household savings ratios were still high in the four main Eurozone countries. These savings ratios had increased significantly in spring 2020 when consumption was restricted due to lockdown; they have declined, but still remain above their pre-crisis levels (►**Figure 4**). Thus, on average, households have not drawn on their excess savings and have even continued to save more than before the health crisis. However, this average situation can mask significant differences between households, depending in particular on income level.

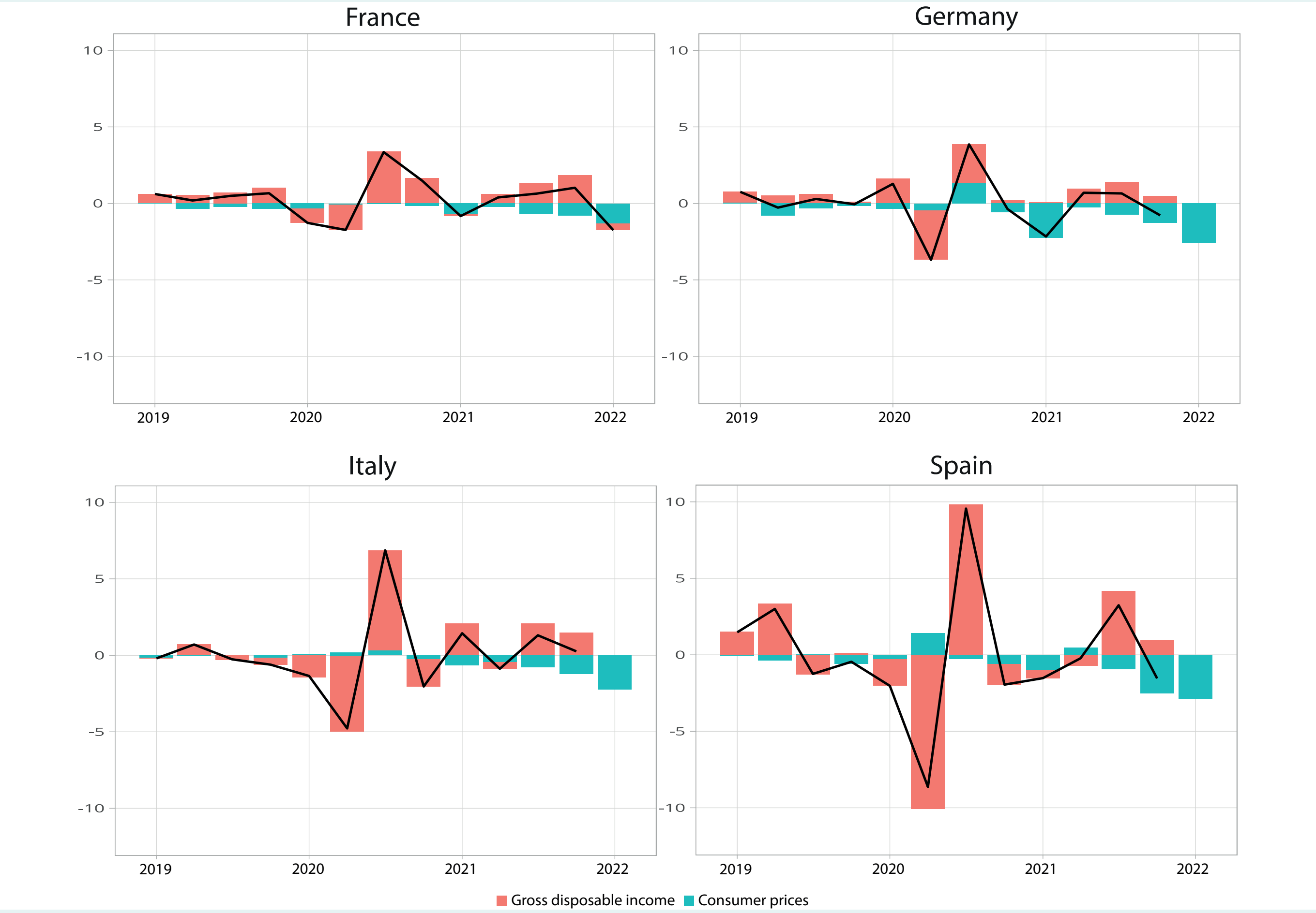
The public authorities in the different countries are trying to cushion the effects of the shock of inflation on household purchasing power

In a context of sharply rising inflation, the main Eurozone countries have adopted measures to support household purchasing power,[4] especially from March 2022 onwards. These are often in addition to the measures already in place since autumn 2021 (►**Box in Focus** "Inflation in the Eurozone", *Economic Outlook* of 18 March 2022).

4 The following site: https://www.bruegel.org/publications/datasets/national-policies-to-shield-consumers-from-rising-energy-prices proposes to take stock of the various measures announced. However, these can be quite evolving.

►2. Since autumn 2021, inflation has hampered the purchasing power of household gross disposable income in the main Eurozone economies

quarterly change in purchasing power and contributions in points



How to read it: in France, in Q1 2022, consumer prices contributed –1.3 points to the quarterly variation in the purchasing power of households and NPISH.
Note: for Germany, Italy and Spain, the figure for gross disposable income in Q1 2022 has not yet been published by the national statistical institutes.
Source: INSEE, Eurostat, INSEE calculations

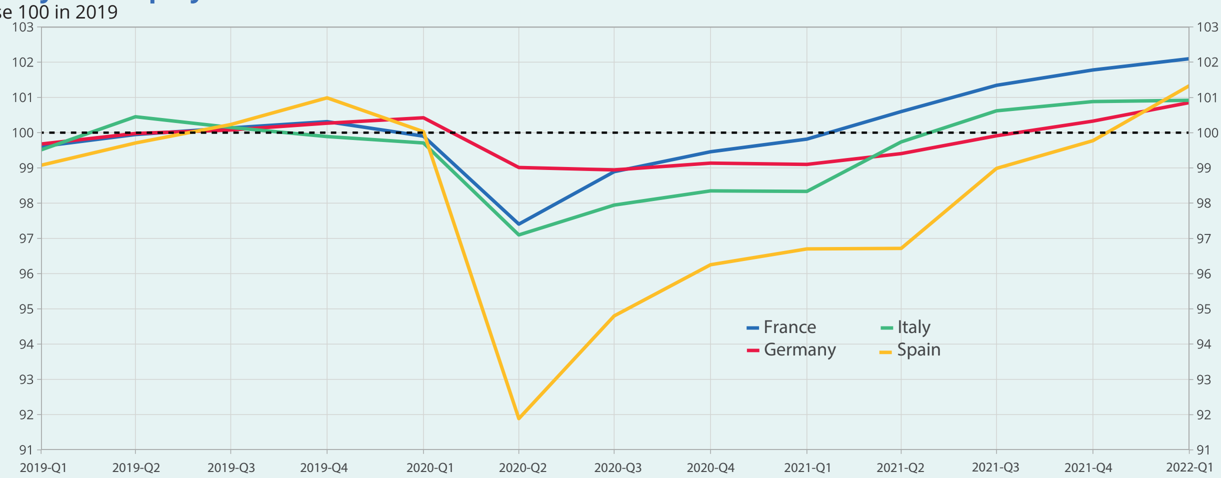
Several of these measures have a direct effect on consumer prices, by attempting to contain any increase: reduction in fuel prices (France, Germany, Italy, Spain) or public transport prices (Germany), reduction in energy taxes (Germany, Italy and Spain), limiting gas and/or electricity bills through reductions and/or a price framework (especially in France with the tariff shield put in place in autumn 2021 and in Spain with the capping of increases in the regulated gas tariff from April). In addition, from June, the Iberian Peninsula will be able to derogate from European market rules for electricity prices, which should bring down prices in Spain. Other measures aim to support household income: financial aid for employees (Germany), for low-income households (Italy, Spain, France with the "inflation allowance") and for households with children (Germany), extension of the aid scheme for paying energy bills (France, Italy, Spain) or increasing social minima (Spain). Measures relating to France and taken into account in the forecast are described in the **Consumer prices** and **Household income** sheets in this *Economic Outlook*.

European household economic surveys suggest that consumption will be sluggish in Q2 2022

In the four countries studied here, the sharp rise in inflation has caused household confidence in the economic situation to decline, according to economic surveys harmonised at European level. In particular, the balance of opinion on the advisability of making

►3. Payroll employment exceeded its 2019 level in the main Eurozone economies

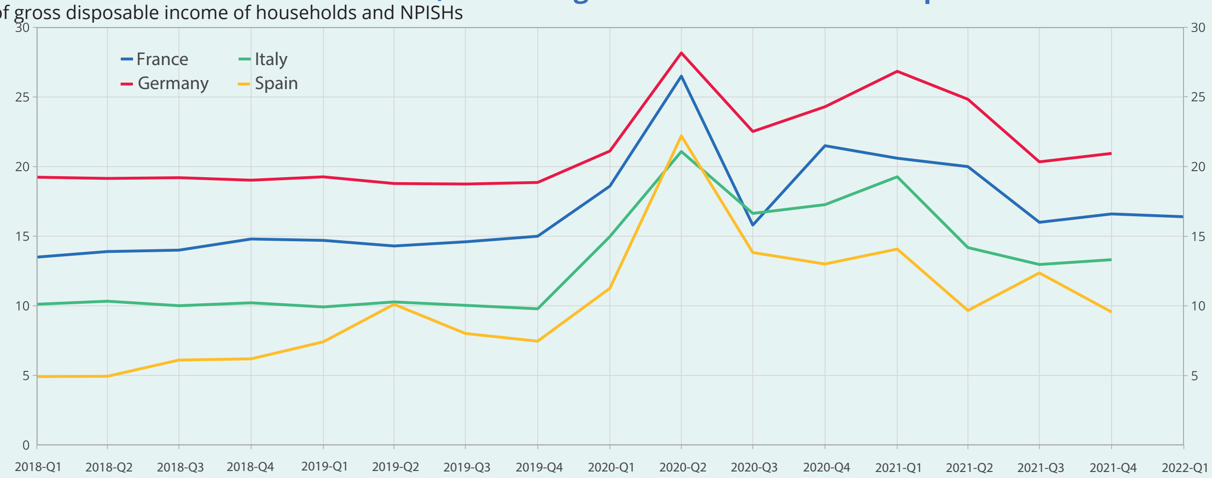
in base 100 in 2019



How to read it: in France, in Q1 2022, payroll employment was 2.1 points above its 2019 level.
Note: this graph represents payroll employment in natural persons as a quarterly average (employment in the sense of the national accounts), it may therefore differ from payroll employment as published by INSEE, DARES and ACOSS at the end of the quarter.
Source: Eurostat, INSEE calculations

►4. In the main Eurozone economies, the savings ratio remains above its pre-crisis level

as % of gross disposable income of households and NPISHs



How to read it: in Germany, in Q4 2021, the savings ratio of households and NPISH was 21%.
Note: for Germany, Italy and Spain, the figure for the savings ratio in Q1 2022 has not yet been published by the national statistical institutes.
Source: Eurostat, INSEE calculations

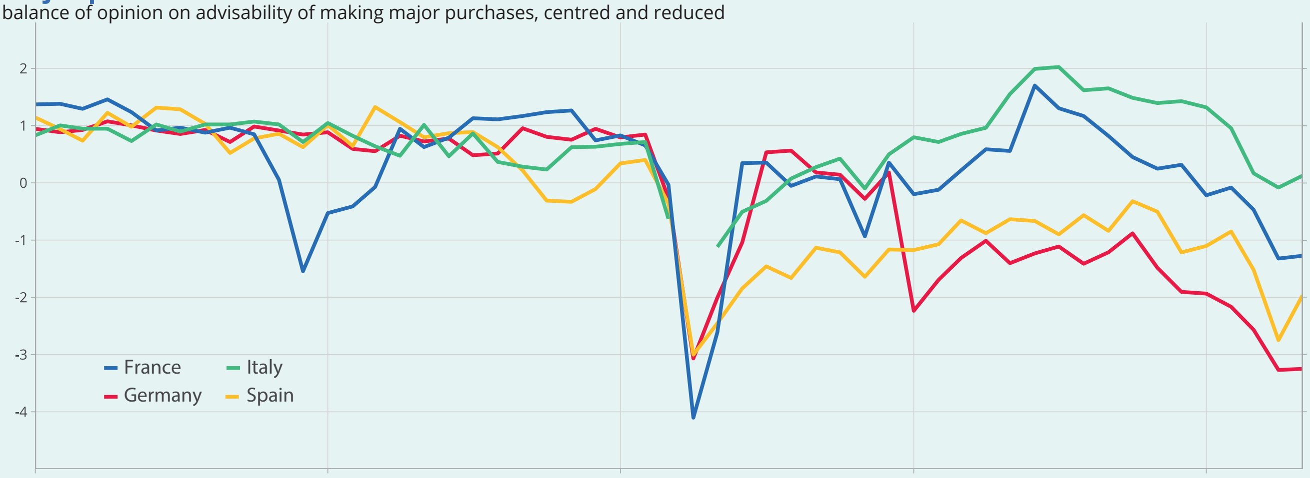
major purchases has declined strongly since the end of 2021 (►Figure 5). However, in May 2022, it recovered very slightly.

At the same time, balances of opinion on the advisability of saving remained high in France, Germany and Italy. This balance increased considerably in France, especially during lockdowns, when consumption was curbed and a large proportion of income was preserved. Subsequently, it has decreased only slightly, probably indicating a certain wait-and-see attitude, given the economic situation. Spain stands out with a recent drop in this balance of opinion (►Figure 6), no doubt because their situation has deteriorated more than in the other countries regarding purchasing power. ●

Robin Navarro, Meryam Zaiem

►5. Since the beginning of 2022, fewer and fewer households say that this is the right time to make major purchases

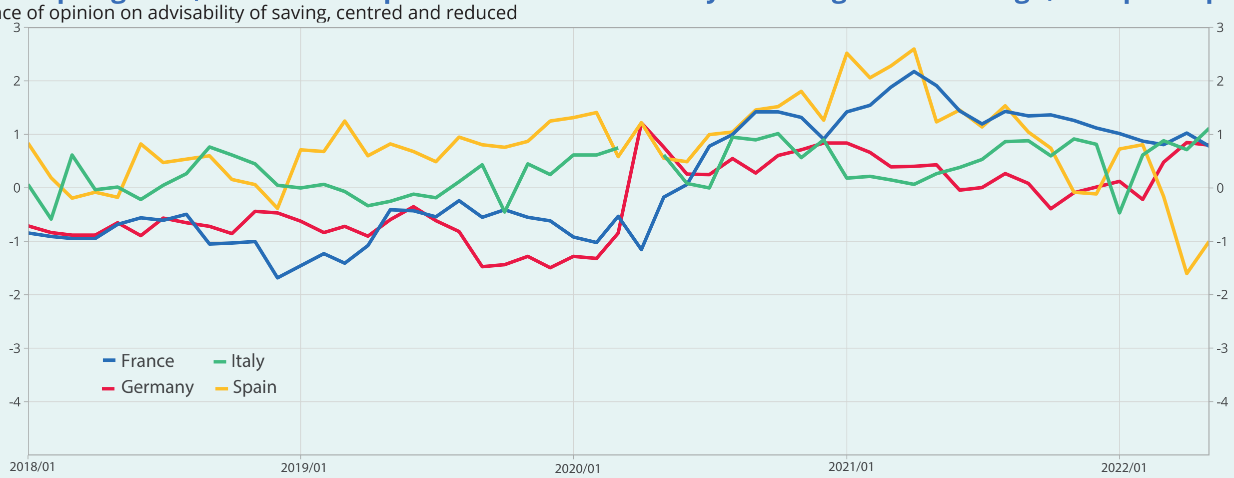
balance of opinion on advisability of making major purchases, centred and reduced



How to read it: in May 2022, in Spain, the centred and reduced balance of opinion on the advisability of making major purchases at the present time was 2.0 standard deviations below its long-term average (average of balance between January 2010 and May 2022).
Note: data are taken from household economic surveys. The balance of opinion is monthly. These statistics are from European surveys harmonised by the DG ECFIN, especially regarding seasonal adjustment. Their values may therefore differ from those disseminated by INSEE from the same source; nevertheless, the trends are similar. Italian data were not collected during the first 2020 lockdown.
Source: DG ECFIN, INSEE calculations

►6. In spring 2022, balances of opinion on the advisability of saving remained high, except in Spain

balance of opinion on advisability of saving, centred and reduced



How to read it: in May 2022, in Spain, the centred-reduced balance associated with the advisability of saving at the present time was 1.0 standard deviation below its long-term level.
Note: data are taken from household economic surveys. The balance of opinion is monthly. These statistics are from European surveys harmonised by the DG ECFIN, especially regarding seasonal adjustment. Their values may therefore differ from those disseminated by INSEE from the same source; nevertheless, the trends are similar. Italian data were not collected during the first 2020 lockdown.
Source: DG ECFIN, INSEE calculations.

United Kingdom

In Q1 2022, activity in the United Kingdom slowed (+0.8% after +1.3%, ►Figure 1). However, this slowdown masked some significant movements, partly of a statistical nature, in foreign trade (soaring imports and a sharp downturn in exports)[1] and changes in inventories (strongly positive contribution to change in GDP). Meanwhile, domestic demand excluding inventories increased at a similar pace to that at the end of 2021, with relatively few health restrictions in place. Household consumption, the main driver of growth in 2021, grew moderately, as in the previous quarter. Corporate investment fell back slightly in a context marked, among other things, by supply chain difficulties, and is still well below its 2019 average (–8.7%). Conversely, government investment in construction surged (+24%), resulting in a positive contribution by investment to GDP growth. Government consumption declined, however, as a result of the drop in health spending on Covid-19 (tests and vaccinations).

The UK economy entered Q2 2022 with a sharp rise in inflation. It reached +9.0% year-on-year in April after +7.0% in March, fuelled by the increase in the electricity and gas price cap, but also by the return to the full VAT rate for accommodation-catering. The dynamism of wages has also contributed to this change, in line with continuing tensions in the labour market[2] (in Q1, for example, the number of jobseekers had returned to its pre-crisis level, but was lower than the number of job vacancies, ►Figure 2). The Bank of England expects inflation to reach a peak of 11% at the end of the year: in particular, it is likely that the regulator will have to increase the energy price cap once again in October, in response to increases in energy prices following the war in Ukraine. In this context, the Bank of England continued its monetary tightening cycle in May and June, and fiscal support measures for households were announced in March then again in May.

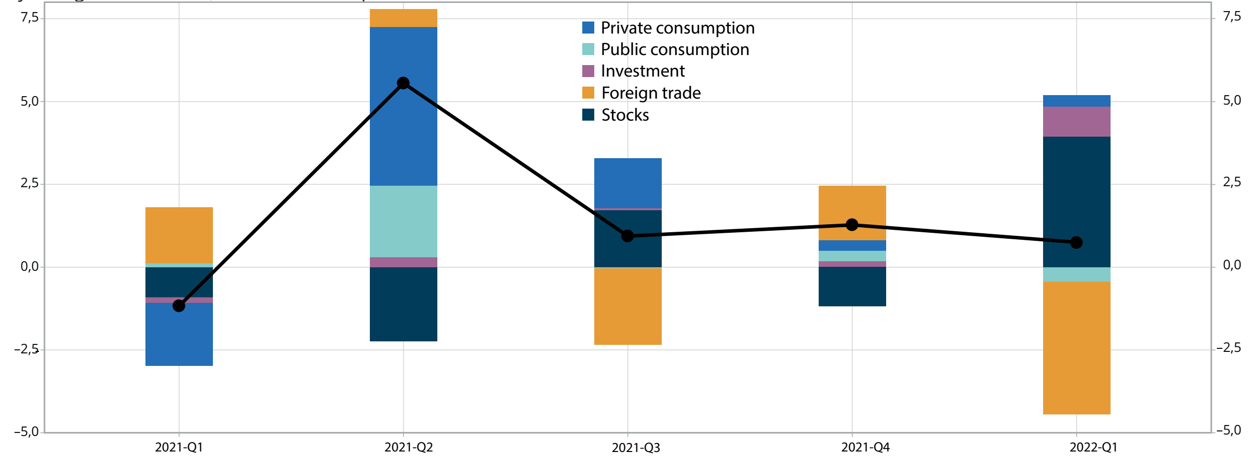
In Q2, the rise in inflation is likely to cause consumption to fall back, while corporate investment is expected to remain sluggish, affected by the tightening of monetary policy, the increase in social contributions and the supply chain difficulties that businesses are encountering. Finally, the trade deficit is expected to widen due to sluggishness in exports, which are still affected by Brexit (►Focus Brexit). In this context, activity is likely to fall back in the spring, but then continue to be penalised for the rest of the year due to the decline in purchasing power and its impact on consumption. Thus in 2022, growth in the United Kingdom is expected to be +3.6%, after +7.4% in 2021. ●

1 In January 2022, UK foreign trade statistics underwent methodological changes in connection with Brexit. The ONS therefore recommends that quarterly changes at the start of the year be analysed with caution.

2 See https://www.bankofengland.co.uk/bank-overground/2022/what-factors-drove-underlying-pay-growth-in-2021.

►1. UK growth suffered from developments in trade in Q1 2022

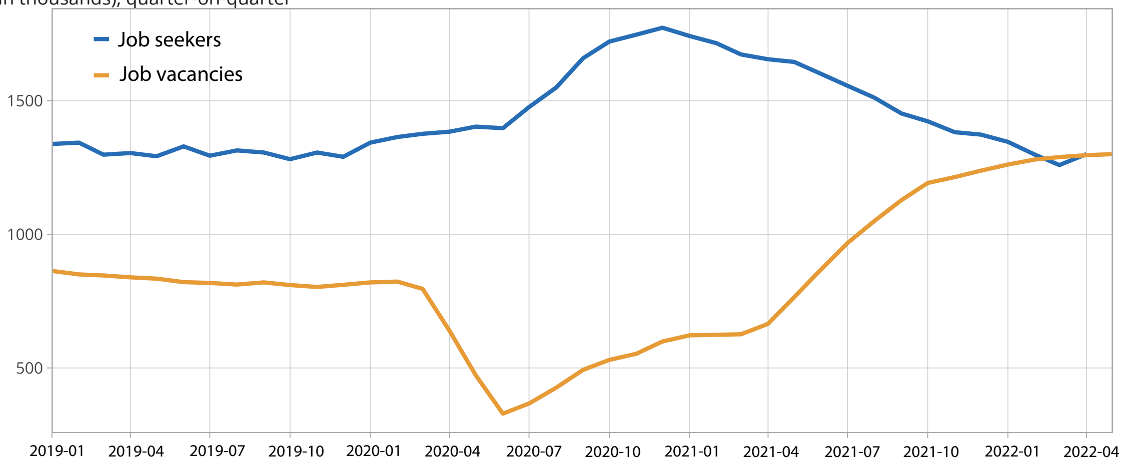
quarterly changes in GDP in %, contributions in points



How to read it: in Q1 2022, GDP increased by +0.8%. Private consumption accounted for 0.3 points of this growth.
Source: ONS, INSEE calculations

►2. While the number of jobseekers returned to its pre-crisis level, tensions in the labour market intensified at the start of the year

data in level (in thousands), quarter-on-quarter



Last point: May 2022 for job vacancies, April 2022 for jobseekers.
Source: ONS

Since Brexit, trade in goods between the United Kingdom and the European Union has declined

Since the free-trade agreement resulting from Brexit came into force on 1st January 2021, trade between the United Kingdom and the European Union (EU) has declined. At the end of 2021, trade with the United Kingdom was therefore significantly lower than its pre-Brexit level. This drop in trade has been uneven between the different European partners: compared to its neighbours in the Eurozone, France is the country where imports of UK goods have fallen least since Brexit, compared to 2018. However, exports of goods to the United Kingdom have dropped more sharply in France and Germany than elsewhere in Europe. These differences between countries are mainly due to dynamics specific to certain products in terms of trade.

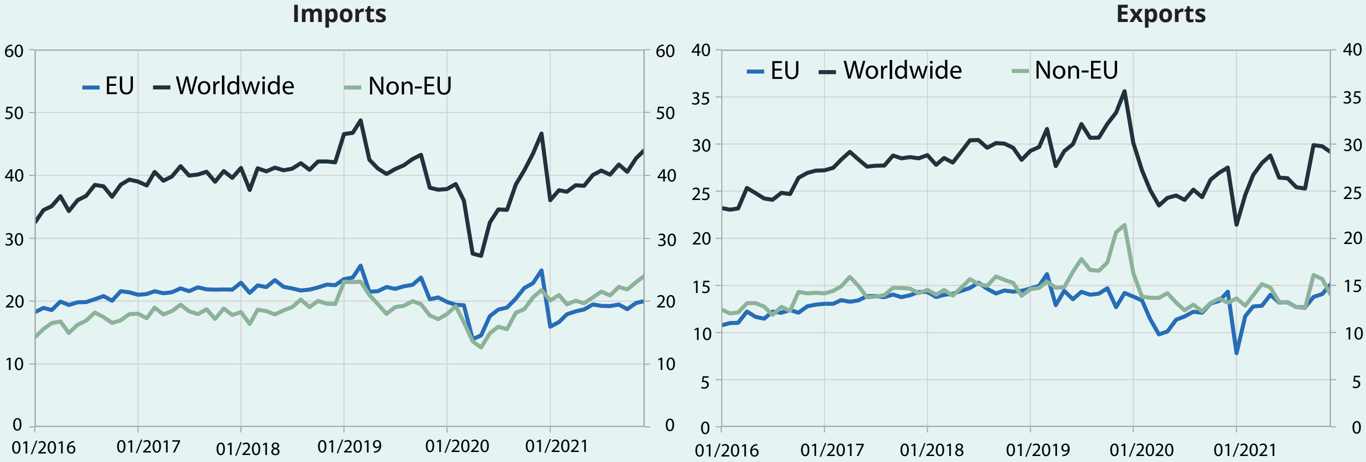
In 2021, trade with the United Kingdom remained well below its pre-Brexit level

Since 1st January 2021, and in accordance with the EU-UK Trade and Cooperation Agreement signed with the European Union (EU), the United Kingdom is no longer a member of the European Customs Union. Goods transiting between the EU and the United Kingdom are therefore subject to non-tariff barriers, resulting in sanitary and phytosanitary controls, and checks on provenance and destination. Trade in goods was affected in this way as soon as the agreement came into force, even though British customs were not yet applying all the checks provided for in the free-trade agreement, in contrast to the EU. According to a survey by the British Chamber of Commerce last February, 71% of UK companies involved in trade with the EU felt that the free-trade agreement did not help them increase their sales.

In January 2021, after the establishment of the free-trade agreement with the EU, trade in goods with the EU tumbled dramatically, after an inventory phase (►**Figure 1**). For goods exported before Brexit, the share destined for the EU was already less than that going to non-EU countries. But this was not the case for imported goods: the inversion, visible across the whole of 2021,[1] suggests a partial substitution of European imports for those from the rest of the world. In 2021, imports of goods from the EU stood at –18.4% (in value) below their 2018 level,[2] while imports from the rest of the world were higher than their pre-Brexit level (+6.3%). Concerning exports, they declined irrespective of destination, but the gap between 2018 and 2021 is more pronounced for goods bound for the single market: –14.3% for exports to the EU, against –9.8% for exports to the rest of the world.

1 The data presented here stop at December 2021 due to a change in methodology by UK customs in January 2022, which makes it difficult to interpret monthly variations from this date.
2 In this study, 2018 is taken as the pre-Brexit reference year, due to the disruption caused by the successive postponements of Brexit in 2019 (inventory effects as the March and October 2019 deadlines approached), and the effects of the health crisis on trade in 2020.

►1. In 2021, the United Kingdom traded more goods with non-EU countries than with EU countries
UK imports of goods (left), UK exports of goods (right), SA data by value, £ billions



Note: here we consider trade in goods (monthly data), from the point of view of the United Kingdom. Last point: December 2021.
How to read it: in October 2021, UK exports of goods stood at £30 billion, of which £14 billion for exports to the European Union..
Source: ONS

The substantial drop in UK trade between 2018 and 2021 was due in part to the health crisis: in 2020, UK trade plummeted, as it did in Europe and the United States. However, in 2021, after Brexit came into force, UK exports continued to decline (–1.3% after –12.9%), and imports rebounded moderately (+3.8% after –15.8%), whereas in the main Eurozone countries, the rebound was more vigorous. In Q4 2021, UK imports were below their 2018 average, while in the main Eurozone countries, imports had returned to this level (except in France, but the gap was nevertheless negligible, ►**Figure 2**). UK exports were also down compared to their 2018 level. In France, this difference was less, and in the other main Eurozone countries, exports exceeded their 2018 level.

In 2021, the European Union traded less with the United Kingdom than in 2018, whereas trade with its other partners increased

In 2021, the deterioration in trade between the United Kingdom and the EU, compared to pre-crisis levels, was partly because activity in both the EU and the United Kingdom had not yet returned to pre-crisis levels. However, at the same time, the EU increased trade with some of its other main trading partners. Thus at the end of the year, trade in goods with the United States returned to its 2018 level (►**Figure 3**). In addition, imports from China increased significantly during the health crisis, driven mainly by health goods and capital goods associated with the pandemic (teleworking, etc.).

►2. Difference between trade in Q4 2021 and the 2018 average

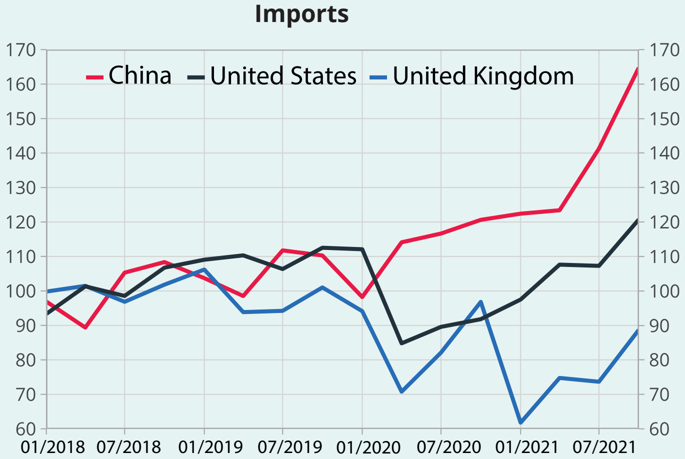
in %

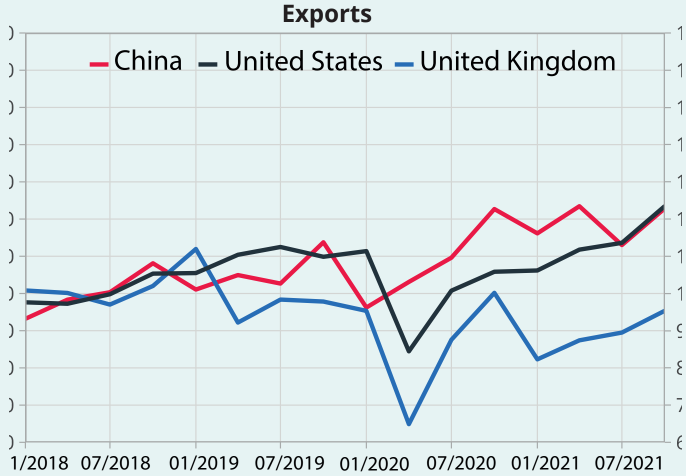
	Germany	France	Spain	Italy	United Kingdown
Imports	+5.4	–0.4	+3.4	+4.7	–6.8
Exports	+2.4	–4.5	+2.4	+2.7	–7.0

Source: Destatis, INSEE, INS, Istat, ONS

►3. Trade with the United Kingdom in European goods has declined since 2018, whereas it has increased for the other main trading partners

EU imports of goods (left), EU exports of goods (right), In base 100= 2018 average, seasonally adjusted in value terms





Note: here we consider trade in goods (monthly data), from the perspective of the European Union.
How to read it: in December 2021, European imports of goods from the UK were 11% below their average level in 2018.
Source: Eurostat

Trade with the United Kingdom, on the other hand, was still well below the pre-health crisis level at the end of 2021. Imports from the United Kingdom seem to have been more affected than exports to the UK. This may possibly be due to the fact that British customs have not yet put in place all the border controls applying to goods arriving from the single market. The EU, on the other hand, has not applied a derogation and implemented all the border controls stipulated in the EU-UK Trade and Cooperation Agreement as soon as it came into force.

Bilateral trade between the United Kingdom and its European partners has not declined in the same proportions for each country

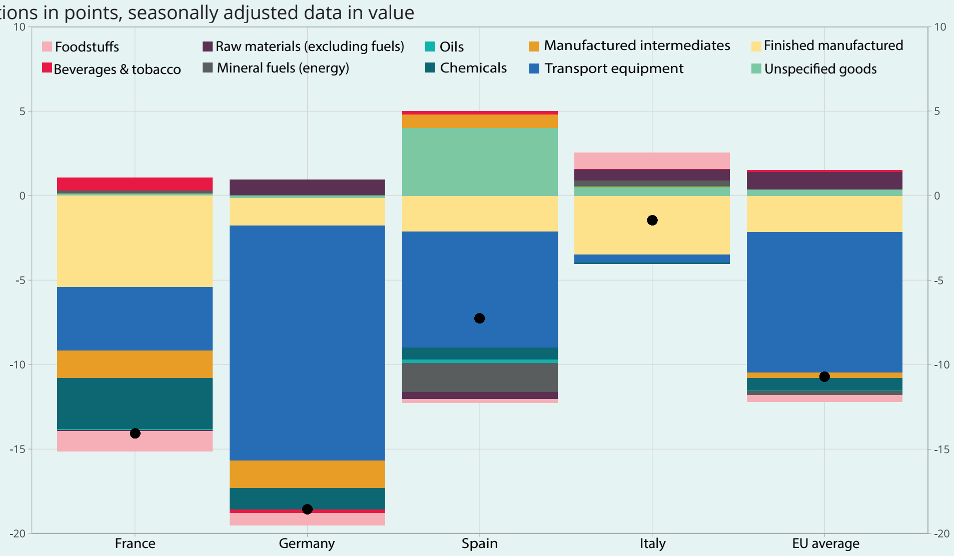
Between 2018 and 2021, trade in goods between the United Kingdom and its different European partners fell in varying proportions depending on the country. Concerning the main Eurozone countries, and exports of goods to the United Kingdom, it is in Germany and France that this trade has fallen most: between 2018 and 2021, the decline was –18.6% in Germany, –14.1% in France, against –10.7% on average for the EU as a whole (►Figure 4). The main reason for the net decline in exports of German goods is the sizeable drop in machinery and transport equipment (–13.9 points), linked to the difficulties that the German automobile sector has experienced since 2019. This sector accounted for more than half of German exports of goods to the United Kingdom in 2018. In France, the decline in exports since Brexit is spread more evenly across the products in the classification considered,[3] but these are made up for the most part of manufactured goods, especially finished products. On average, across all the EU countries, transport equipment remains the category of goods that contributed most to the drop in exports between 2018 and 2021. This was not the case for Italy, however, where exports of goods to the United Kingdom were close to their pre-Brexit level in 2021 (–1.5 %).

With regard to European imports from the United Kingdom, the decline between 2018 and 2021 ranged from –13.5% for France to –36.2% in Spain (►Figure 5). Thus France is the country where imports from the United Kingdom have fallen least, compared to the other main Eurozone countries, and the EU

3 The Standard International Trade Classification (SITC) distinguishes between "manufactured goods" and "miscellaneous manufactured articles", which here we call respectively "manufactured intermediate goods" (in that they contain intermediate products such as paper, iron and steel, etc.) and "manufactured finished goods" (in that they contain consumer products, such as clothing, furniture, etc.).

►4. Between 2018 and 2021, exports of goods to the UK fell sharply in France and Germany compared to the rest of the EU

changes in %, contributions in points, seasonally adjusted data in value



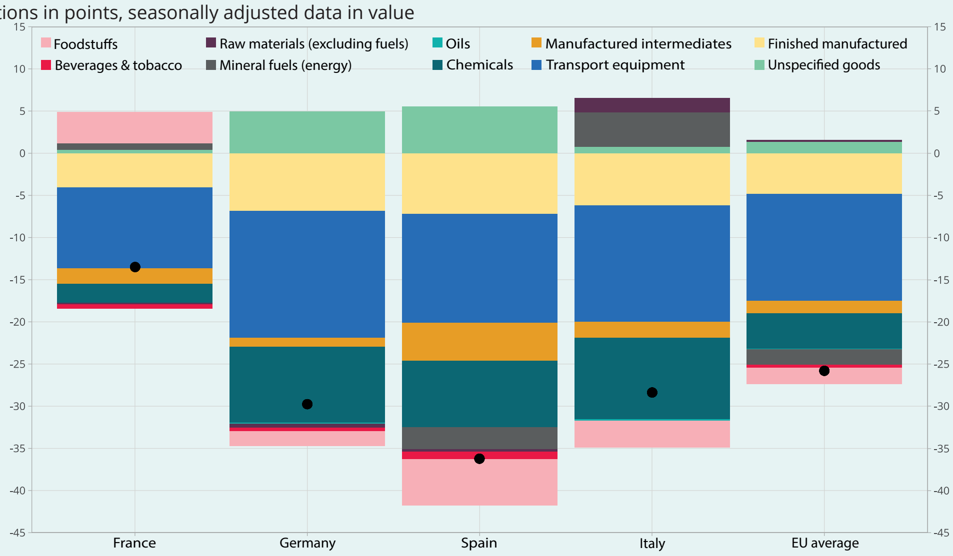
Note: Exports of goods by value to the UK are considered here (annual data).
How to read it: In 2021, French exports of goods to the UK were 14.6% lower than in 2018. Foodstuffs contributed to this decline by –1.2 percentage points.
Source: Eurostat

average. Food products are one contribution to these differences: the French economy increased its food imports from the United Kingdom, whereas they have declined for the other main Eurozone countries. This particular feature of French imports is mainly the result of a strong rise in imports of British fish since the beginning of 2021. In addition, French imports of British chemical products fell less than elsewhere in Europe between 2018 and 2021. Across all the European countries, on average, machinery and transport equipment contributed most to the decline in imports from the United Kingdom. The significant contribution of this type of product stems both from its substantial weight in European imports of UK goods (35%), and the input flows that were substantially degraded in 2021 compared to 2018 (–37%).

David Fath

►5. Between 2018 and 2021, UK goods imports fell less in France than in the than in the other major euro area countries

changes in %, contributions in points, seasonally adjusted data in value



Note: Imports of goods by value to the UK are considered here (annual data).
How to read it: in 2021, Germany's imports of goods from the UK were 29.8% lower than in 2018. Goods from the UK in 2021 were 29.8% lower than in 2018. contributed to this decline by –1.8 percentage points.
Source : Eurostat

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United States

For the first time since Q2 2020, activity in the United States has fallen back (–0.4% in Q1 2022). However, this decline in GDP does not seem to have cast doubt on the solidity of the domestic economy (contribution of domestic demand to change in GDP is +0.7 points), which is mainly due to the contribution of foreign trade (–0.8 points, ►**Figure 1**): exports fell back by 1.4% in Q1 in a context of sluggish global consumption while imports increased by 4.3%, again sustained by the momentum of domestic demand.

Consumption by United States households certainly remains vigorous, despite the difficulties (peak in Omicron wave at the start of the year and price increases for several months). It maintained its pace of growth in Q1 (+0.8%, ►**Figure 2** left), then in April (+0.7% month-on-month). After the very strong momentum in purchases of goods seen in 2020-2021, growth in consumption is now driven by consumption of services, which are less affected by the rise in inflation than goods (►**Figure 2** right).

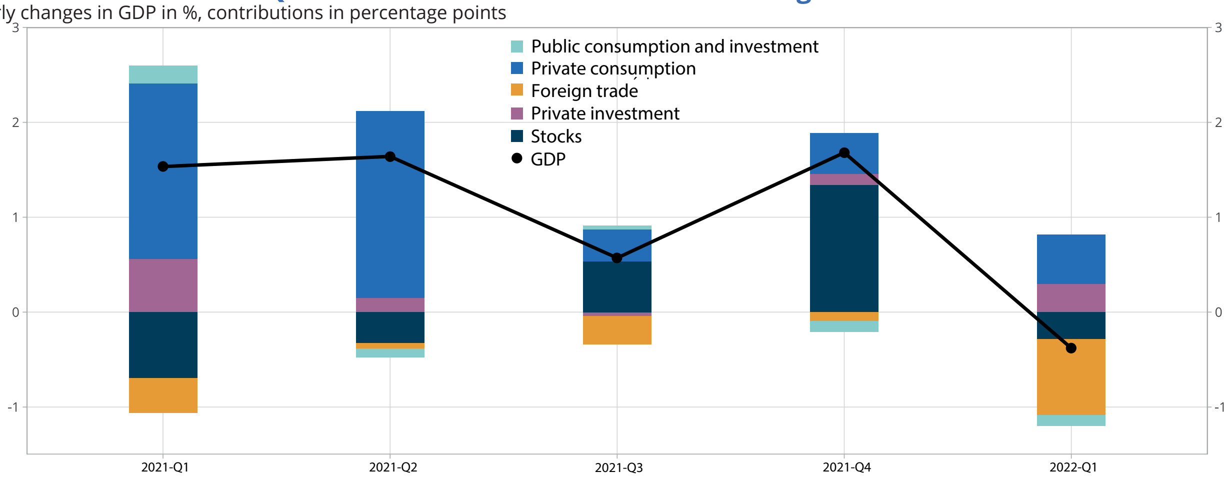
There are three elements supporting the dynamism of consumer spending. Firstly, households are using part of the savings accumulated over the last two years: thus the savings ratio fell to 4.4% in April 2022, below the average pre-crisis level (7.6% in 2019). Secondly, consumer credit continues to grow, especially revolving credit (+13.1% year-on-year in April after +11.6%, the fastest rate of growth since 1997). Lastly, the increase in wages helps to offset the loss of purchasing power, although without compensating for it fully (–0.8% in Q1, down for the fourth consecutive quarter). The rise in wages now concerns a growing number of sectors and income levels (►**Figure 3** left). It is mainly linked with the hiring difficulties experienced in some sectors and the large number of resignations (4.4 million in April, +27% compared to April 2019). Meanwhile, employment is particularly dynamic (►**Figure 3** right), with almost 2.5 million net job creations between January and May and an unemployment rate that has returned to its pre-crisis level. The rise in the labour force participation rate (62.3% in May) should mean that tensions in the labour market can be alleviated by the end of the year.

Inflation remains the main area of concern for the United States economy. After prices fell back slightly in April (+8.3% year-on-year), inflation started to climb again in May (+8.6%). More and more sectors are now affected by sharp price rises: inflation in services excluding energy is not usually very volatile, but is a major component of total inflation, but in May it reached +5.2% (►**Figure 2** right). A lasting rise in prices in this component would prevent inflation falling back rapidly in H2.

If inflation persists between now and the end of the year, it could hamper the buoyancy of private consumption, while the US Federal Reserve (Fed) is expected to continue to tighten its monetary policy (►**Focus** Monetary policies). The resulting rise in the cost of credit, like the 30-year borrowing rate average which increased from 2.9% in January 2021 to 5.7% by mid-June 2022, could affect household and corporate investment, but also household consumption. In this respect, the real estate market is showing the first signs of a slowdown: building permits and housing starts declined significantly in May (by –7.0% and –14.4% respectively). In addition, the disruptions in supply chains linked to the lockdowns in China could affect US production capacity.

►1. The decline in GDP in Q1 2022 is due to the contribution of foreign trade

quarterly changes in GDP in %, contributions in percentage points

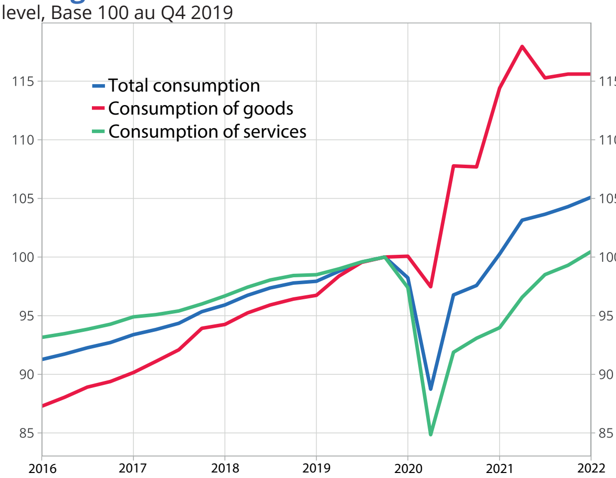


Source: Bureau of Economic Analysis

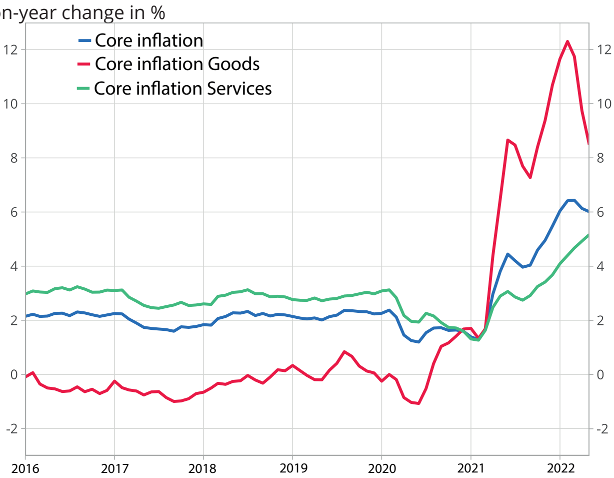
In this context, the United States GDP is expected to bounce back in Q2 and to maintain a quarterly pace of growth in H2 of about +0.5%. It is likely that US growth will continue to be driven by domestic demand, even though this is expected to slow. In this scenario, the United States economy is expected to grow at a rate of 2.5% over the year, after 5.7% in 2021.

►2. Growth in consumption in the United States is now driven by services, where prices could rise over the long term

in level, Base 100 au Q4 2019



year-on-year change in %

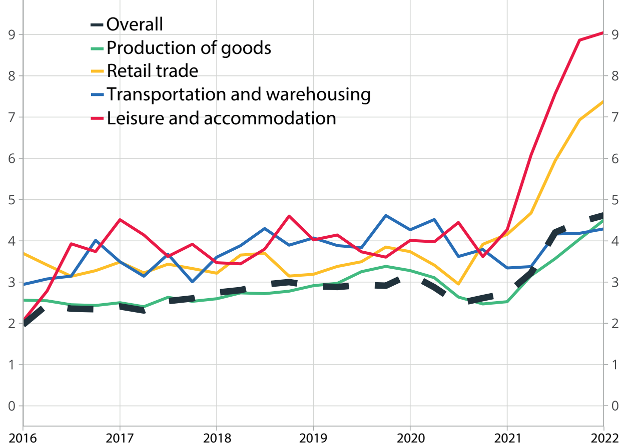


How to read it: year-on-year change in the consumer price index for goods, excluding food and energy (or services excluding energy), was +8.5% (or +5.2%) in May 2022.
Source: Bureau of Economic Analysis, Bureau of Labor Statistics

►3. Wages are increasing in the majority of sectors, supported by the buoyancy of the job market

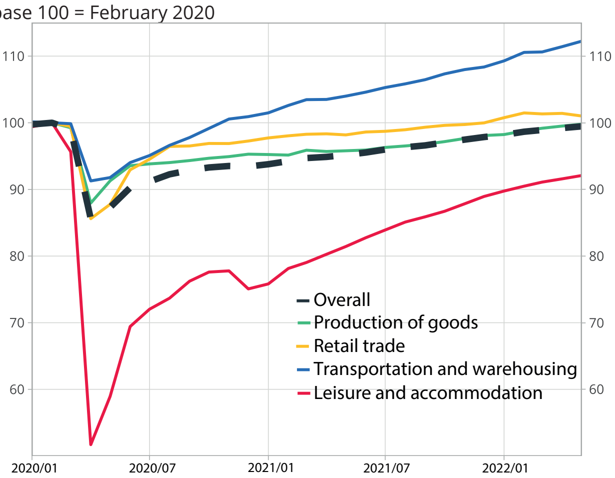
Employment Cost Index (ECI) for wages

year-on-year change in %.



Level of employment

base 100 = February 2020



Note: the Employment Cost Index considers the structure of constant employment and hence is not subject to the effects of composition, unlike hourly wages. It increased by 4.6% year-on-year in Q1 2022 (against an average slightly below 3% between 2016 and 2019) at a weaker pace than inflation.
Last point: Q1 2022 for the ECI and May 2022 for level of employment.
Source: Bureau of Labor Statistics

China

In China, economic activity in H1 2022 again bears the imprint of the Covid-19 epidemic. Chinese GDP certainly accelerated in Q1 (+4.9% year-on-year, after +4.1% in Q4 2021), mainly in January and February, but signs of a slowdown appeared from March onwards, and intensified in Q2.

In response to a new wave of Covid-19, very strict lockdown measures were introduced in many Chinese cities, particularly in Shanghai in April and May. Thus the "zero-Covid" strategy brought about an almost complete standstill in the megalopolis, which is both one of the country's major industrial centres and the largest port in the world by tonnage. The strategy also caused tremendous disruption to motorway, rail and air traffic, and hence to the country's supply chains. As a result, industrial production, which had been vigorous in the previous months (▶**Figure 1**), fell back sharply in April (–2.9% over the year, after +5.0% in March), and was particularly affected by the collapse in automobile production (–42% year-on-year, after 0%). In May, the easing of some restrictions, especially for some companies in Shanghai, meant that a small rebound in industrial production was possible (+0.6% over the year). The same for Chinese exports of goods, which slipped back significantly in April (–8.4% year-on-year adjusted for changing prices1) then rebounded in May (+6.3%) as disruptions in supply chain operations improved.

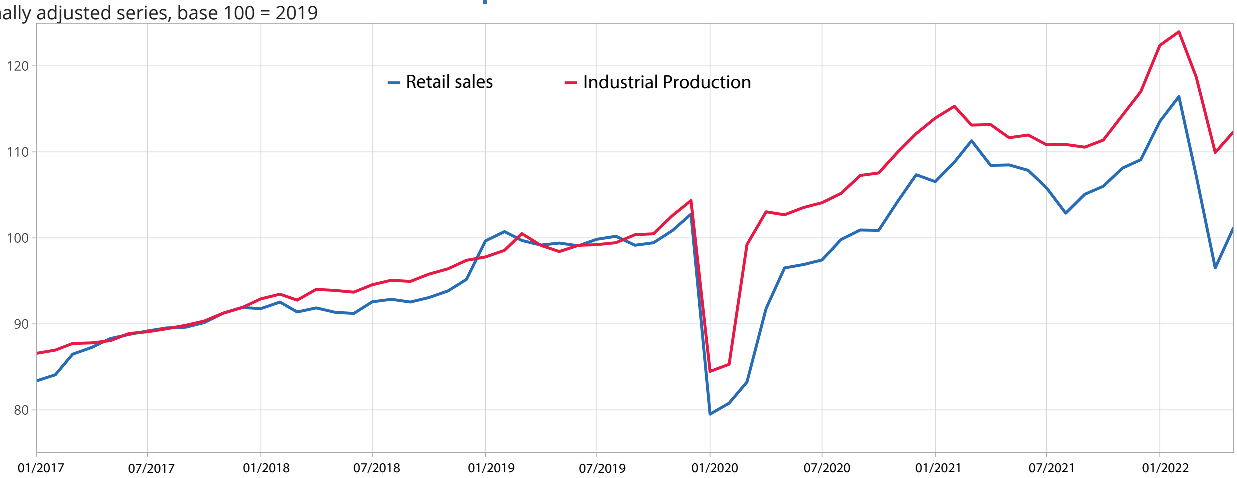
The health restrictions also affected households, hampering their consumption considerably: in April, retail sales fell back by 11.1% year-on-year (after –3.5% in March) and were still down in May (–6.7%). In the real estate sector too, where activity had already slowed in recent months due to the decision of the authorities to strengthen prudential measures, the consequences of the lockdowns were felt, both in terms of real estate transactions and in housing starts (▶**Figure 2**). In an attempt to revive this important sector for Chinese growth, the authorities have adopted a more accommodative monetary policy since 2021, including a reduction in May of the 5-year real estate loan prime rate.

The supply chain costs generated by the lockdown measures have also contributed to raising food prices (+2.3% and +1.9% year-on-year in May and April respectively, after –1.5% in March), which in turn has resulted in a rise in inflation (+2.1% year-on-year in April and May after +1.5% in March). Core inflation remains low, however (+0.9% in May), and it even fell slightly in April (–0.2 points). Producer prices continued to move up (+6.4% year-on-year in May) but they have slowed sharply (–1.6 points between April and May) since October when their year-on-year increase reached +13.5%.

Despite the announcement of a gradual upswing in activity in Shanghai and the lifting of restrictions in June, Chinese activity is still likely to be very much affected by the health measures and will probably contract in Q2. Global value chain disruptions are expected to remain very severe during this quarter, and this in turn is likely to increase supply chain difficulties for western countries. Chinese activity could then experience a vigorous recovery in H2, assuming that the majority of health restrictions are lifted. ●

1. Health restrictions have caused a sharp decline in short-term economic indicators

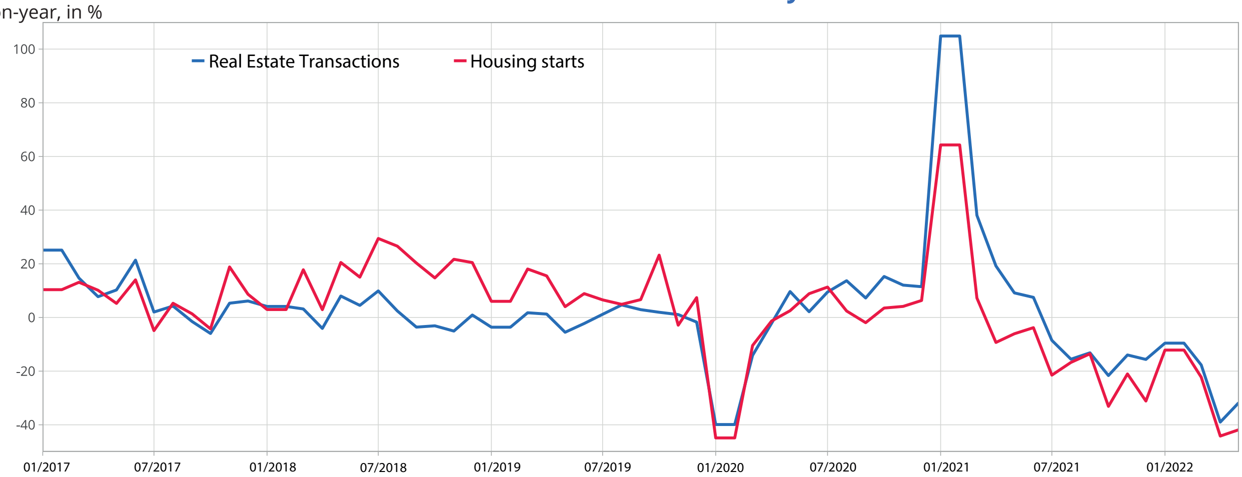
seasonally adjusted series, base 100 = 2019



Source: NBSC, INSEE calculations

2. Difficulties in the real estate sector have been accentuated by the health restrictions

year-on-year, in %



Note: Last point: May 2022

Source: NBSC, INSEE calculations