

An autumn laden with menace for Europe

Tensions over production conditions persist throughout the world, although some of the recent supply chain difficulties are easing somewhat. These tensions are fuelling inflation. Although it picked up earlier in the United States, in line with very dynamic domestic demand, inflation has now reached 10% year-on-year in the Eurozone, with strong contributions from energy and food prices, but also a gradually increasing contribution from manufactured goods and services. Within the Eurozone, there are fairly considerable differences between countries: these can be explained in part by the nature of government policies (tariff shields and/or income support) introduced to limit price increases or their effect on household purchasing power.

In this context, the economic landscape has recently darkened, according to the surveys. In Europe in particular, fears over energy supply chains have intensified since mid-August. In addition, in the face of high inflation, the western central banks have embarked on a cycle of monetary tightening reflected mainly in the upturn in sovereign borrowing rates, with wide variations between countries, and in the increased cost of credit, which could impact on corporate and household investment decisions.

Over our forecasting period (end of 2022), world trade is expected to slow but the dynamics within different countries are unlikely to be uniform. The US economy looks set to slow but without dropping back, driven by a labour market that remains particularly robust. The Chinese economy is expected to pick up after the spring lockdowns, but its rebound will probably be mitigated by the persistent weakness of domestic demand. Meanwhile, the United Kingdom and German economies could contract. Spain, France to a lesser extent and even Italy look set to continue to benefit from residual post-health crisis catch-up effects.

In France, despite a certain resilience, the business climate is uncertain in most sectors of activity, no doubt partly due to fears over electricity and gas supplies and future energy prices. This can be seen from the more marked decline in morale among business leaders in the industrial branches that are most dependent on energy for their production (chemicals, metallurgy, paper-cardboard, etc.). These concerns are also weighing on household confidence.

The “hard” data available for July-August for France suggest that the post-health crisis catch-up effects are tending to diminish in services linked to tourism. Meanwhile, household consumption of goods remains skewed, despite the fact that new vehicle registrations (and production) have bounced back. Finally, aeronautical deliveries were buoyant this summer.

All in all, given this mixed short-term information, the French GDP would appear to have improved modestly in Q3 2022 (+0.2% forecast, after +0.5% in Q2). For Q4, the scenario proposed (stability for GDP, i.e. 0.0%) is somewhere between growth that could still be expected given the relative resilience of the business climate and a possible downturn in activity in the event of strong constraints on energy supplies, for example. As an annual average, French GDP is expected to increase by 2.6% in 2022 compared to 2021.

Payroll employment, which continued to be very buoyant in H1, is now expected to slow in a similar way to economic activity. However, the increase in the number of sandwich contracts is likely to continue. Total employment is expected to increase by 0.2% in Q3 then by 0.1% in Q4, bringing net job creations in 2022 to a little over 300,000 (after around 970,000 in 2021). The unemployment rate is expected to remain stable over H2 2022, at 7.4% of the active population, whose numbers are also slowing.

Year-on-year, the consumer price index fell in September for the second consecutive month, to 5.6%, mainly as a result of the downturn in energy prices (oil prices down, reductions at the pump increased, tariff shields on gas and electricity maintained). Inflation looks set to remain at around this level in October, before increasing again at the end of the year (+6.4% forecast for December). The gradual withdrawal of reductions at the pump is certainly likely to push energy prices up, while the prices of food and manufactured goods are also expected to continue to increase due to earlier price increases in commodities and inputs. The abolition of the television and radio licence fee is likely to ease the contribution of services to headline inflation. Meanwhile, core inflation is expected to stand at a little over 5% year-on-year in December.

Economic outlook

After a sharp decline in H1 2022, the purchasing power of households' gross disposable income is expected to bounce back in H2, driven by the dynamism of nominal income (due mainly to support measure put in place: increase in benefits, reduction in contributions) and, to a lesser extent, by the slowdown in prices. Over the whole of 2022, purchasing power should be stable overall, compared to 2021, falling back by around ½% per consumption unit. Households are expected to be able to smooth the effects of quarterly fluctuations in their purchasing power on their consumption, which is likely to be sluggish in H2, resulting in a rebound in the savings ratio.

Companies' margin rate is expected to reach 32% on average during 2022, slightly higher than in 2018, but down sharply compared to 2021 when it was particularly well supported by emergency aid associated with the health crisis. The rise in energy prices could also be detrimental to the gross operating surplus of those companies most dependent on this production factor and thus increase the contrast between branches of activity.

As available data are published, a scenario gradually emerges of modest growth in France for Q3 2022. However, the scenario for the last quarter remains fairly unsettled at this stage, given the many uncertainties likely to affect it, not to mention the actions of economic agents: geopolitical developments, energy supply chains, health situation, consequences of monetary tightening, etc. ●