

# Economic outlook

9 May 2022



Penalised by the health crisis (Omicron), albeit much less severely than in 2020-2021, and subsequently by a major geopolitical crisis (war in Ukraine), French GDP came to a standstill in Q1 2022. Household consumption was hit particularly hard by the health situation, compounded by the uncertainty and accelerating prices.

The beginning of Q2 has seen a significant improvement in the health situation in European countries, but a deterioration in China, with the «zero COVID» strategy directly impacting Chinese production, while the geopolitical situation in Eastern Europe remains particularly bleak. The business surveys reflect this growing uncertainty but also the relative resilience of the business climate.

These negative supply-side shocks should continue to fuel inflation until the end of the forecasting period (June 2022): annual consumer price inflation is expected to stand at between 5 and 5.5% – although it would top 7% without the «price shield» and «discount at the pump» measures. GDP growth in Q2 2022 is unlikely to exceed around 0.25% compared to Q1. In terms of annual growth, the mid-year growth overhang for 2022 should be +2.6%, after +7.0% for 2021 as a whole.

## French GDP came to a standstill in Q1 2022, mainly due to the Omicron wave and the war in Ukraine

The beginning of 2022 was marked by the persistent health crisis with the Omicron wave causing unprecedented numbers of contaminations in Europe, and by the intensification of the geopolitical crisis between Russia and Ukraine leading to the outbreak of war on 24 February.

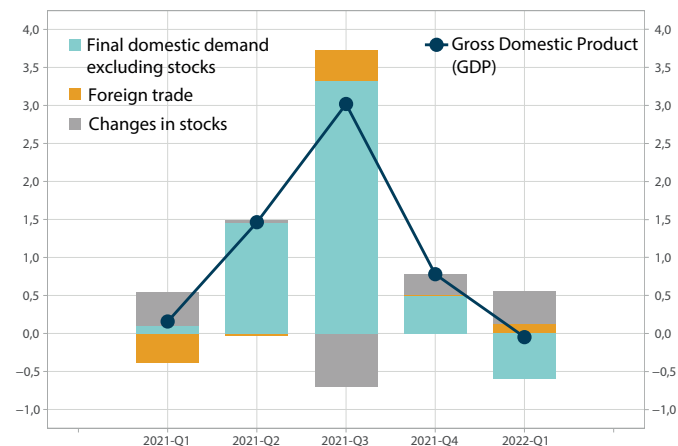
These exogenous shocks hampered economic activity, both in France (where GDP in Q1 2022 remained stable in relation to Q4 2021) and throughout the entire Eurozone (where it grew by 0.2%). In France, this result aroused some surprise. Although the scenario set out in the March

Economic Outlook had anticipated a significant slowdown in GDP and a decline in consumption, the price increases and prevailing uncertainty led to a sharper-than-expected slowdown in household purchases (► **Figure 1**).

In detail, Q1 was marked by monthly contrasts: in January, the Omicron wave hit the hotel and food service sector particularly hard, followed by a rebound in activity from February onwards (► **Figure 2**) after the lifting of health restrictions. Household consumption of goods, which had fallen sharply in January before recovering somewhat in February, dropped again in March. Industrial production remained vigorous throughout the quarter, even though certain sectors, such as the automotive industry, continued to be severely hampered by supply-chain difficulties.

### ► 1. Quarterly variations in GDP and contributions of main demand-side items

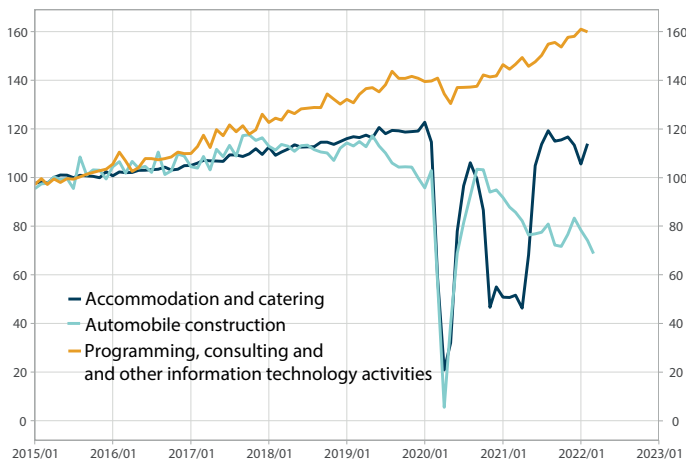
quarterly variations in % and contributions in points



Source: INSEE

### ► 2. Monthly production indices in selected services and industry

CVS-CJO data, base 100 in 2015



Latest points: March 2022 for industry, February for services.  
Source: INSEE

## Negative supply-side shocks increase supply-chain difficulties and production prices

These supply-chain difficulties, which had intensified throughout 2021, had eased somewhat by the very start of 2022. However, they have been exacerbated once again this spring by the combined effects of persistently strong demand at the global level, the curbing of supply by the war in Ukraine, and the very strict anti-COVID-19 strategy in China.

According to the business tendency surveys conducted in April by INSEE, 45% of manufacturers report supply-chain difficulties of a similar magnitude to last October, which was the highest level recorded since the beginning of the series (1991). In April, this proportion had reached 39% in the construction sector, which is also an unprecedented level for this sector (► **Figure 3**).

The concomitant rise in energy and commodity prices is also reflected in production prices, which are measured when products are first marketed: these are «farm-gate» prices for agriculture, «factory-gate» prices for industrial products, and prices upon completion of a service for the construction and service sector.

Agricultural producer prices accelerated dramatically in March, rising by 27% year on year, with cereals prices in particular surging by 69% in the context of the war in Ukraine. Industrial producer prices rose by 24% year on year, driven largely by energy and coke and refined petroleum production; but even without including these products, the increase still amounted to 11% year on year (► **Figure 4**). The somewhat more moderate increases for construction (+5% year on year in Q4 2021) and services (+3.5% year on year), contrast with the 75% recorded for maritime and coastal freight transport alone.

## Increases in producer prices should continue to be partly reflected in consumer prices, fuelling both headline and core inflation

These sharp increases in production prices have already begun to filter through, albeit partially and gradually, to consumer prices. This trend is expected to continue over the coming months; in business surveys, the balance of opinion among enterprises on the expected changes in their selling prices reflects these underlying pressures.

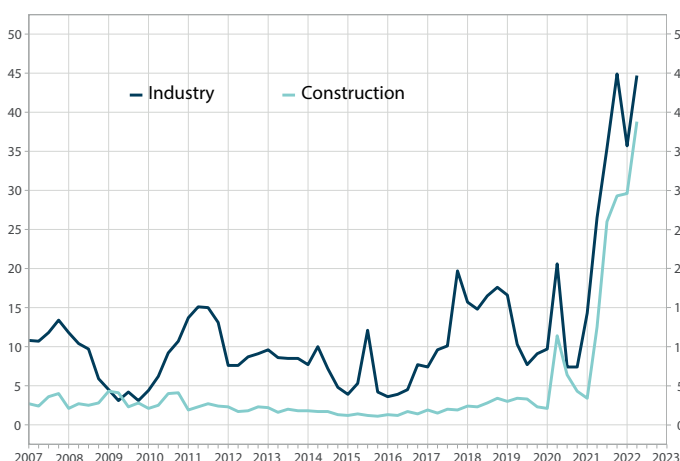
However, the pace and extent of future price increases remain hard to predict accurately in the current context. Energy and commodity price trends remain largely dictated by the geopolitical developments relating to Russia. The assumption adopted in this *Economic Outlook* is that prices will remain stable at around the levels measured in early May (i.e. \$105 and €100 for a barrel of Brent). In addition, given the magnitude of their increase, the speed of transmission from producer prices to consumer prices may deviate from that usually estimated.

All in all, the year-on-year change in the consumer price index through to mid-year looks set to keep rising. It is expected to reach +5.2% year on year in May (after +4.8% in April according to the provisional estimate), followed by +5.4% in June (► **Table 5, Figure 6**). The «price shield» measures on gas and electricity prices, combined with the «discount at the pump» for petrol prices, should continue to curb inflation significantly. Without these measures, the forecast for May would probably be around 2 percentage points higher, therefore topping 7%.

In detail, the year-on-year change in prices in June looks set to exceed 6% for food and to stand at around 3% over one year for manufactured goods and services, with the prices of certain services likely to be driven upwards up

### ► 3. Supply-chain difficulties in industry and construction

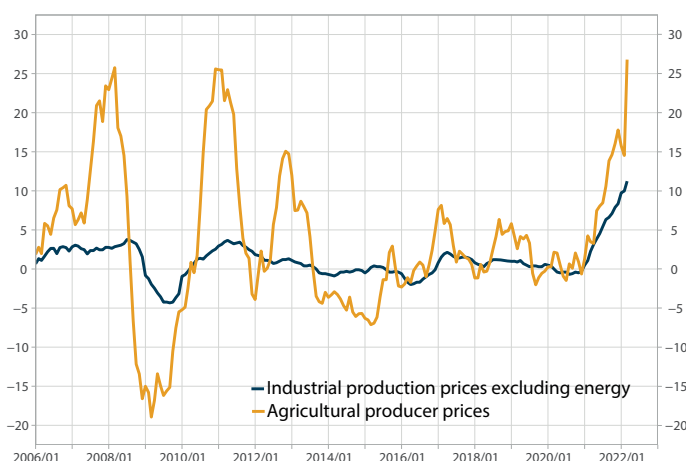
% of companies whose production has been reduced for this reason



Note: the results are weighted according to turnover.  
Last point: April 2022  
Source: INSEE, business surveys

### ► 4. Production prices in industry (excluding energy) and in agriculture

year-on-year change in %



Last point: March 2022.  
Source: INSEE

in the wake of the 2.65% increase in the minimum wage on 1<sup>st</sup> May. The year-on-year change in energy prices may decrease somewhat due to a «base effect», but it is expected to remain very high, at above 25%.

Core inflation, which measures the underlying trend in price fluctuations by excluding those that are usually the most volatile, is likely to have exceeded 3% year on year in April, and should stand at around 3.5% in June.

### Household consumption could rebound slightly in Q2 2022, despite the expected decline in purchasing power

Q1 2022 would appear to have been marked by a significant decline in the purchasing power of household gross disposable income per consumption unit (CU) (approximately -1.5% compared with Q4 2021), taking into account both the rise in prices and the mechanical backlash from the payment of the «inflation allowance» that was fully accounted for in the previous quarter. However, data on Q1 income is not yet available and will be published by INSEE at the end of May, at the same time as the provisional annual account for 2021, an exercise which can traditionally lead to methodological revisions. In Q2 2022, the momentum of inflation could lead to a further, albeit more moderate, decline in purchasing power per CU (around -0.5%).

Household consumption dropped sharply in volume terms in Q1 (-1.3%, which means that it remained stable in value terms after taking the price rises into account). In particular, the consumption of goods fell dramatically (-1.7%), as did that of certain services (-5.3% in accommodation and food services). In addition, the Consumer Confidence Survey (► **Figure 8**) points to a certain wait-and-see attitude in response to the uncertainty and rising prices. The balance of opinion on the opportunity to make major purchases has dropped sharply, while the balance of opinion on the opportunity to save remains high. However, the effects of certain bearish factors (particularly the health situation) that came into play at the beginning of 2022 should no longer be felt in Q2. Accommodation, food and transport services, for example, could benefit from a catch-up effect. The consumption of goods remained stable over the quarter, as suggested by the aggregate amounts of CB bankcard transactions in April.

All in all, thanks to the rebound in certain service activities that had been penalised at the beginning of the year, household consumption could pick up slightly in Q2. The savings ratio is therefore likely to slip back somewhat, while remaining above its pre-health-crisis level. At this stage, the extra savings accumulated during the lockdown periods, which could help to cushion the price shocks, do not appear to have been consumed at the general level, even though some households have started to spend these savings at the individual level.

### ► 5. Past and projected headline inflation

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

	March 22	April 22	May 22	June 22	2021 (annual average)
<b>Headline inflation</b>	4.5	4.8	5.2	5.4	1.6
<b>Underlying inflation</b>	2.5	3.2	3.4	3.5	1.1

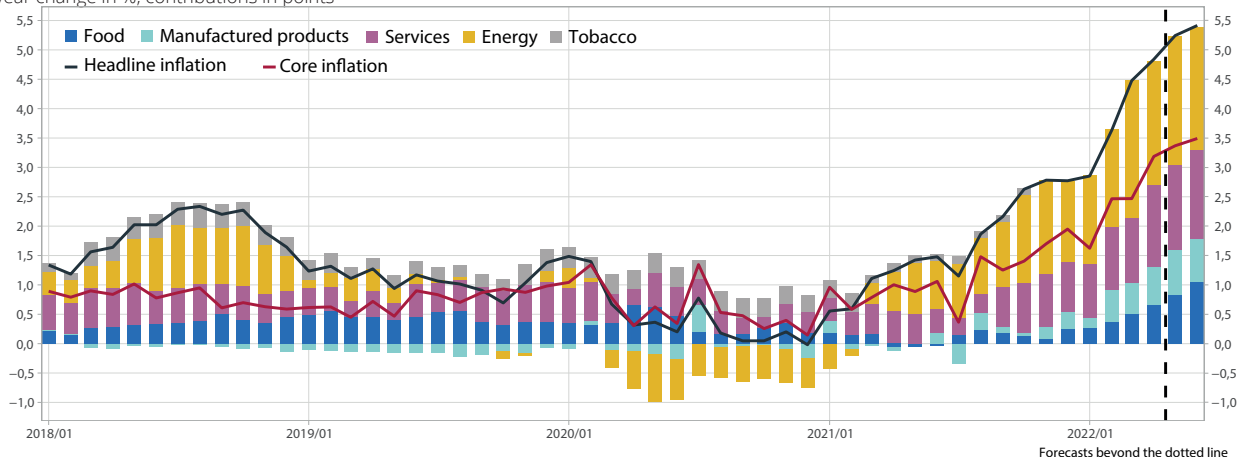
Provisional  
Forecast

How to read it: between April 2021 and April 2022, the consumer price index rose by 4.8%, according to the provisional estimate.

Source: INSEE

### ► 6. Headline inflation and contributions by item

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



How to read it: in April 2022, consumer prices rose by 4.8% year on year, according to the provisional estimate. They are expected to increase by 5.2% year on year in May 2022.

Note: for April 2022, headline inflation is a provisional estimate and core inflation is a forecast.

Source: INSEE

## GDP growth in Q2 2022 is likely to be moderate

The business tendency surveys of enterprises, collected in April, reflect the growing uncertainty but also a certain resilience in the business climate, particularly in services, which are benefiting from the improved health situation in France. However, a significant decline in sales prospects has been recorded in the retail sector, mirroring the sharp drop in household confidence observed in France and throughout the entire Eurozone.

The surveys of industry have produced mixed signals. Production prospects have deteriorated significantly, particularly in March, but the associated balance of opinion remains above its long-term average at this stage (► **Figure 9**). Supply-side constraints have reached their highest levels and the current demand-side difficulties are considered to be at their lowest levels. However, the demand prospects weakened in April compared to January. The investment prospects reported in the surveys are not declining.

In addition, private payroll employment slowed down in Q1 2022 (+0.3% after +0.6% in the previous quarter) while

continuing to grow strongly, with the non-market tertiary sector making a significant contribution. The employment climate remains favourable according to the business tendency surveys, which also point towards persistent recruitment difficulties, which are doubtless partly linked to sectoral restructuring operations.

Only a modest rebound in French GDP is expected in Q2 (0.5% forecast, after 0.0% in Q1), driven partly by the catch-up effect on service activities affected by the Omicron wave in January. The mid-year growth overhang as an annual average for 2022 is expected to stand at +2.6% (► **Table 7**) after +7.0% throughout 2021 as a whole.

At this stage, therefore, the available data suggest a modest growth scenario rather than a contraction in activity. However, this forecast is subject to major risks: renewed pressure on energy prices and increased pressure on supplies due to geopolitical developments, paralysis of the Chinese economy due to the «zero-COVID» strategy and difficulties in the real estate sector, and the tightening of monetary policies, particularly in the United States. ●

## ► 7. Past and projected economic activity (GDP)

in %

Gross domestic product	2020				2021				2022		2020	2021	2022 ovhg
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2			
Quarterly variation	-5.6	-13.4	18.6	-1.1	0.2	1.5	3.0	0.8	0.0	¼	-8.0	7.0	2.6
Difference to Q4 2019	-5.6	-18.3	-3.2	-4.3	-4.1	-2.7	0.2	1.0	1.0	1 ¼			

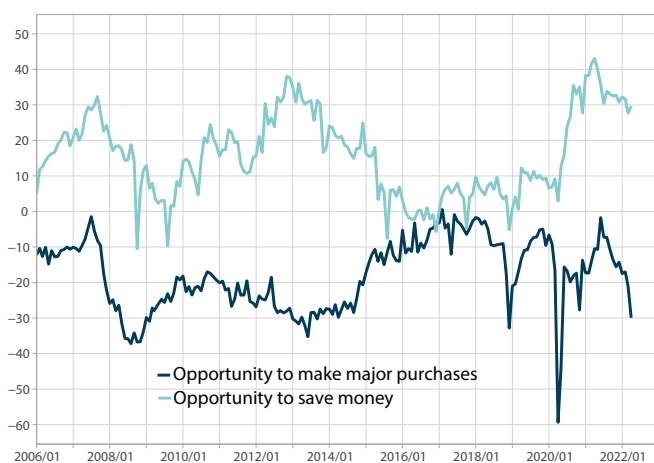
■ Forecast

How to read it: in Q1 2022, GDP remained stable at 1.0% above its Q4 2019 level. It is expected to grow by 4% in Q2 2022. The mid-year growth overhang should be 2.6% in 2022, after annual growth of +7.0% in 2021.

Source: INSEE

## ► 8. Balances of opinion on the opportunity to save and the opportunity to make major purchases

balance of opinion, in %, seasonally adjusted

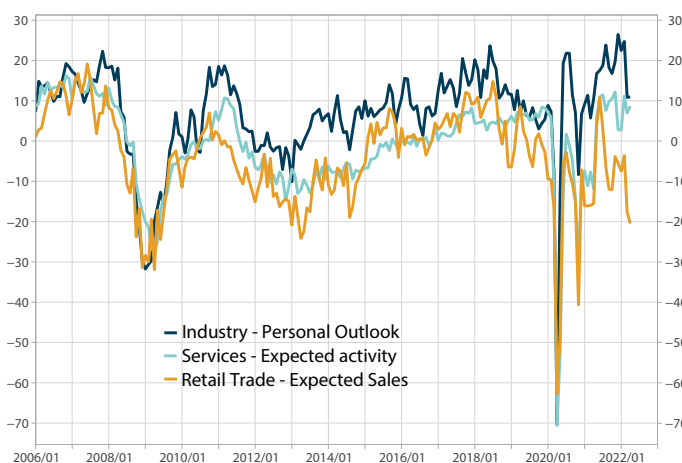


Last point: April 2022

Source: INSEE, monthly household survey

## ► 9. Balances of opinion on the business prospects of enterprises per sector

balance of opinion, in %, seasonally adjusted



Last point: April 2022.

Source: INSEE, business surveys

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