

## French GDP growth decent in 4Q but 1Q will be more challenging

The French economy grew by 0.7% in 4Q 2022, after 3.1% in 3Q, and is now 0.9% above its pre-crisis level of activity. This strong reading is no longer just the mechanical result of reopenings, but a sign of a solid economy, which is starting 2022 on a strong footing, even if the first quarter looks more difficult



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### A still dynamic economy

0.7% quarterly GDP growth. This is the figure that closes a memorable year for the French economy. 2021 started badly, with the coronavirus leading to severe restrictions in the winter and spring, leading to an economic standstill in the first quarter. But the recovery in the summer of 2021 was extremely dynamic, erasing a difficult first half of the year and allowing France to be one of the first European countries to return to its pre-crisis level of activity in 3Q and exceed it by 0.9% in 4Q. The fourth quarter figure points to a still dynamic economy, even if the pace has slowed

down, a mechanical effect, but also the consequence of a resurgence of the virus, the difficulties in supply chains and the rise of inflation.

In the fourth quarter, the components of domestic demand contributed evenly to growth and are all above, or equal to, their pre-crisis level: household consumption rose by 0.4% (back to the pre-pandemic level), government consumption by 0.3% (+4.1% compared to the 4Q 2019 level) and gross capital formation was up by 0.5% (+1.9% compared to 4Q 2019). Also, as in 3Q, services (+1.6% quarterly growth) carried the economy much more in 4Q than manufacturing (+0.3% quarter-on-quarter). Note also the strong growth in foreign trade (imports +3.6% and exports +3.2%), though both components are still 1.2% and 3.5% below their pre-crisis levels respectively.

## A spectacular rebound

In the end, GDP grew by 7% over the whole of 2021, after the -8% shock in 2020. This is an impressive figure that illustrates once again the specific nature of this crisis: as the productive apparatus was not impacted by the pandemic, the relaxation of restrictions led to a very strong recovery. The shock in France in 2020 was stronger than the European average, and the French economic recovery in 2021 was in turn much more dynamic than the average recovery in Europe. Nevertheless, the global imbalances generated by the pandemic, particularly in terms of prices, are now being felt, and overcoming their effects will be a complicated and important challenge for the recovery in the coming quarters.

## The first quarter will be weaker

The first available indicators point to a mixed situation for the French economy at present. On the one hand, demand is still solid and optimism is still high, both among companies and households. The PMI indices for January, for example, indicate an increase in new business and growth in activity. But, on the other hand, this growth is being held back by the lack of personnel. Although, in contrast to other European countries, the Omicron wave of the coronavirus has not led to new health restrictions in France, activity and recruitment are hampered by the numerous contaminations which lead to significant absenteeism in companies. This high level of staff absenteeism and the continuing problems on production lines are leading to a growth slowdown in France in January, particularly in the services sector. With the number of new coronavirus infections still very high, absenteeism in companies is not expected to decline rapidly in the coming weeks. Production lines are also likely to remain heavily impacted, especially given Omicron's arrival in Asia and the zero-Covid strategy being pursued there, potentially resulting in closures of ports and factories. The economic slowdown in France will therefore probably continue well into the first quarter. Positive quarterly growth, but close to 0%, is expected in 1Q. The economy is then expected to grow at a faster pace and growth could reach close to 4% in 2022.

## The inflationary environment is a risk to the outlook

All data and indicators point to continued high inflation in the coming months. According to the January PMI indices, prices paid by businesses are rising at their fastest rate since 2004 due to higher wage, transport, energy and raw material costs. Given the strong demand, companies have the pricing power to pass on these increases in their sales prices and appear to be doing so. The PMI survey shows the highest inflation of invoiced prices in January since data collection began in October 2002. Consumer price inflation is therefore expected to continue to rise in the first quarter, with the CPI for France likely to reach the 3% mark. Inflation is expected to fall from the spring onwards, but this will be slow and consumer prices will probably grow at a rate above 2%

throughout 2022. The expected rise in headline inflation is likely to impact household consumption, as rising energy prices are eroding their purchasing power and could negatively influence confidence. This is therefore an important risk for the 2022 outlook.

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