

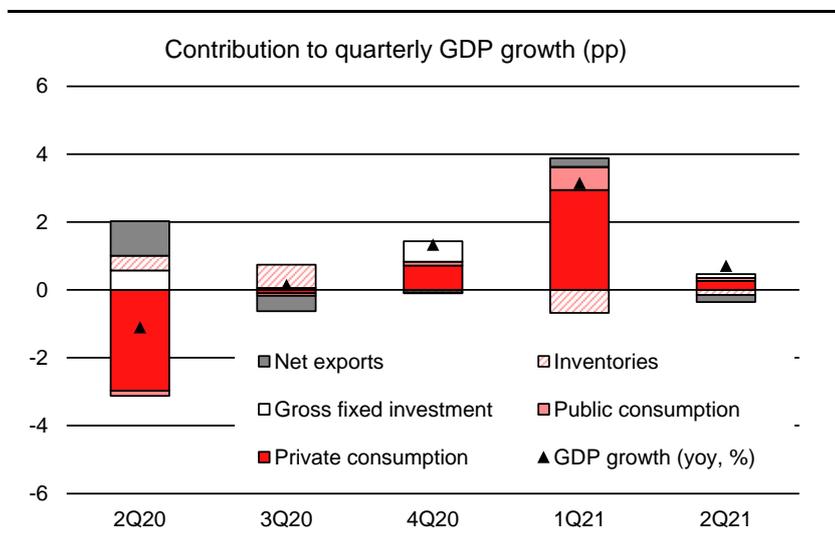
## France: GDP growth slows as rebound in services loses steam

- French GDP rose by 0.7% qoq in 4Q21 (after +3.1% in 3Q21), coming in slightly stronger than expected (consensus and UniCredit: 0.5% qoq). As a result, yearly 2021 GDP growth settled to 7.0% (after -8.0% in 2020). The deceleration in quarterly GDP growth reflects a slowdown in services activity (+0.9% qoq after 3.5% qoq) as the post-reopening jump faded. Nonetheless, in-person services, especially transport services, continued to increase approaching their pre-pandemic level. However, the reintroduction of restrictions in December to curb the spread of the Omicron variant probably weighed on the pace of recovery in the hospitality sector (up by only 0.3% qoq after +44% qoq). The contribution from manufacturing activity continued to be nil, as bottlenecks and shortages in supply continued to hold back production, particularly in the automotive.
- As the reopening boost waned, France recorded a more balanced composition of GDP growth in 4Q21 compared to the previous quarter. Domestic demand contributed 0.5pp to GDP growth, with a further uptick in private consumption and an acceleration in gross fixed investment after the standstill recorded in 3Q. Households slowed down significantly their spending on manufactured goods (+0.1% qoq after 3.2% qoq), while their consumption of services remained more resilient (+1.2% qoq after 11.4% qoq). The acceleration in overall investment was mainly driven by investment in market services (+2.3% qoq after 1.9% qoq), especially IT services, given that supply side constraints weighed on investment in manufactured goods and construction. Net exports shave 0.2pp off GDP growth as growth in imports (3.6% qoq after 0.8% qoq) outpaced growth in exports (3.2% qoq after 1.7% qoq). The INSEE reports that the solid performance of exports is explained by a significant increase in naval equipment deliveries. Inventories cut 0.2pp to GDP growth.
- Looking ahead, it is likely that GDP growth will weaken further in 1Q22 as restrictions to curb the spread of Omicron are weighing significantly on services spending and supply-side constraints remain severe, holding back production. The strong increase in energy costs borne by consumers, albeit mitigated by government intervention, is also likely to weigh on private consumption. However, this points to a likely strong rebound in activity in the spring when most of the restrictions are likely to be lifted and energy prices will probably start to decline.

In greater detail:

Private consumption slowed 0.4% qoq in 4Q21 after 5.6% qoq in the previous quarter.

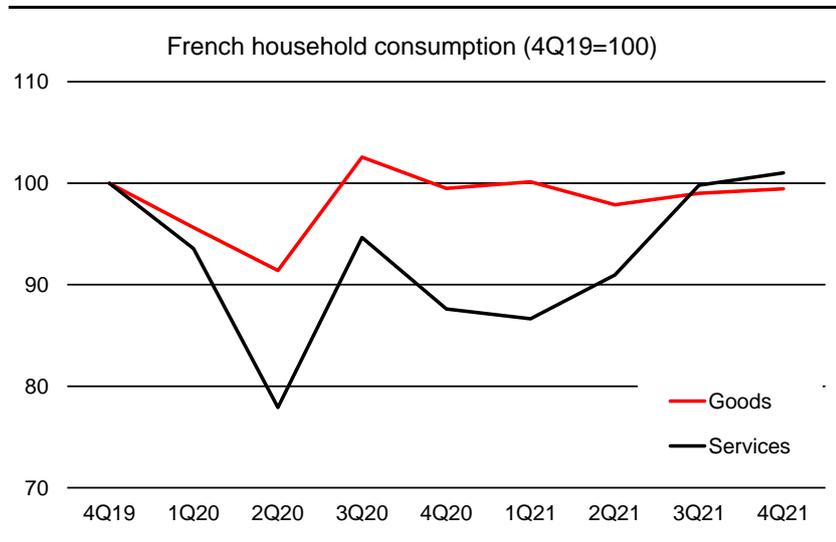
**CHART 1: PRIVATE CONSUMPTION SLOWS AS THE POST-REOPENING JUMP FADES**



Source: INSEE, UniCredit Research

Households continued to concentrate their spending on services.

**CHART 2: HOUSEHOLD SPENDING HAS SWITCHED BACK TO SERVICES**



Source: INSEE, UniCredit Research

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This report was completed and first published on 28 January 2022 at 11:44.

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