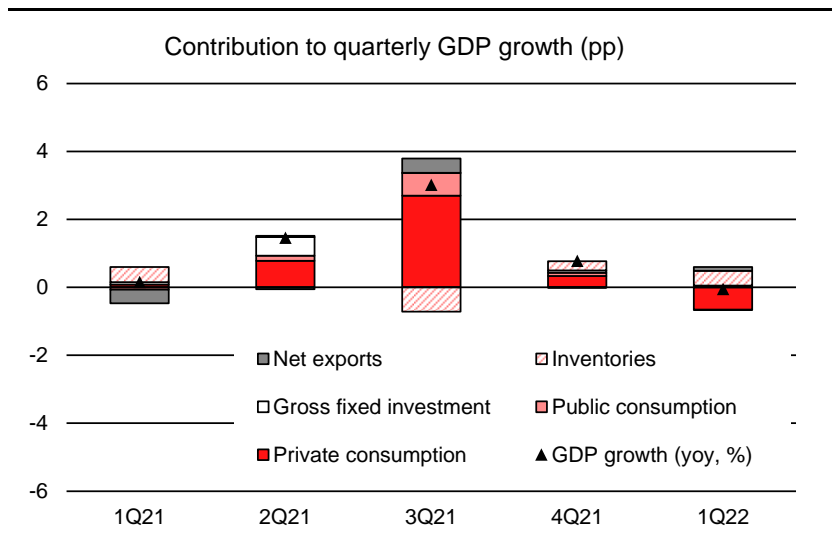


France: GDP stagnates as Omicron weighs on services activity

- French GDP stagnated in 1Q22 (0.0% qoq after 0.8% qoq in 4Q21), coming in weaker than expected (UniCredit: 0.2%; consensus: 0.3%). The deceleration reflects a further slowdown in services activity, especially in-person services, due to government restrictions and voluntary distancing following the spread of the Omicron variant. The recovery in the hospitality sector marked a pause after three consecutive quarters of growth. Conversely, manufacturing activity accelerated significantly but its positive contribution to GDP growth was offset by a decline in energy production.
- Domestic demand weighed on GDP growth (-0.6pp) due a significant contraction in private consumption whereas gross fixed investment remained resilient. Private consumption contracted for the first time in a year, probably reflecting the worsening of the health situation and the surge in inflation. Households cut their spending, not only on services but also on manufactured goods, notably clothing. Investment held up reasonably well, mainly driven by investment in information and communication services and equipment goods. Net exports added 0.1pp to GDP as growth in exports outpaced growth in imports. The INSEE reports that the healthy performance of exports is explained by the delivery of a cruise ship. Inventories added 0.4pp to GDP growth.
- The effects of the Russia-Ukraine conflict on French economic activity will become clearer with 2Q22 GDP data. April PMI data have pointed to resilient activity two months since the start of the conflict, driven by the reopening of many sectors as pandemic restrictions were lifted. Manufacturing activity has also fared relatively well as companies reported an increase in orders, although some of these were placed in anticipation of higher prices. Overall, risks to the growth outlook remain skewed to the downside as the combination of rising prices and uncertainty is heavily weighing on consumer confidence and supply-side disruptions and pipeline price pressure appear far from abating in the manufacturing sector. GDP growth will likely be affected once the impulse from the reopening fades.

The stagnation in 1Q22 GDP growth was largely driven by a contraction in private consumption (down by 1.3% qoq in 1Q22 after +0.6% in 4Q21).

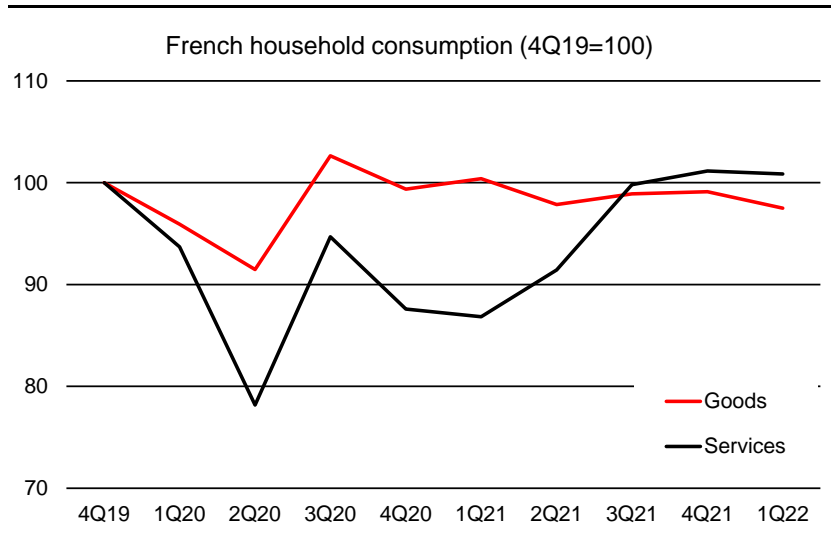
CHART 1: GDP STAGNATION MAINLY DRIVEN BY DECLINE IN PRIVATE CONSUMPTION



Source: INSEE, UniCredit Research

Households cut their spending, not only on services but also on goods (down by 0.3% and 1.6% qoq, respectively).

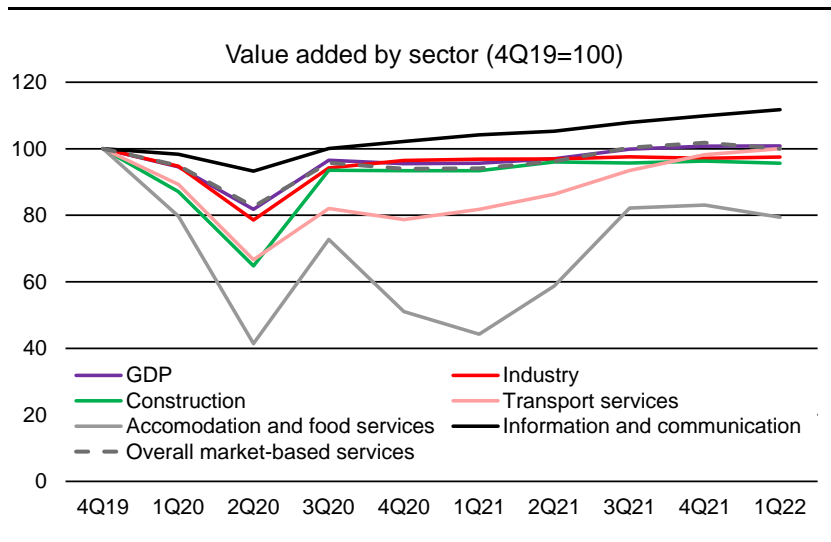
CHART 2:



Source: INSEE, UniCredit Research

The deceleration in services was concentrated in more contact-intensive services, such as accommodation and catering activities (-4.4% qoq after +1.1%). Activity in these sectors has not fully regained its pre-crisis levels and there is still ample slack.

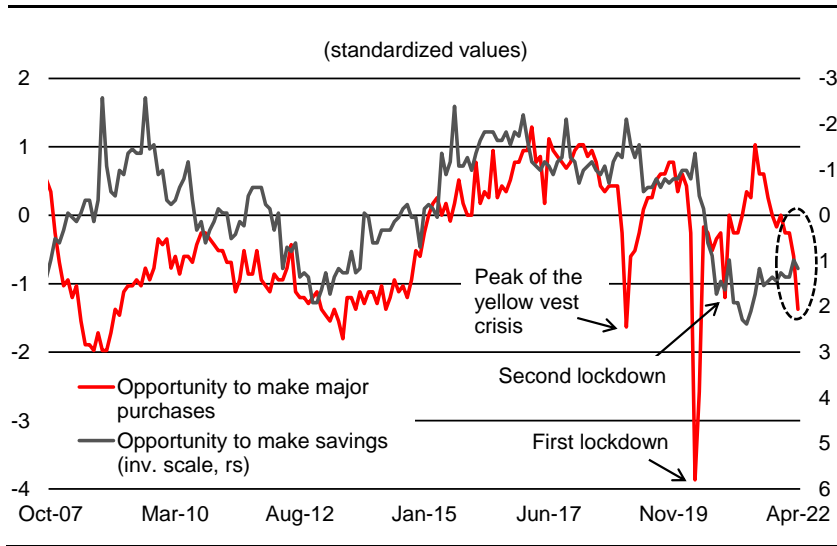
CHART 3: CONTACT-INTENSIVE SERVICES WERE THE MOST AFFECTED



Source: INSEE, UniCredit Research

The significant deterioration in consumer confidence amid rising prices and increasing uncertainty risks weighing on private consumption and, consequently, GDP growth prospects.

CHART 4: CONSUMERS ARE LESS WILLING TO SPEND



Source: INSEE, UniCredit Research

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