

# A strong but mixed recovery

▲ +5.9%

Global GDP annual growth  
*IMF, 2021 forecast*

▲ +6.7%

France GDP annual growth  
*INSEE, December 2021 forecast*

▲ 2.1%

Inflation rate (annual average)  
*Banque de France, December 2021 forecast*

▶ 8%

Average annual unemployment rate  
*INSEE, December 2021 forecast*

▼ 19.3%

Household saving rate  
*Banque de France, 2021 forecast*

▲ +4.5%

Household spending  
*INSEE, December 2021 forecast*

Note: The arrows indicate annual variations

## KEY POINTS

- After a historic decline in 2020, the 2021 GDP rebound is all the more spectacular, with an estimated GDP growth rate of 6.7%.
- This strong economic growth is expected to continue in 2022, albeit at a lower rate, as INSEE forecasts a further 3% increase.
- Demand is at the heart of the recovery, driven by household spending.
- A number of uncertainties weigh on activity sectors to differing degrees, which are focusing the recovery on sectors least affected by public health restrictions.
- Rising inflation is the main threat identified at this stage, and the ECB's response to inflation will be key to the economic scenario in 2022 and beyond.



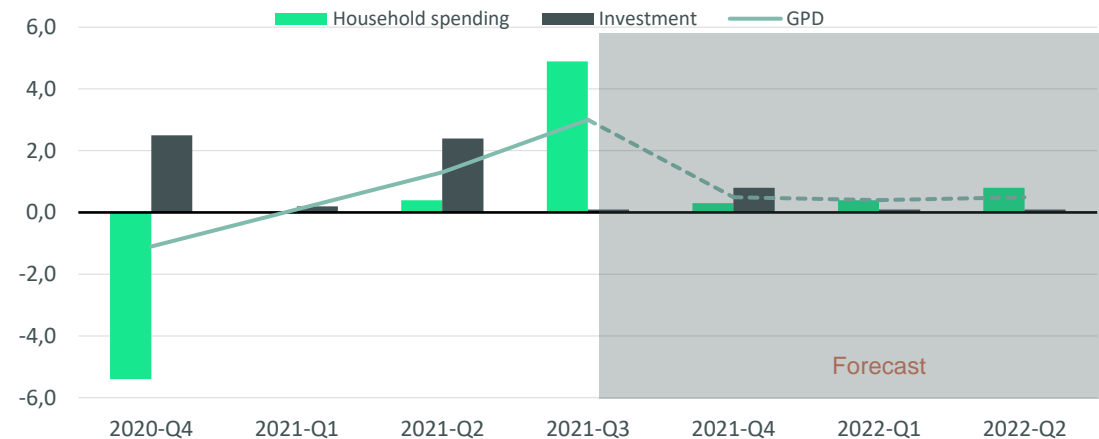
## Demand as the main driver of growth

The easing of public health restrictions and the continued vaccination campaign have encouraged households and businesses to consume and invest. GDP growth for 2021 is estimated at 6.7%, mainly driven by rising household spending. In Q3 2021, it will contribute 2.5 percentage points to GDP growth, approaching pre-Covid levels (-1% compared to Q4 2019). Household spending growth will fall during the course of 2022 to return to its pre-crisis trajectory. In 2021, total annual spending will have risen by 4.5%, then will rise by 4.1% in 2022.

Private investment is also experiencing a robust recovery. By mid-2021, it had caught up with pre-pandemic levels. The economic recovery and strong business climate are encouraging companies and investors to act.

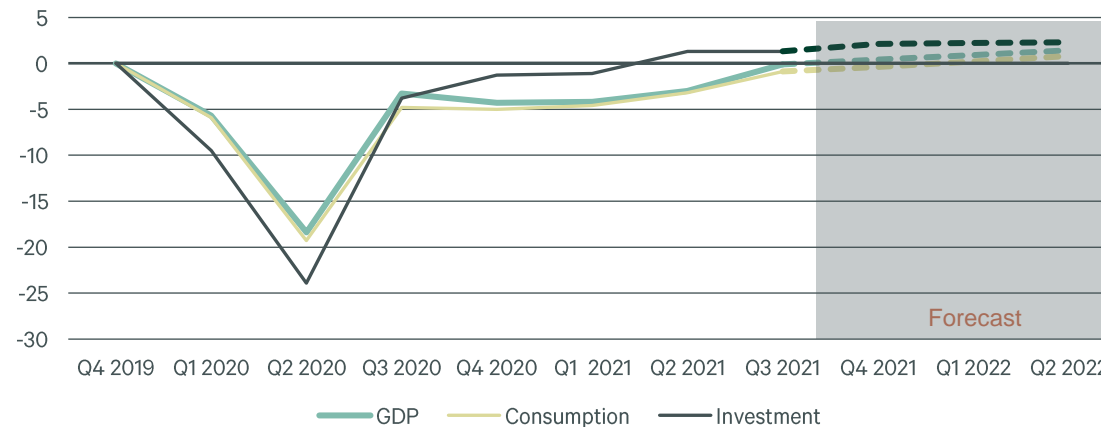
The French economy is rebounding after a very difficult 2020. Although mechanical, this recovery is testament to an environment that is conducive to recovery and encouraging strong and resilient demand. This rapid and robust economic recovery is nevertheless taking place against the backdrop of the pandemic. The widespread Omicron variant will automatically impact the structure of the French economy, both in terms of production and consumption.

FIGURE 1: GDP, household spending and investment growth (quarterly change, %)



Source: INSEE, December 2021

FIGURE 2: Change in main demand components (deviation from Q4 2019, in %)



Source: INSEE, December 2021

## Business recovery: varying and subject to constraints

All activity sectors are generally showing a strong recovery, despite persistent disparities.

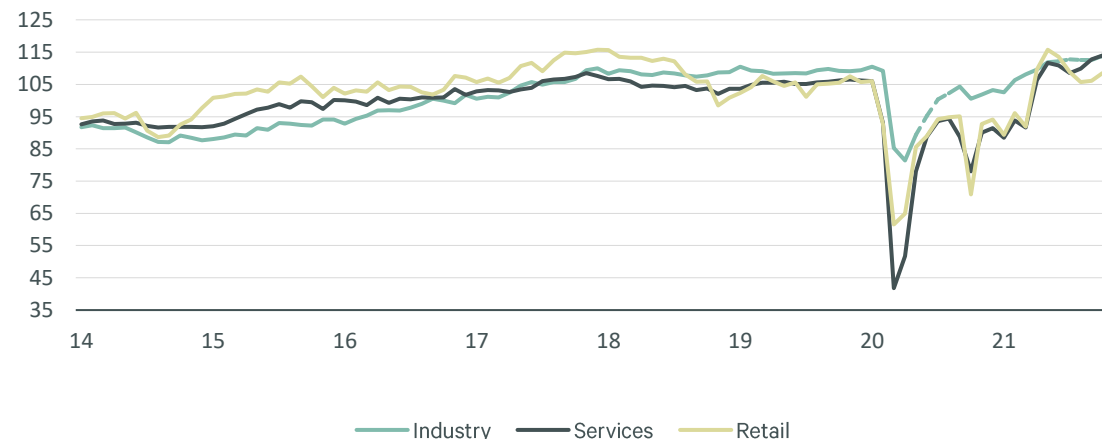
In December 2021, the business climate performed well above its long-term average, proof of the optimism of professionals across all sectors. The main reason is the improvement of the health crisis, reinforced by a more favourable economic situation. Economic activity across the main branches of the French economy remains dynamic, which is allowing them to recover. Some are experiencing a clearer and less constrained rebound than others.

During a dynamic Q3 2021, services that suffered the most from public health restrictions such as catering and accommodation, experienced a strong rebound, thanks in particular to strong summer seasons. Information and communication services have also performed well since the beginning of the health crisis and continue on this positive trajectory. In Q4 2021, market services recovered almost all pre-pandemic business. The industrial and construction sectors have suffered from supply chain difficulties and price rises, which have increased production costs and delivery times. The most striking example is transport equipment manufacturers, whose economic activity remains below pre-pandemic levels (-27.5% compared to Q4 2019).

Business recovery remains relatively fragile given current market conditions. Inflation and supply chain difficulties remain historically high, which undermine the recovery of sectors whose performance is closely linked to these variations.

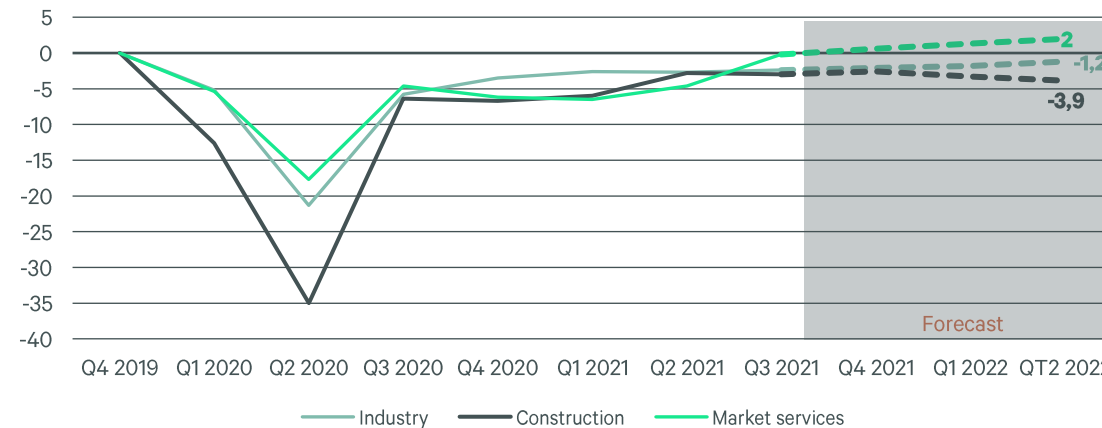
In light of these constraints, assuming continued stability in terms of the health crisis and the economic recovery, GDP growth in the first two quarters of 2022 will be primarily driven by market services.

FIGURE 3: Business climate indicator



Source: INSEE, December 2021

FIGURE 4: Difference in economic activity compared to pre-pandemic levels (in %)



Source: INSEE, December 2021

## Continuing supply chain difficulties

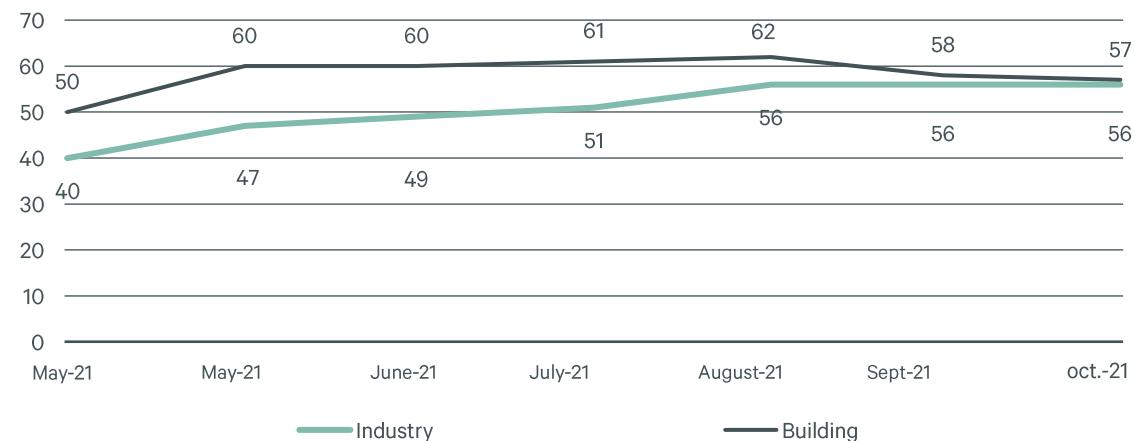
An economic recovery occurred almost simultaneously worldwide in 2021. Global demand is strong, but the pandemic is still raging which is limiting production and lengthening delivery times. The proportion of companies reporting supply chain difficulties is significant, even if it is decreasing. More than half of all industry and construction sector companies have been affected, particularly the automotive and electronic equipment sectors.

High demand for raw materials is also impacting prices. Since 1<sup>st</sup> of January 2021, the Brent crude oil price has risen by more than 50%, while the price of natural gas has risen by 90% over the same period. The price of steel has also risen by almost 200% since the beginning of the year to a value not seen for 20 years.

The margin rates of non-financial companies also fluctuate to a certain extent. Despite a positive trend over the course of the year, the end of the government's support measures and declining use of the furlough scheme have led to a downward revision of companies' margin rates in Q3 2021. In 2022, the rate decline is expected to continue more slowly, offset by rising productivity (thanks to the rebound in activity), wage increases below inflation and the inflation's repercussion on production prices.

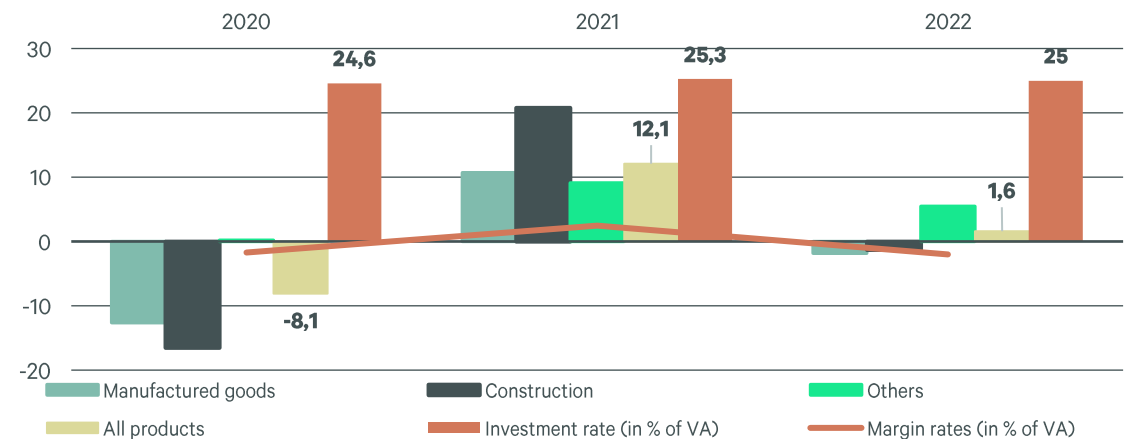
The impact of supply chain difficulties for those sectors most affected by these issues will be slow to be resolved, particularly for manufactured goods. The construction sector will be impacted by a decline in market dynamics for non-residential building construction compared to 2021. Nevertheless, companies will continue to invest: the investment gain in mid-2022 will be 1.6%, versus 12.1% in 2021. Moreover, the investment rate of non-financial companies will remain stable: 25% of value added by 2022 compared to 25.3% in 2021.

FIGURE 5: Share of companies reporting supply chain difficulties (%)



Source: INSEE, December 2021

FIGURE 6: Investment by type of product and margin rate of non-financial companies\*



Investment differentiation by product and margin rate are expressed as annual changes, in %. The investment rate is expressed as an annual average.

Source: INSEE, December 2021

## An active labour market

With the economic recovery and decreased use of the furlough scheme, the labour market is clearly thriving. Despite downward forecasts, the unemployment rate is showing signs of stabilising at 8.1% of the labour force in Q3 2021 (compared to a forecast of 7.6%), an increase of 10bps compared with Q2 2021. This is due to an almost equal increase in the active population and total employment.

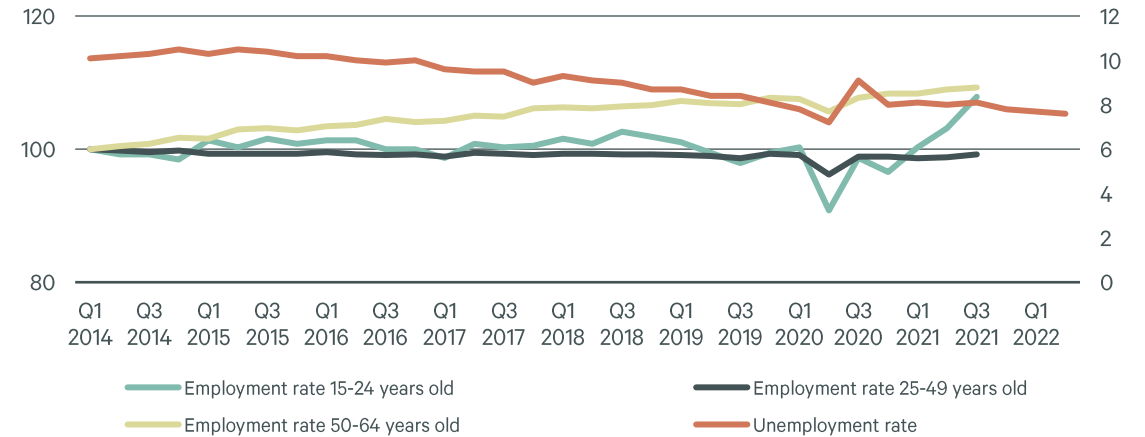
These increases are mainly thanks to the 15-24 year old population, many of whom are increasingly pursuing courses with practical training components and entering the labour market in large numbers. Also, as a result of the economic recovery, many people are (re)entering the labour market, a fact that INSEE calls the "flexion effect". The outer circle of unemployment automatically decreases.

In 2022, INSEE expects the unemployment rate to remain stable in the short term, with a downward trend in the medium term, totalling 7.6% of the active population by the first half of 2022.

## An upward trend in wages

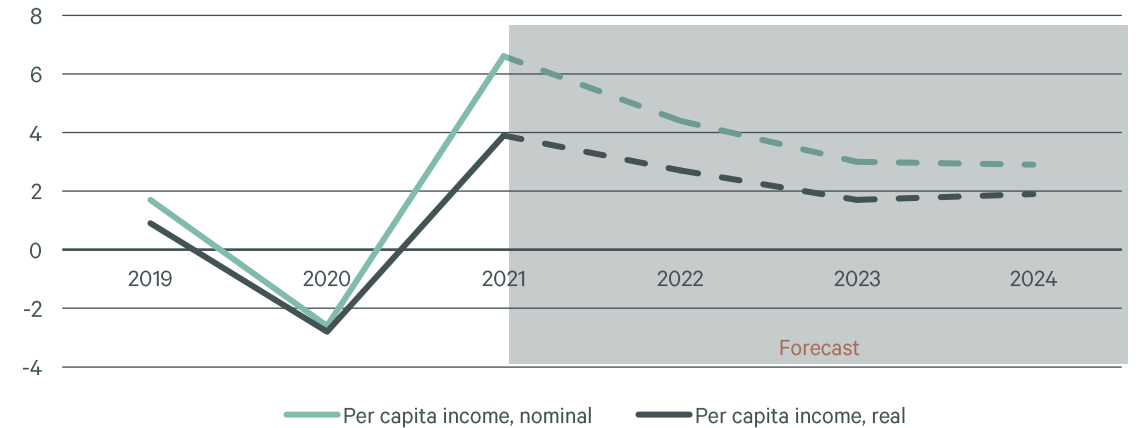
Employment dynamics are impacting incomes. As an increasing number of companies report recruitment difficulties, wages could rise, driven by internal negotiations and a general rise in prices. In the current inflationary context, minimum wage will be increased by 0.9% in January 2022, after a 2.2% increase in October 2021. This indexation will be complemented by inter-branch negotiations. Some sectors, such as the market services sector, have already experienced wage negotiations. Despite some disparities, wages are expected to increase by 4% in 2022 and to continue growing by around 3% by 2023.

FIGURE 7: Unemployment rate (right-hand scale, in %) and employment rate\* (base 100 = Q1 2014, left-hand scale)



\*The employment rate is the ratio of the number of people employed to the total population.  
Source: INSEE, December 2021

FIGURE 8: Wage evolution in the market services sector, at end of period (in %)



\*Real wages are nominal wages adjusted for inflation.  
Source: INSEE, December 2021

## Inflation and monetary policy

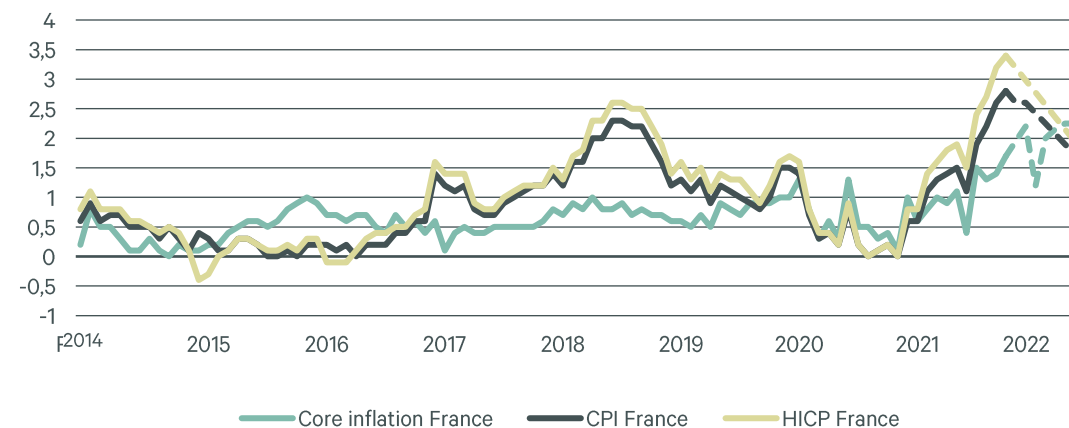
The inflation observed since 2021 is mainly due to the rise in the cost of raw materials, particularly oil products. According to INSEE, in November 2021, the rise in energy prices contributed 1.6 points to inflation during this period, estimated at 2.8% in one year. Inflation should slow by the end of 2022, gradually falling below 2%.

Assuming stable oil and commodity prices, inflation should be approximately 2.6% y-o-y for the first two quarters of 2022. In the short term, a decrease or stabilisation of energy prices and of the price shield introduced by the government could push inflation down over the rest of the year. Core inflation would rise by 2022, driven by higher prices for manufactured goods and food.

However, these estimates depend on a number of uncertainties. Supply chain difficulties and the price of raw materials and energy play a determining role in calculating inflation. The persistence of current market conditions could impact inflation in the short term. The impact of price increases on wages will also have an important bearing on the evolution of inflation in the medium term.

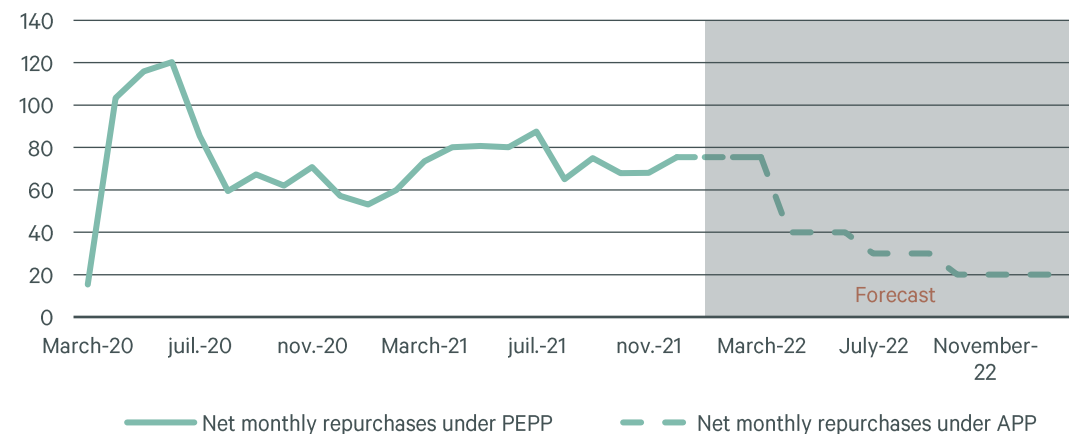
In order to support the European economy and consolidate its recovery, the European Central Bank (ECB) continues to pursue an unconventional monetary policy. The ECB is ensuring the continuity of its repurchase programmes: the PEPP programme will end in March 2022 and will be replaced by the pre-existing APP programme, whose scope will decrease in size by 2023.

FIGURE 9: Inflation in France (y-o-y, in %)



Source: Banque de France, INSEE, December 2021

FIGURE 10: Amounts allocated to buyback programmes (in €bn)



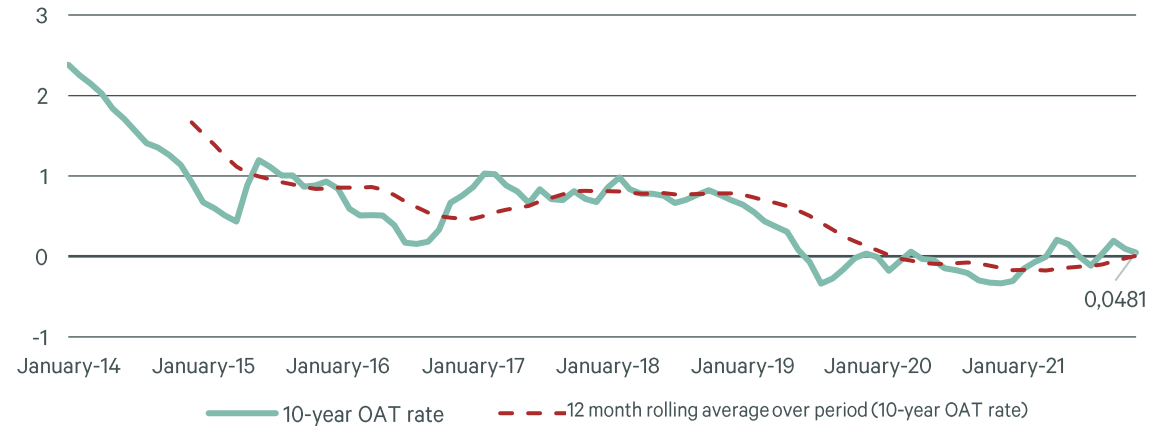
Source: European Central Bank, December 2021

## Debt and financial markets

Despite weakening indicators, France remains a trusted player in the financial markets. The OAT 10-year bond rate was positive at the end of 2021, averaging 0.0481% in December. At the beginning of 2022, it is approximately 0.30%.

The upward trend in French bond yields is partly due to financial players' expectations in terms of inflation and monetary policy (interest rate hikes, recalibration of the sovereign bond buyback programme, etc.). Yet the ECB's accommodating measures are vital to a smooth economic recovery, generating reassuring growth prospects for financial players. These two opposing forces explain the stability of the OAT bond rate in 2021.

FIGURE 11: Top 10-year borrowing rate (monthly average, in %)



Note: The red curve shows the overall trend and minimises variations.  
 Source: Banque de France, January 2022



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