



ITALY SCENARIO 2022-2023 FIRST QUARTER

ITALY: FACING THE SETBACK OF THE CONFLICT IN UKRAINE

May 2022

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GROUP ECONOMIC RESEARCH

SUMMARY

THE INFLATION SHOCK IN 2022

The strong growth in 2021, with a 6.6% increase in GDP, enabled the Italian economy to recover a large part of the losses linked to Covid-19, nearly reaching its pre-crisis level in Q4 2021 (-0.3% vs. Q4 2019). However, the end of the year was marked by a sharp slowdown due in part to the adoption of stricter health pass rules, but above all to the rise in the cost of commodities, particularly energy, which have penalised companies and households as soon as from October 2021.

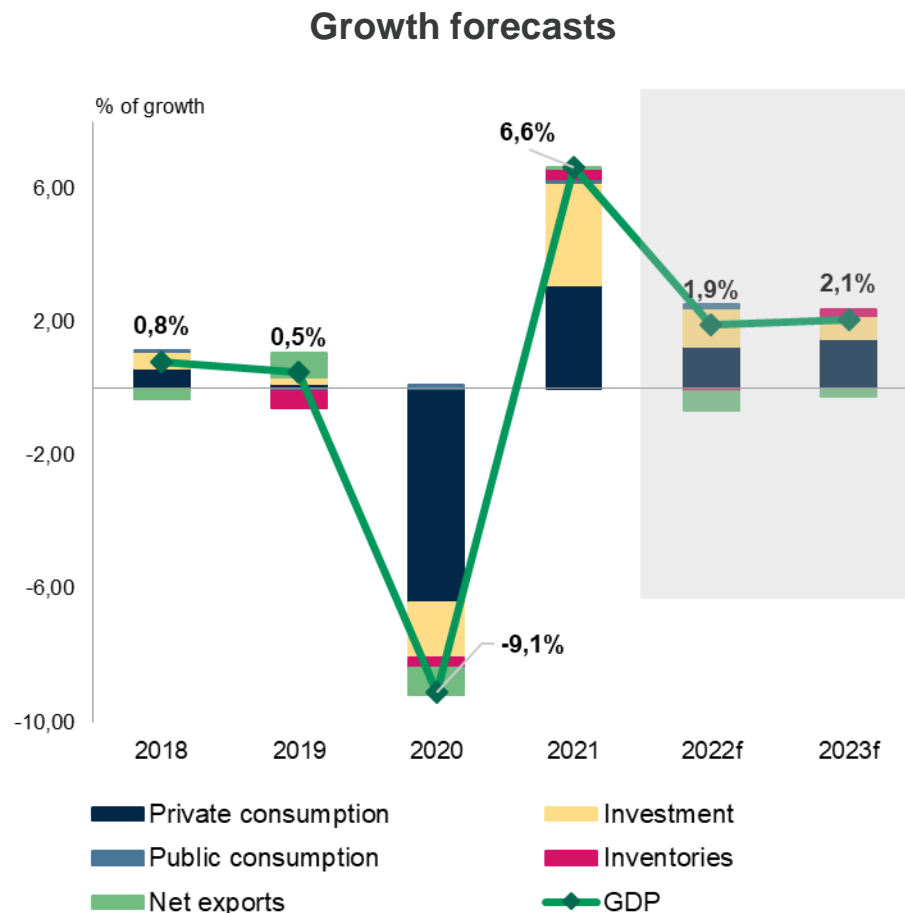
The outbreak of the war in Ukraine has exacerbated this unfavourable environment and further weakened the Italian economic recovery. Even if their contribution to total trade flows is small, imports from Russia account for nearly 40% of Italy's gas consumption. Exposure to Russian gas is also reinforced by the importance that gas plays in the energy mix, as the latter accounts for 42% of electricity generation. Given Russia's weight in Italy's energy supply, a stoppage of these imports would be very damaging for the Italian economy. The country has short-term alternatives, including increasing imports from Algeria as well as LNG purchases, which will only partially offset the Russian gas deficit. As part of the REPowerEU programme, other solutions are also being considered, such as the increased use of renewable energy, which would make it possible to limit gas dependence in a more sustainable manner.

Moreover, the importance of gas in the energy mix exposes the Italian economy to the surge in prices, which has an impact on both producer and consumer prices. At the beginning of the year, price indices posted significant increases of 32% for industrial output prices compared to January-February 2021 and 5.7% for inflation over the January-March period. This upward trend, which is expected to continue in 2022, brings the inflation estimate to an average of 7.4% over the year. This inflationary shock led to a revision of the 2022 growth profile from 4.1% in December to 1.9% in April. The rise in prices should lead to a slight decline in activity in the first two quarters, followed by a gradual recovery in the second half of the year. Despite the support measures to address the surge in prices, consumption and investment are expected to slow sharply in 2022. The easing of inflationary pressures in 2023 as well as the investment in the stimulus plan should nevertheless help maintain a favourable growth profile in 2023 at 2.1%.

SUMMARY

THE INFLATION SHOCK IN 2022

Higher inflation also poses a new challenge for public finances. For the time being, the support measures for businesses and households have not had an effect on the accounts of the public administration, since a percentage of these measures is financed by a tax on the surplus profits of energy companies. **As a result of improved spending and revenue performance, the public deficit for 2021 has been revised downward from the government's initial projection of 9.4% to 7.2%.** The decline in the public deficit compared to 2020 also favoured a significant reduction in the public debt ratio, which benefited both from a denominator effect (increase in nominal GDP growth) and a decrease in financing needs. **However, government projections for the budget deficit remain unchanged at 5.6% for 2022 and 3.9% in 2023.** It remains highly likely that a budget overrun will be requested in the coming quarters if the coordination on prices expected at the European level proves insufficient. The trajectory of the **public debt ratio was also revised downwards, to 147% in 2022 and 142% in 2023.** The primary balance (excluding interest costs) is expected to move closer to equilibrium from 2023, to -0.8% vs. -2.1% in 2022. **The maturity of the debt and the significant share of long-term bonds should continue to favour a decrease in debt interest charges, despite the slight recovery observed in sovereign rates - from 3.5% in 2022 to 3.1% in 2023 - following the Ukrainian crisis.**



Sources: Istat, Crédit Agricole SA

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2021: record growth

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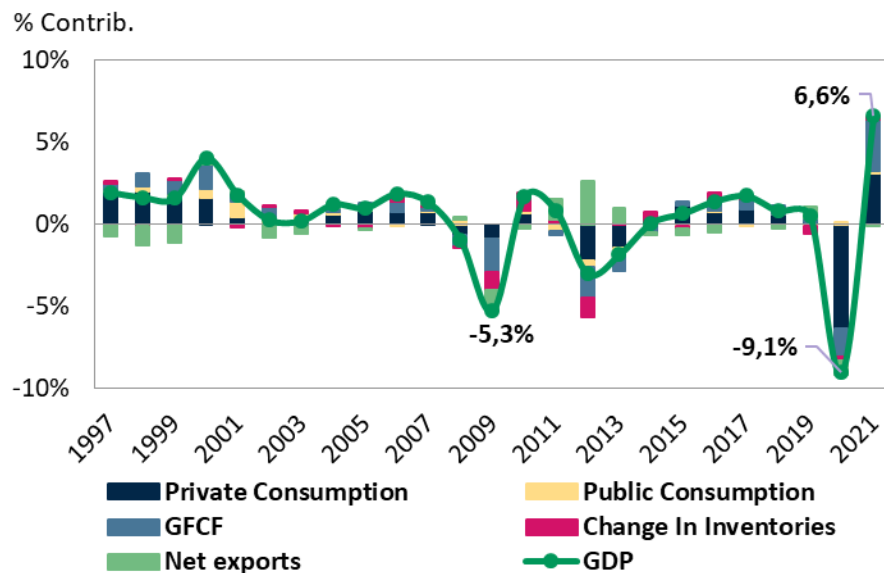
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2022 scenario outlook

2021: RECORD GROWTH

2021 GROWTH MOMENTUM FILLS THE GAP CREATED BY THE COVID-19 CRISIS

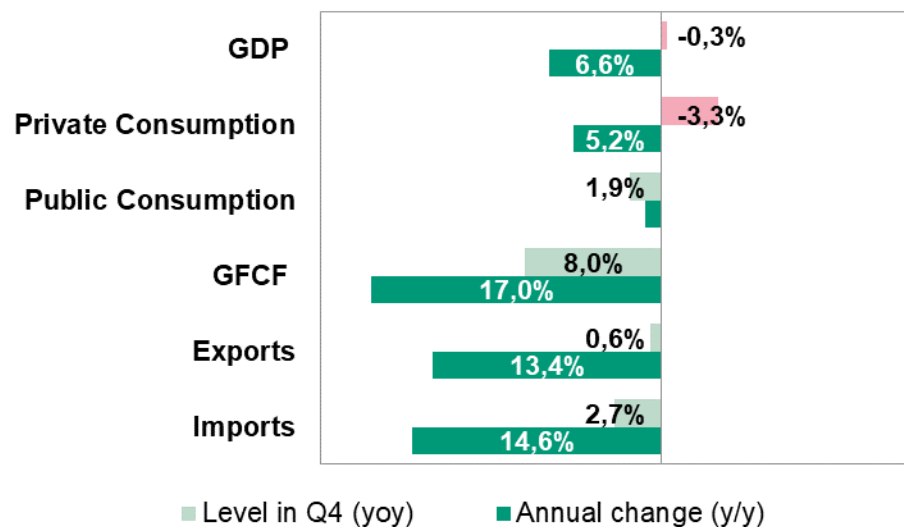
GDP growth since 1997



Sources: Markit, Crédit Agricole SA

The strong growth in 2021 with a 6.6% increase in GDP enabled the Italian economy to recover much of the losses related to Covid-19, reaching its pre-crisis level of -0.3% in Q4 2021. However, the end of the year was marked by a sharp slowdown in growth due in part to the adoption of stricter health pass rules, but above all to the rise in the cost of raw materials, particularly energy, which penalised companies and households. With the exception of household consumption, which remains 3.3% below its 2019 level, all components of demand have

Recovery of demand components



Sources: Istat, Crédit Agricole SA

significantly exceeded their pre-crisis levels. Investment recorded significant growth over the year, increasing 17% as a result of rebounds in business investment and in construction (16.9% and 22.3% respectively).

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GAS: A TWOFOLD PENALTY

DEPENDENCE ON RUSSIAN GAS FURTHER EXPOSES THE ITALIAN ECONOMY TO THE CONSEQUENCES OF THE CONFLICT IN UKRAINE

Russia is a secondary trading partner for Italy. The country accounts for only 1.6% of Italy's exports and 2.4% of its imports. However, imports from Russia remain more than **70% concentrated around fossil fuels and products**, followed by imports of cast iron and iron, steel and aluminium, which account for 8.4% and 3% respectively. Oil accounts for more than half of the imports of fuel and minerals and for 31% of Italian oil imports. However, coal imports, representing just 3.4% of total energy imports, remain highly dependent on Russian imports, since the latter **account for nearly one-third of coal imports. Gas accounts for more than half of all energy imports from Russia and for nearly 40% of total Italian gas consumption.** The strategic choice to favour gas energy and the development of intra-European gas infrastructure networks following the oil crisis gradually made Russia a key partner for Europe and Italy.

The invasion of Ukraine has disrupted this initial strategy and forced Italy to rethink its supplier portfolio. It exposes the country as Germany faces a potential risk of gas supply disruption, the effect of which, given the

importance of gas in the energy mix, could penalise the entire economic fabric. Compared to other European countries, Italy has a greater possibility of diversifying its suppliers, particularly thanks to the multitude of entry points within its territory. Indeed, the country is connected - thanks to the Transmed, GreenStream and Tap Growth pipeline - to Algeria, Libya and Azerbaijan. It also has an LNG regasification capacity estimated at 15 billion m³ thanks to the three sites in Cavarzere, Livorno and Panigaglia.

Aware of the difficulty of compensating the 28 billion m³ from Russia, the government intends to act on two fronts at the national and European levels. The first one consists in optimising existing surplus infrastructures by increasing gas imports from other partners, including Algeria, and investing in the development of current infrastructures. Among the explored tracks, the one used to respond to the urgency of the situation would be the acquisition of a floating storage and regasification unit, such as the one used in the Livorno terminal. These floating mobile units, which can be deployed faster at a 12-month horizon, could reach a production capacity of 5-6 billion m³ per

year. The second component is European. The REPowerEU plan aims to reduce dependence on Russia by 2030. Governments will have to cut their Russian gas imports by two thirds by the end of 2022, while increasing their strategic inventory levels to address the risk of cuts in the coming winter. Priority is given to the search for alternative suppliers (LNG: US, Qatar and Egypt; pipeline: Norway, Algeria and Azerbaijan; investment in biomethane), which will need to be accompanied by investment in energy savings. Like the plan for Italy, the main weakness of this plan is its timing, which remains very ambitious and only partially responds to the short-term urgency.

Cf. [Eurozone – Russian gas supply vulnerability: what strategies?](#), 20 May 2022

GAS: A TWOFOLD PENALTY

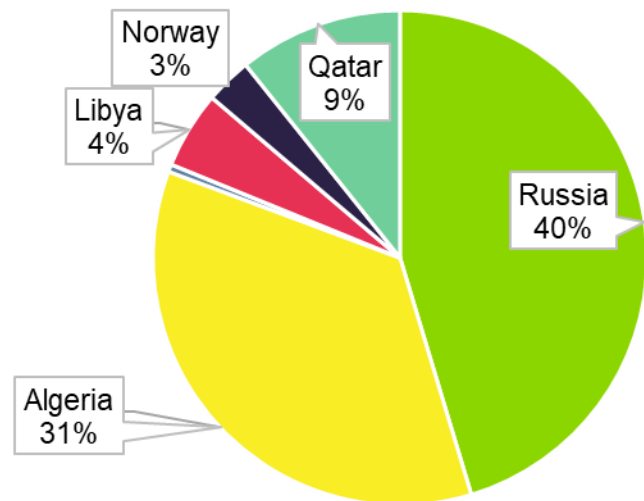
DEPENDENCE ON RUSSIAN GAS FURTHER EXPOSES THE ITALIAN ECONOMY TO THE CONSEQUENCES OF THE CONFLICT IN UKRAINE

Exports: main partners



Source: Cometrade, Crédit Agricole SA / ECO

Gas supplier countries in 2021

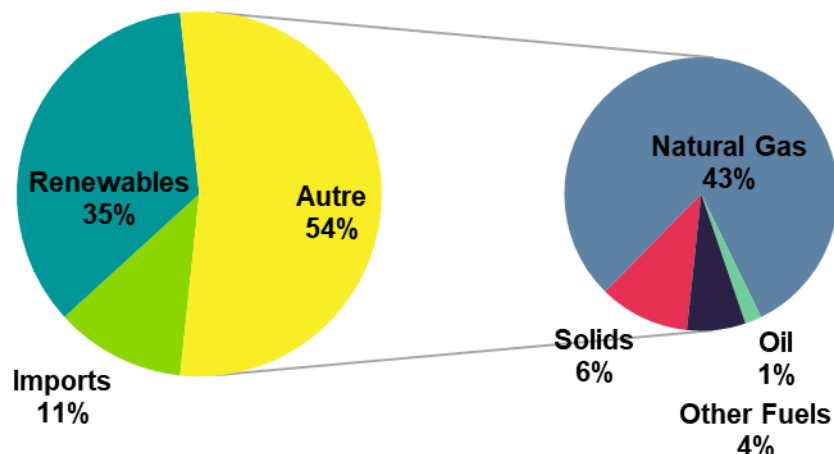


Source: Mise, Crédit Agricole SA / ECO

GAS: A TWOFOLD PENALTY

THE PREDOMINANCE OF GAS IN THE ITALIAN ENERGY MIX: THE ACHILLES HEEL OF THE BOOT

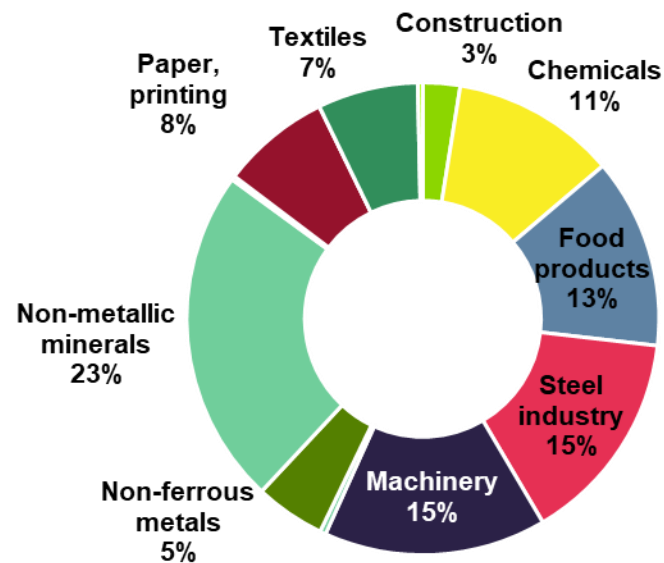
Breakdown of electricity generation by type



Source: Terna, Crédit Agricole SA / ECO

Italy's exposure to Russian gas is all the more sensitive as the role of gas in the Italian energy mix is significant, particularly in terms of electricity generation. According to data from the national natural gas transmission company (Società nazionale Metanodotti, Snam), 34% of total gas consumption is allocated to electricity production. In 2020, thermal electricity generation from gas accounted for 42% of total power generation in the Peninsula (data communicated by Terna, the national electricity company).

Industrial gas consumption



Source: Eurostat, Crédit Agricole SA / ECO

In sum, 6% of domestic electricity production would be impacted if Russian supplies ceased.

Electricity generation is not the only business to depend on the supply of gas. The industry consumes 16% of national gas needs. Some sectors are directly linked to the retail network, including steel (15%), non-ferrous mineral manufacturing (23%) and chemicals (11%).

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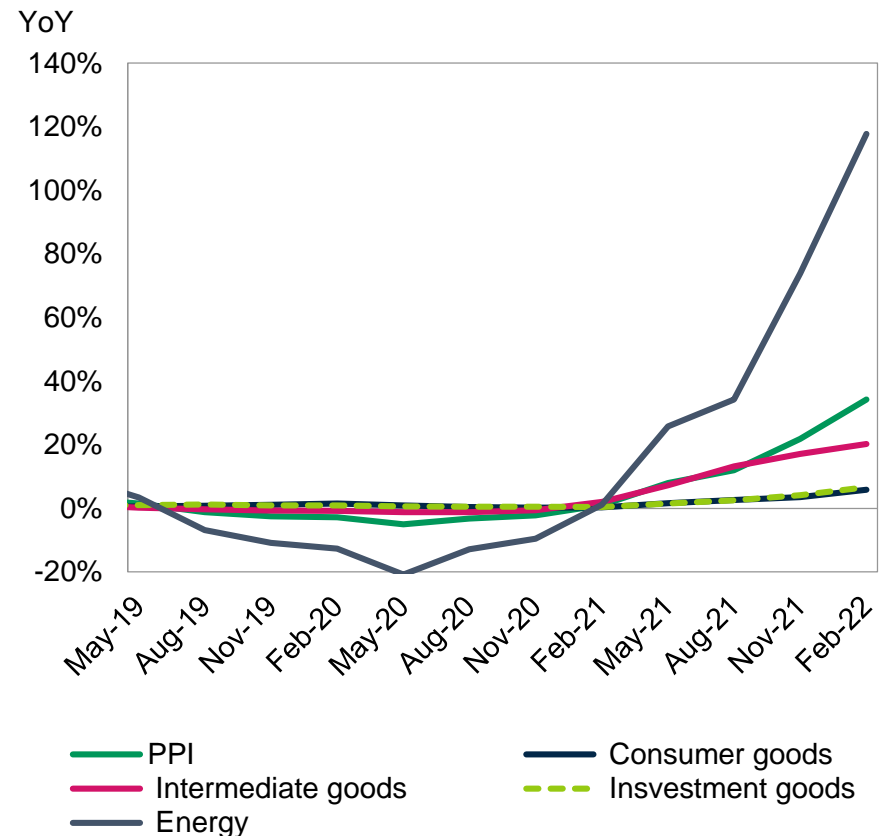
THE ECONOMY TESTED BY SOARING PRICES

COMPANIES: WHEN PRODUCER PRICES NARROW MARGINS

The initial effects of the Russia-Ukraine conflict on confidence were already tangible in March. The outbreak of the war and the surge in commodity prices led to a decline in business confidence in all sectors, with the exception of construction.

On the industrial side, supply constraints continued to weigh on companies' expectations. The rise in producer prices reached a new high, jumping +9% in January and 4% in March after the brief lull in February (+0.4%). Driven by energy prices that more than doubled compared to February 2021, production costs were up more than 35% YoY in Q1 2022. The surge in energy prices is spreading across the entire production chain. It primarily affects the cost of transport, the trajectory of which is highly correlated with the price of a barrel of oil. It also impacted in its wake the categories of inputs whose manufacturing process is highly energy intensive, such as metallurgy (+26% YoY) and chemicals (+22.2% YoY), thereby pushing up intermediate goods prices (+21% YoY). Some categories of goods, such as metals, are also suffering from supply chain disruptions that are direct consequences of the conflict in Ukraine; a country that, along with Russia, remains a major global supplier of commodities (rare metals, aluminium, etc.).

Industrial production prices

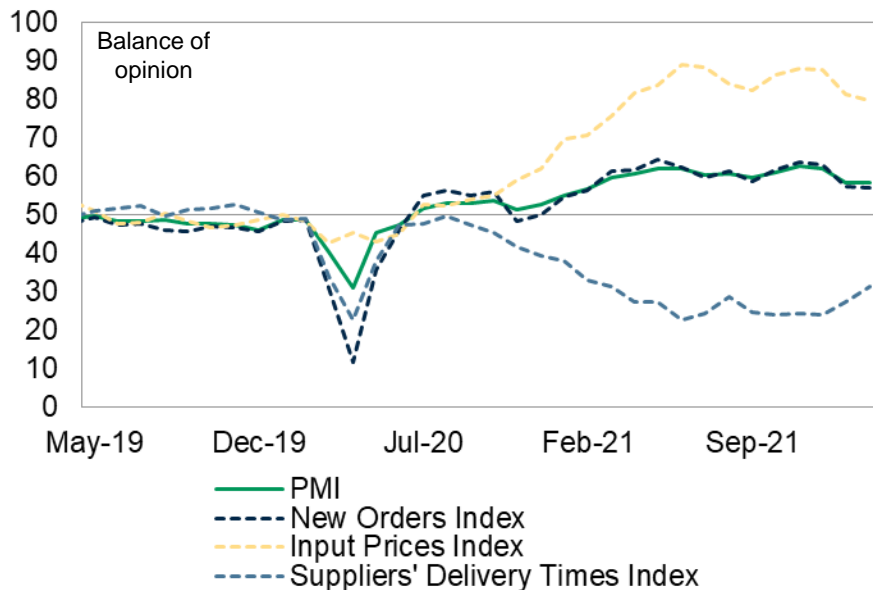


Source: Istat, Crédit Agricole S.A.

THE ECONOMY TESTED BY SOARING PRICES

COMPANIES: WHEN PRODUCER PRICES NARROW MARGINS

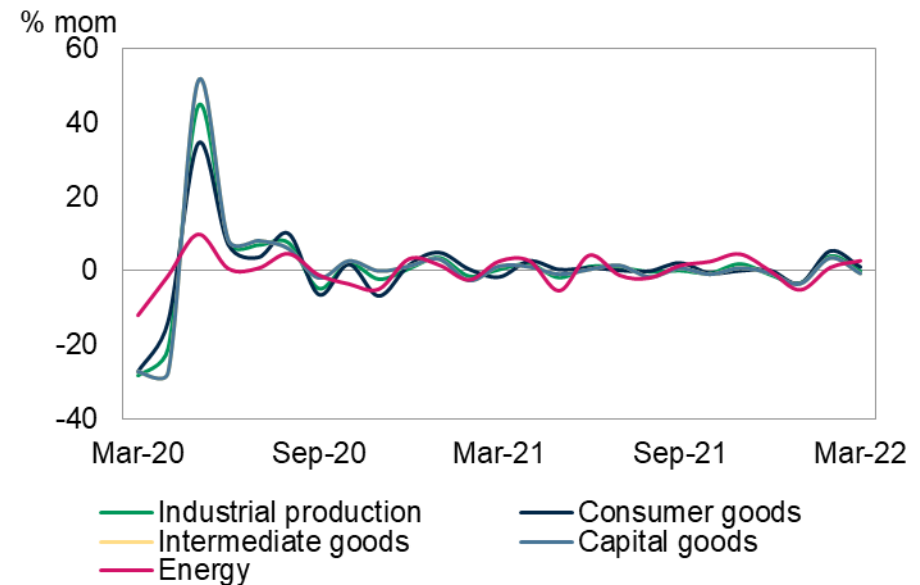
Purchasing Managers Index



Source: Markit, Crédit Agricole S.A.

The March PMI surveys show that in addition to supply-side constraints, companies in the manufacturing sector reported a decline in production expectations and a more rapid deterioration in orders than in previous years. This reversal of the cycle, which has been visible in industrial output data since November 2021, seems to have intensified since the beginning of the year. Despite the surprise

Industrial output



Source: Istat, Crédit Agricole S.A.

rebound in February (+4%), industrial output fell -0.9% in the first quarter compared to the previous one. It is highly likely that cost pressure in a context of a slowdown in production will further narrow corporate margins. The latter fell 0.5 points in Q4 2021 to 41.6%.

THE ECONOMY TESTED BY SOARING PRICES

CONSTRUCTION REMAINS STABLE

The construction sector has continued to show surprising robustness since the beginning of the year, after smashing all records in 2021. Investment in construction ended 2021 with an annual growth of +22%, exceeding its level in December 2019 by more than 19%. The recovery was very strong both in the housing segment (+25% compared to 2020 and +16.3% compared to 2019) and in public works (+18% compared to 2020 and +11% compared to 2021). Public incentives - in the form of a *superbonus* and *sismabonus* - as well as the sharp recovery in public investment were also affected by this boom, which seemed to be declining over the summer. Momentum reversed at the end of the year and appears to have accelerated in

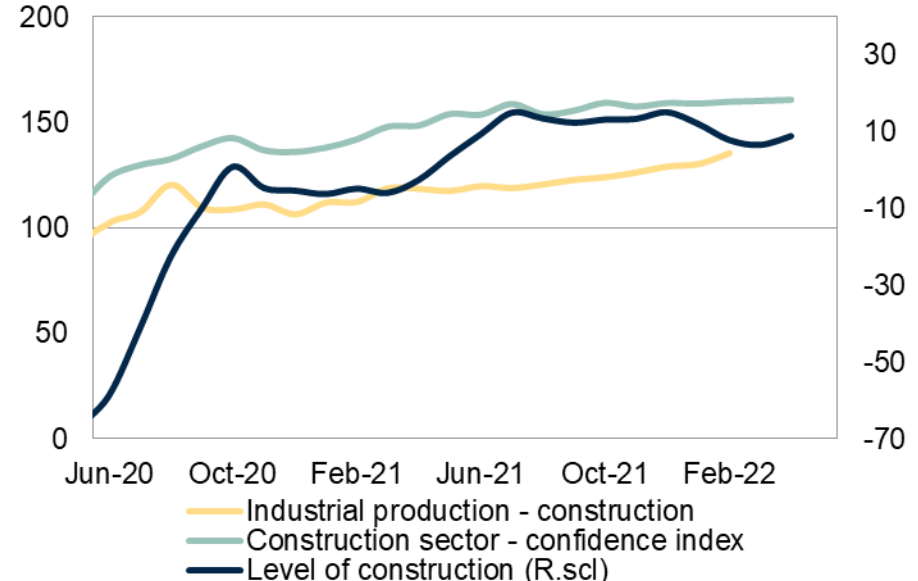
early 2022. The construction production index, which rose by 4.7% in Q4 2021, left a carry-over effect of 5.7% for Q1 2022 following the strong rebound in February. Although it has not been spared by rising costs (+8% YoY in January-February), the construction sector continues to show consistently improving confidence indicators at historically high levels.

The Superbonus and the Sismabonus

The aim of the government is to provide home renovation at zero cost for Italians via a Super Ecobonus for energy renovation and a Super Sismabonus for the earthquake-proofing component. The incentive consists of a 110% deduction that applies to expenses incurred from 1 July 2020 to 30 June 2022, to be allocated among beneficiaries in five annual instalments and, for the portion of expenses made in 2022, into four annual instalments of equal amounts (extended until the end of the year in some cases). The recipient of the renovation works may elect to i) pay the invoice and benefit from a tax credit of 110% to be deducted according to the required schedule (5 or 4 years) or transfer it to a third party, which may be a bank, ii) not to pay anything and to transfer the benefit of the 110% tax credit to the company according to the same principle.

The system was successful but was the subject of controversy due to the fraud it generated, forcing the government to legislate.

Construction indicators



Sources: Istat, Crédit Agricole SA

THE ECONOMY TESTED BY SOARING PRICES

LABOUR MARKET: WEAK OUTLOOK FOR PAY SETTLEMENTS

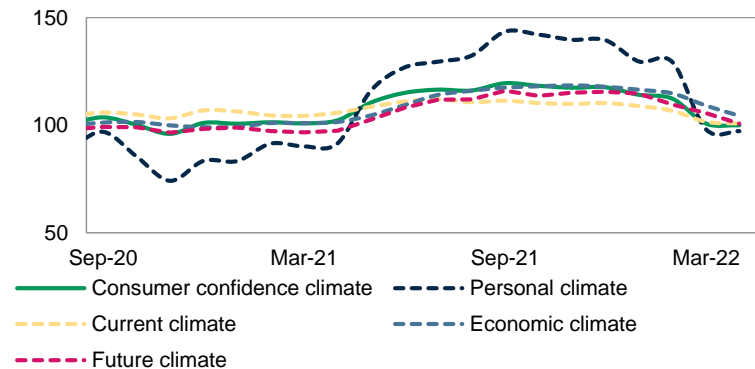
Against a backdrop of strong inflationary pressure, the decline in confidence is even more pronounced among households. In April, the consumer confidence index reached its lowest level since November 2020. Households anticipate a deterioration in the economic climate, which should have an impact on their personal situation. They are also more likely to anticipate a deterioration in the labour market in the coming months, due to an expected rise in unemployment. However, the unemployment rate continued to decline in the first three months of the year, falling to 8.3% in March, its lowest level since August 2011. Nevertheless, this momentum masks a certain slowdown in employment that began in Q4 2021 and seems to be persisting in Q1 2022. After an increase of 1.6% in Q2 2021 and 0.9% in Q3 2021, employment grew by only 0.5% in Q4 2021 and 0.6% in Q1 2022. Overall, the employment rate at the beginning of the year largely returned to pre-crisis levels at 59.6%, +0.6 points compared to February 2020.

Will the upcoming changes in the labour market give reason to the concerns of households? It is difficult to give a clear response to these concerns. The consequences of the slowdown in activity following the war in Ukraine will not be immediately observable in terms of unemployment. They should initially translate to a slowdown in hours worked and an increase in short-time work coverage in certain sectors that are heavily affected by the increase in energy costs. As such, the government has taken a proactive approach in its energy decree. This includes, as part of the short-time work scheme, an exemption from additional contributions for sectors affected by the shortage in raw materials (steel, wood, ceramics, automotive and agro-industry). The decree also provides for SMEs in these sectors to extend short-time working coverage to

up to 8 weeks for companies that have already exhausted their short-time working quota.

It is unlikely that price pressures will translate into higher wages, which are also dependent on the schedule of collective bargaining agreements. In addition, due to the de-indexing of wages to prices, collective bargaining agreements do not provide for an automatic compensation system that would take into account the inflation differential. Against this backdrop, growth in contractual wages remained moderate in Q1 2022, increasing by 0.6% compared to the same period in 2021.

Consumer confidence index

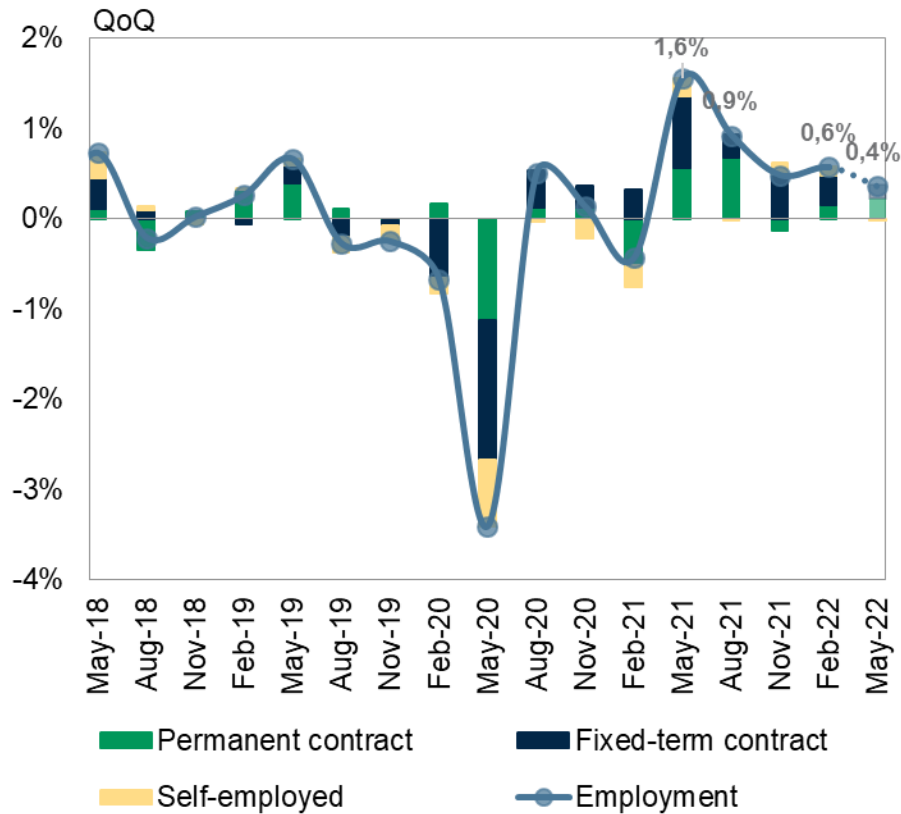


Sources: Istat, Crédit Agricole SA

THE ECONOMY TESTED BY SOARING PRICES

LABOUR MARKET: WEAK OUTLOOK FOR PAY SETTLEMENTS

Change in employment by type of contract



Sources: Istat, Crédit Agricole SA

Contractual wages growth and inflation

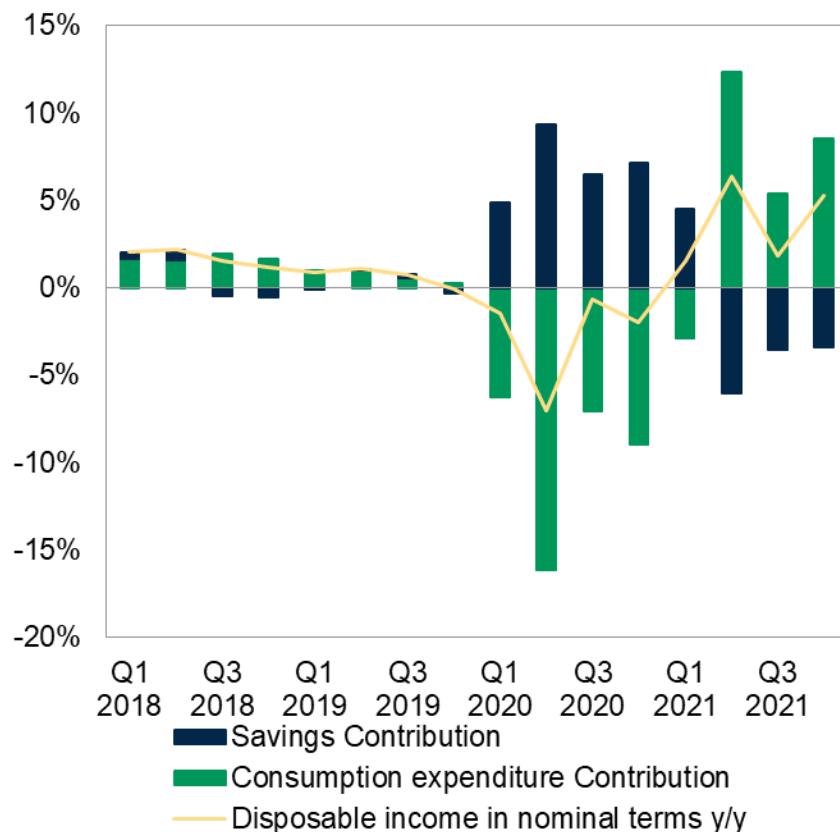


Sources: Istat, Crédit Agricole SA

THE ECONOMY TESTED BY SOARING PRICES

HOUSEHOLDS: 2021 BUFFER

Use of household gross disposable income



Sources: Istat, Crédit Agricole SA

The deterioration in confidence is likely to have an adverse impact on consumption outlook.

Households are facing this inflationary environment with a financial situation, which, without returning to pre-crisis levels, benefited positively from the strong growth seen in 2021. Disposable income in nominal terms increased by 3.8% during the year. Expressed in real terms, the increase in disposable income remained more moderate, at +2.1%.

Disposable income growth was driven by the rise in primary household income (+6.3%), supported by the recovery of wages and salaries (+7.6%) and entrepreneurial income (+7.3%). Although down from their record level in 2020, transfers to households continued to support primary income growth increasing 0.4% in 2021.

The strong recovery in consumer spending over the past year (+7%) led to a decrease in the share of income allocated to savings, bringing the savings rate down from 15.6% in 2020 to 13.1%. The latter remains well above its historical average. Between 2019 and 2020, households accumulated EUR60bn in additional savings, plus an additional EUR18bn in 2021. In total, the savings accumulated since the start of the Covid-19 crisis is equivalent to EUR79bn, i.e. 7% of disposable income in 2021. In the context of a sharp rise in prices, part of this savings could be mobilised to offset the expected decline in real disposable income.

THE ECONOMY TESTED BY SOARING PRICES

HOUSEHOLDS: WHEN THE ENERGY BILL REDUCES PURCHASING POWER

In Q1 2022, inflation in Italy reached its highest rate since the early 1990s, rising 5.8% YoY after 3.2% YoY in Q4 2021.

Prices were driven by exceptional energy increases, which jumped 45% YoY in Q1 2022, driven by the surge in gas and oil prices following the invasion of Ukraine. The rise in energy prices as well as the shortages in certain goods have had dire effects on food prices, which, after energy, have seen the most significant increases since the beginning of the year. During Q1 2022, the rise in core inflation remained more contained at 1.8% YoY, which still represented a clear acceleration compared to its historical average (+0.6% since 2014).

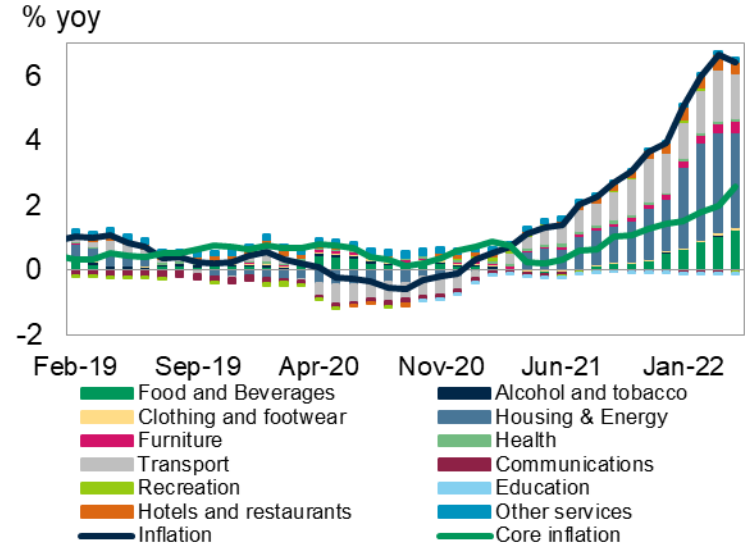
In April, inflation slowed slightly after nine months of uninterrupted rise. It remained very high at +6.2% YoY vs. +6.5% YoY the previous month. While the peak in energy prices seems to have passed (+42.4% YoY in April vs. +50.9% YoY in March), largely thanks to government action to contain spending on electricity and gas bills, contagion effects continued to fuel the rise in other categories of goods. Food prices accelerated sharply during the month (+6.3% YoY in April against +5.5% YoY in March), pushing the price of the average “provision basket” to 6.0% YoY from 5.0% YoY in March.

The rise in oil prices also led to a significant increase in transport costs (+5% YoY in April against +1% YoY in March).

Non-energy industrial goods inflation increased to 2.2% YoY compared to 1.6% YoY in March for both durable and non-durable goods. As a result, the acceleration in core inflation continued, exceeding the 2% mark in April.

Higher prices, mainly driven by food and energy costs, are expected to penalise low-income households which spend 38% of their budget on the latter, compared with 20% for the higher end of the income distribution scale. As a result, while inflation experienced by the wealthiest households (last quintile) rose from +3.1% in Q4 2021 to +4.9% in Q4 2022, that of households in the first quintile was close to +8.3% in Q1 2022 vs. +4.7% in Q4 2021. However, according to the latest household budget survey (2018) published by the Bank of Italy, low-income households account for 42% of all Italian households, even though they only hold 6% of the country's total income.

Inflation

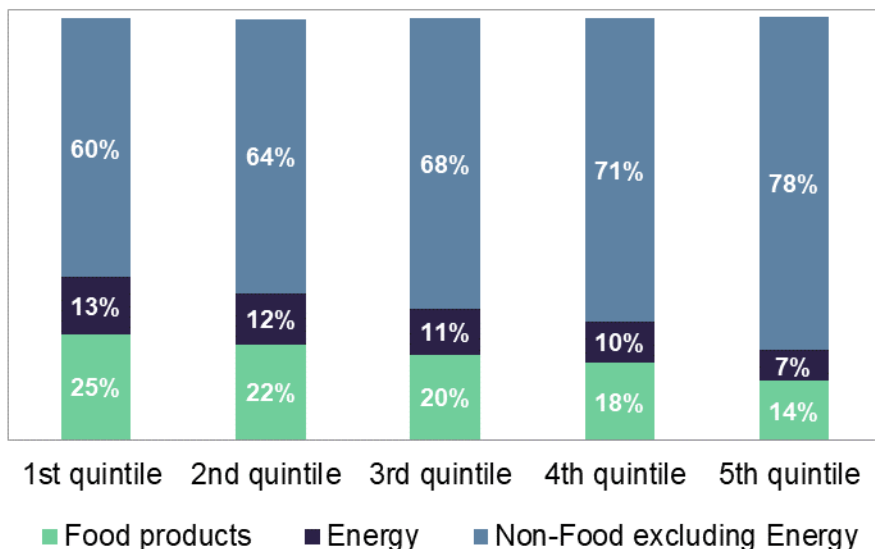


Sources: Istat, Crédit Agricole SA

THE ECONOMY TESTED BY SOARING PRICES

HOUSEHOLDS: WHEN THE ENERGY BILL REDUCES PURCHASING POWER

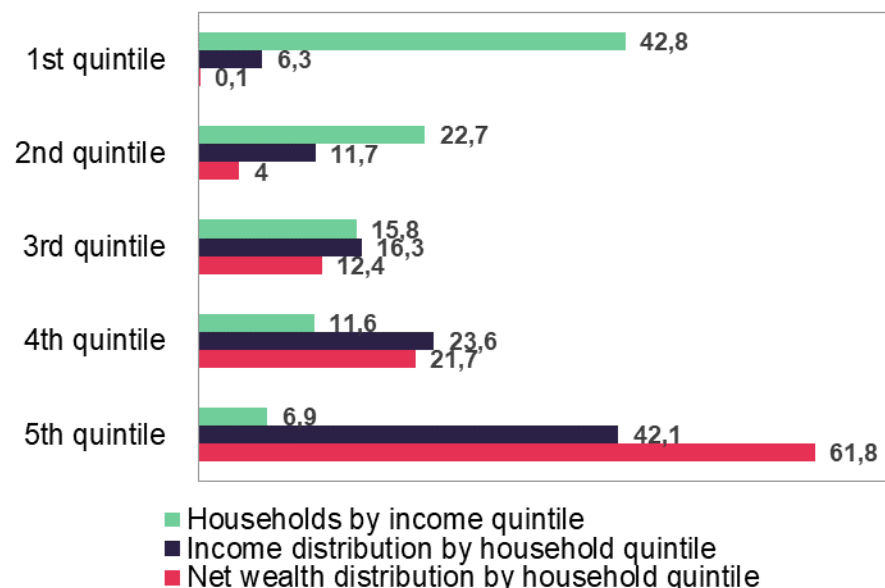
Average monthly household spending by income quintile



Sources: Istat, Crédit Agricole SA

Given that energy and food goods are by definition not very substitutable in the short term with only a limited price-elasticity, the rise in prices in these categories should further depress low-income household consumption. Low-income households will only be able to partially reduce their spending on essential goods and will be forced to draw more on savings (five or six times more according to the ECB) even though they have the lowest propensity to save. Indeed, while

Italian household budget survey



Sources: Banca di Italia IHS, Crédit Agricole SA

households in the last quintile enjoy a 30% propensity to save, those of the first and second quintiles have a low or even negative saving propensity. To respond to the overshooting of prices, these households will have to be more selective in their consumption choices, which will be at the expense of the more substitutable goods such as the purchase of durable goods and services.

THE ECONOMY TESTED BY SOARING PRICES

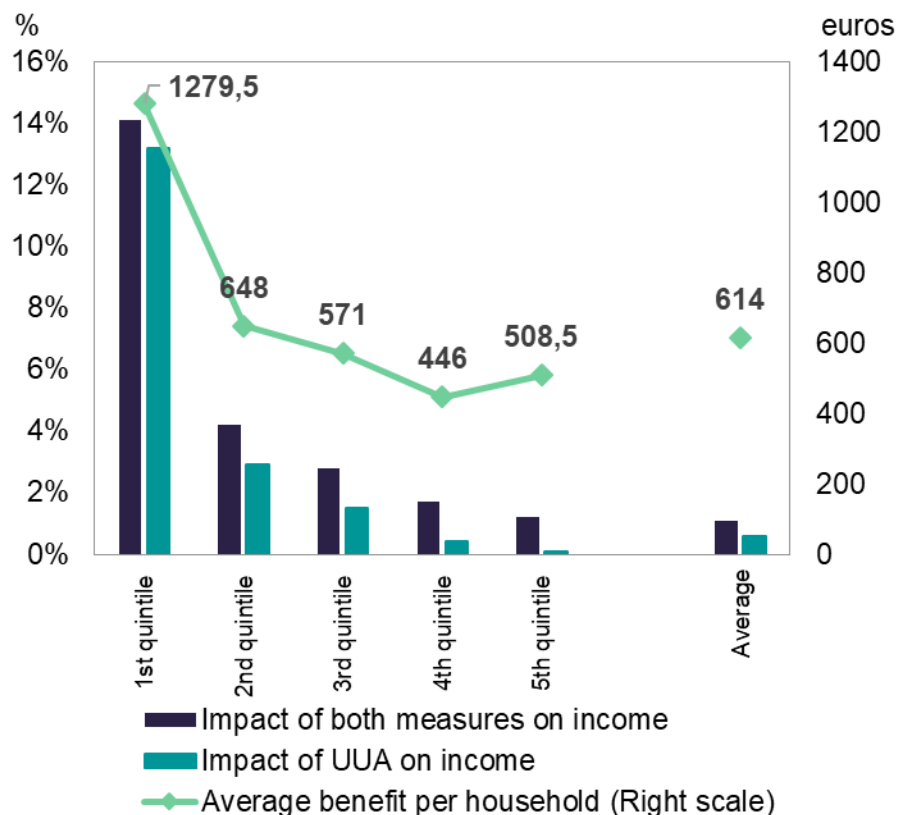
HOUSEHOLDS: SUPPORT MEASURES ON ALL FRONTS

To support household consumption, the government has acted simultaneously on several fronts, with a focus on two main components: structural measures aimed at household taxation and short-term measures aimed at offsetting the rise in energy prices on income.

Structural measures focus on the reform of the redistribution system, which includes both an overhaul of the progressive income tax structure and a change in the benefit system. As part of the 2022 Finance Act, the reform of the redistribution system is also one of the measures requested by the European Commission and included in the recovery plan. The EUR13.8bn budget aims to reduce taxes on labour (tax wedge) and thereby reduce the average household tax burden, which is among the highest in Europe. In 2018, the implicit labour tax rate was 42.7% in Italy compared with 36.2% in the EU and remained high for all categories of income.

The reduction in labour taxes is mainly based on a reform of the progressive individual tax structure, which intends to eliminate the distortions caused by the unequal distribution of marginal effective tax rates. The latter penalised those with average income - between EUR28,000 and EUR55,000 - whose marginal tax rate was between 27 and 38%, i.e. nearly 8 million taxpayers.

Redistributive impact of tax reform and single allocation on household income



Source: Thematic Note No. 6 Redistributive effects of the Irpef reform and the single allocation January 2022; Department of Economic and Fiscal Studies and Research, EMF; Crédit Agricole SA

THE ECONOMY TESTED BY SOARING PRICES

HOUSEHOLDS: SUPPORT MEASURES ON ALL FRONTS

Taxable income brackets	Before reform	After reform
Up to 15,000 euros	23%	23%
From 15,000 to 28,000 euros	27	25%
From 28,000 to 50,000 euros	38% up to 55 000	35%
More than 50,000 euros	41% up to 75 000	43%

THE ECONOMY TESTED BY SOARING PRICES

HOUSEHOLDS: SUPPORT MEASURES ON ALL FRONTS

The reform includes a reduction in the number of tax brackets from 5 to 4 as well as a decrease in the marginal rate on the median tranches. The marginal rate of the €15,000 to €28,000 bracket will therefore change from 27% to 25%, and that of the €28,000 to €55,000 bracket will be reduced by 3 points, from 38% to 35%. The last two tranches will be merged with a single marginal rate of 41% for income above €55,000.

At the same time, the single universal allowance (AUU) for children under the age of 21 has led to an overhaul of the benefit system by reorganising and simplifying child aid measures. The AUU, which replaces the previous allowances, should concern all families. It is independent of the income and type of work carried out by household members, but the progressiveness of the measure is ensured by referring to the ISEE index. Thus, all families should receive a donation for each child ranging from €50 to €175 per month for minors and from €25 to €80 for adult children, with extra benefits for families with more than three children.

The impact of these two reforms on disposable income is not negligible, particularly for households with the lowest incomes. The increase in disposable income for the first quintile (households with children) was +14%, 13% of which is attributable to the new AUU, i.e., on average, additional support of €1,279. It rose to 4.2% for the second quintile, with an impact of the tax reform of 1.3%. It decreased progressively for higher income levels, reaching +1.2% for the last quintile, entirely attributable to the AUU.

The strong pressure of energy prices on household purchasing power has forced the government to put in place specific measures

to contain the cost of electricity and gas bills, such as the reduction of VAT to 5% for gas, the cancellation of system fees for low-voltage users, the elimination of natural gas network charges and the staggering of payments to up to ten monthly payments.

Particular attention was also paid to low-income households with an ISEE of less than 8,000. The social bonus on electricity and gas was then extended to households whose ISEE amounts to up to €12,000, i.e. nearly 5 million additional households, and is expected to run until Q3 2022. Determined quarterly by the regulatory authority, the electricity bonus should be between €128 for households comprising one to two members and €177 for a large family. As for the gas bonus, which also depends on locality, the reduction on bills could extend from €67 in Sicily and Calabria to €170 in Veneto and Piedmont for families with fewer than four members. For large families, assistance is between €93 in Sicily and Calabria and €245 in Veneto and Piedmont. In terms of fuel expenditure, the government also extended the reduction of excise duties on domestic transportation fuels.

Finally, according to the last decree passed in May, a premium of €200 will be paid in July to households whose annual income ceiling is below €35,000. The measure will therefore affect more than 30 million people.

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ITALY: FACING THE SETBACK OF THE CONFLICT IN UKRAINE

2022 SCENARIO OUTLOOK

Italy	2021	2022	2023	2022				2023			
%				T1	T2	T3	T4	T1	T2	T3	T4
GDP	6,6	1,9	2,1	-0,2	-0,7	0,3	0,4	0,6	1,0	0,7	0,5
Inflation	1,9	6,9	2,5	6,0	7,6	7,5	6,5	3,7	2,4	2,1	1,9
Private consumption	5,2	2,2	2,5	-0,2	-0,5	0,1	0,3	0,9	1,2	0,9	0,4
Investment	17,0	5,7	3,4	0,8	0,6	0,7	1,0	0,8	0,8	1,0	0,9
Change in inventories	0,3	-0,1	0,2	-0,4	-0,4	0,2	0,2	-0,1	0,2	-0,1	0,1
Net exports*	0,0	-0,6	-0,2	0,0	0,0	-0,1	-0,2	-0,1	0,0	0,0	0,0
Unemployment rate	9,5	9,2	9,1	9,1	9,2	9,4	9,1	9,4	9,2	9,1	8,9
Government balance (% GDP)	-7,5	-5,6	-4,3								

*Contribution à la croissance du PIB

The surge in inflation, expected to reach 7.4% on average in 2022, is likely to weigh heavily on households. The decline in real disposable income will not be offset by wage increases. Although the job market has proved resilient, the partial recovery of hours worked and the workforce participation rate have limited the upward pressures on employment, which should ease further in the current environment.

The investment will continue to benefit from significant carryover effects. The public component, fuelled by the stimulus plan, should continue to drive investment in construction, but business investment is expected to slow down.

Budgetary policy should partially mitigate the impact of shocks. The government's support was focused on households, but also on companies, with the aim of preventing a halt in production. It will be partly financed by budget expenditures not spent in 2021 and a tax on corporate profits.

Against this backdrop, growth is expected to slow significantly over the year. Our forecast for 2022 was revised down to 1.9% against 4.1% back in January. The scenario also remains subject to significant uncertainty related to the ongoing conflict and its consequences, particularly with regard to the gas supply from Russia.

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