

16 March 2021

- French GDP fell by 8.2% in 2020 after following a bumpy path over the year. The overall contraction was slightly smaller than we predicted in December, albeit still historic in size. The second lockdown had a smaller than expected impact on activity as the measures were more targeted and the economy was better-equipped to adapt to the public health situation.
- Based on the assumption that, in average terms, the first half will continue to be marked by significant health restrictions, activity should remain stable over the first part of 2021. This is consistent with our economic surveys for the start of March. Economic activity should then recover sharply as of the second half of 2021, as the vaccine roll-out enables a gradual lifting of the health restrictions, leading household consumption to rebound.
- Over the full year 2021, GDP is expected to grow by 5.5%. The figure is slightly higher than our December projection as the lower growth in the first half of 2021 should be offset by the greater resilience in activity at end-2020 and its more dynamic pace in the second half of 2021. The rebound should extend into 2022, with growth remaining very vigorous at around 4%, and activity is projected to return to its pre-Covid level by the middle of the year.
- The anticipated rebound in household consumption seems all the more likely given that household income has largely been preserved during the crisis, thanks both to the government cushioning measures and to the notable resilience of the labour market.
- The deterioration in employment should indeed be less severe than anticipated in our December projection, as the adjustment to the activity shock seems to have been made more via working hours than via staff numbers. Unemployment is predicted to remain well below 10% in 2021, and should then decline again to below 9% by the end of our projection horizon.
- Inflation is expected to be fairly volatile in 2021, varying between 0.5% and 1.5% year-on-year. It should nonetheless remain moderate over the entire projection horizon, at an annual average of around 1%.
- This projection is still subject to major risks, linked notably to the strong uncertainties over public health. Based essentially on different assumptions about the health situation, we are continuing to frame our baseline trajectory with two alternative scenarios, but these are more balanced than in our December projection.

KEY PROJECTIONS FOR FRANCE

	2019	2020	2021	2022	2023
Real GDP growth^{a)}	1.5	-8.2	5.5	4	2
HICP	1.3	0.5	1.1	0.9	1.1
HICP excluding energy and food	0.6	0.6	0.9	0.9	1.0
ILO unemployment rate (France and overseas departments, % of labour force)	8.4	8.0	8.9	9.3	9.0
Net job creations (annual average, in thousands) ^{b)}	326	-310	0	25	125

Source: INSEE data up to the fourth quarter of 2020 (quarterly national accounts published on 26 February 2021). Blue-shaded columns show Banque de France projections. Figures are adjusted for the number of working days. Annual percentage change except where otherwise indicated.

a) Projections rounded to the nearest 0.5 percentage point.

b) Projections rounded to the nearest 25,000.

The decline in activity at end-2020 was less severe than anticipated and a marked rebound is expected for the second half of 2021

The 8.2% contraction in activity in 2020 was smaller than that predicted in our December 2020 macroeconomic projections (−9%), mainly because the renewed slump in GDP in the fourth quarter ultimately proved relatively contained (−1.4%). The more targeted nature of the restrictions introduced in November–December 2020, and the ability of businesses and households to adapt to the constrained environment, all helped to mitigate the economic impact of the second lockdown compared with the shock of March–April 2020. Household consumption did admittedly fall markedly in the fourth quarter (−5.4%), but household and business investment proved more resilient (+4.2% and +0.9% respectively) and exports continued to rebound (+5.8%).

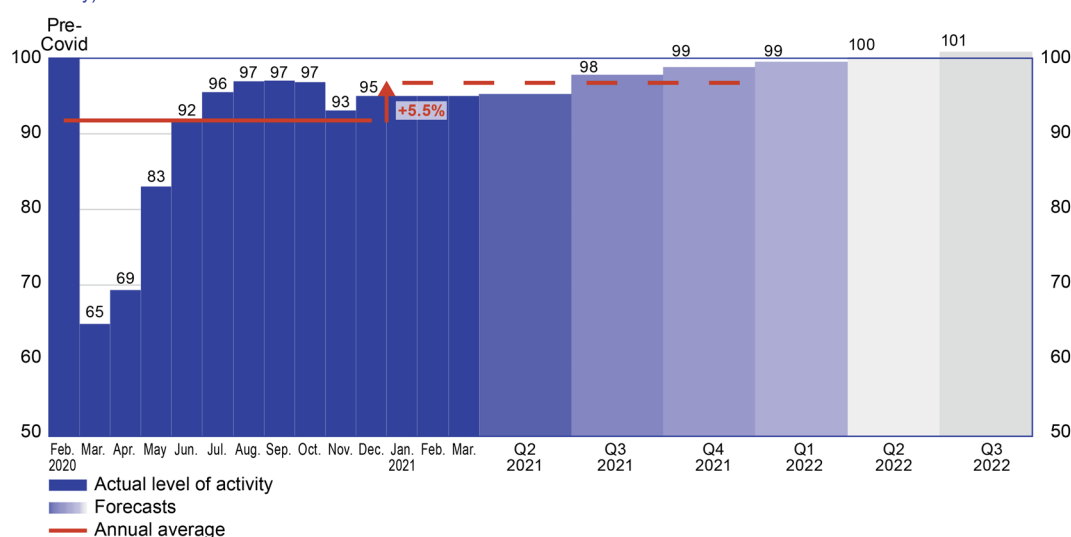
Our baseline scenario for 2021 is based on a number of assumptions. First, the assumptions regarding the international and financial environment, for which the cut-off date is 16 February (see Table A in the appendix) are the same as those used in the Eurosystem projections for the entire euro area. The upward revision to global demand for French goods and services is largely offset by the rise in oil and commodity prices. The new measures announced by the US administration (the “Biden Plan”), which have not yet been completely finalised, are not taken into account in our baseline scenario, but are included among the risks to our projection (see last section of this publication). Second, and most importantly, the evolution of the economic environment remains contingent on the health situation. We assume that the first half of 2021 could be marked by periods of tightening and relative easing of the restrictions, but that, in average terms, the constraints to economic activity will remain comparable to those at the start of the year. In this baseline scenario, it is the widespread roll-out of the vaccines from the second half and their effectiveness against the different variants that succeeds in slowing the pandemic significantly and allows the restrictions to be gradually lifted.

Activity is only expected to remain stable in the first half of 2021, which at this stage is confirmed by the short-term indicators available since the start of January.

In the third quarter, however, household consumption and activity should rebound markedly and this momentum should be maintained over the end of 2021 and start of 2022. 2022 is also expected to be a catch-up year and growth should remain strong (+4%), driven by household consumption. The economy should therefore reach its end-2019 level of activity by around mid-2022. Chart 1 shows the trajectory of this return to a “normal” level of activity. 2023 is then expected to see a normalisation, with growth remaining robust but returning gradually to the potential rates seen before the pandemic.

Chart 1: Evolution of economic activity

(percentage of pre-Covid activity)



Sources: INSEE data up to the fourth quarter of 2020. Blue-shaded columns show Banque de France projections.

Note: The red lines show the average level of GDP in 2020 and 2021, where the average level for 2019 = 100.

The rise in the unemployment rate should be contained over the first part of the projection horizon. Unemployment should then decline again

Job losses proved relatively contained in 2020 given the magnitude of the drop in GDP. At end-2020, employment was down 1.4% year-on-year, representing a net loss of 400,000 jobs (as measured in the quarterly national accounts). The fall proved much smaller than we anticipated and the short-time work scheme appears to have played a very powerful cushioning role. Indeed, year-on-year, the number of hours worked declined by 7.3% in the fourth quarter of 2020, outstripping the contraction in GDP (−4.9%). For the time being, therefore, and contrary to what would usually be expected (in 2008-09 for example), the labour market appears to have principally adjusted to activity via working hours per capita and to a much lesser extent via job numbers (see Chart 2). This trend is expected to continue in the first half of 2021.

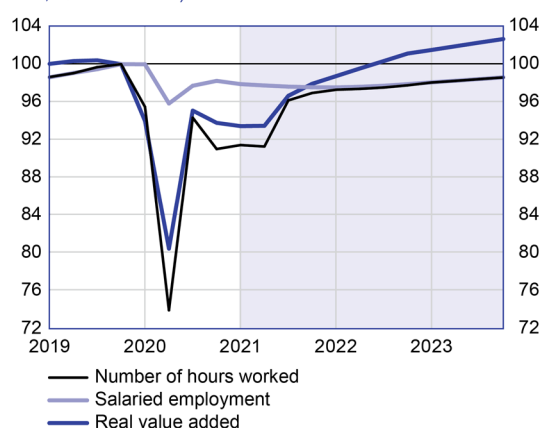
Over the end of 2021 and start of 2022, employment should be helped by the improvement in the health situation which should enable most of the restrictions to be lifted. However, it could also be negatively impacted by the expiry of a number of public aid mechanisms and a “catch-up” effect in bankruptcies after many were averted in 2020.

Our baseline scenario therefore assumes that employment will bottom out at the end of 2021 before recovering again in 2022-23. Productivity per capita should gather momentum as of mid-2021 and is expected to rise vigorously in 2022, before easing back to more usual rates of growth in 2023.

Against this backdrop, the unemployment rate (see Chart 3) should peak at close to 9.5% at the end of 2021, which is well below the level we predicted in December. It should then begin to decline again, tracking the activity rebound although at a slight lag, and is expected to fall below 9% by the end of our projection horizon.

Chart 2: Level of working hours, salaried employment and value added

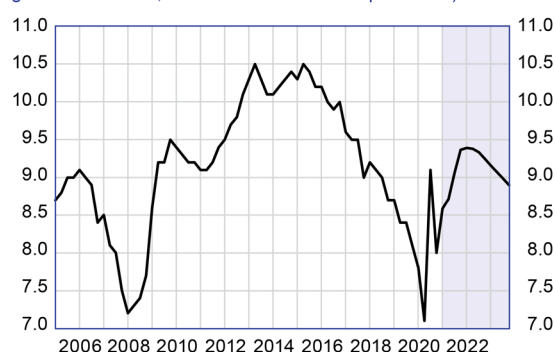
(market sector; Q4 2019 = 100)



Sources: INSEE data up to the fourth quarter of 2020. Blue-shaded area shows Banque de France projections.

Chart 3: ILO unemployment rate

(percentage of labour force; France and overseas departments)



Sources: INSEE data up to the fourth quarter of 2020. Blue-shaded area shows Banque de France projections.

From mid-2021 onwards, activity should be buoyed by the rebound in private consumption, while investment should remain dynamic

On average over 2021, the GDP growth of 5.5% should be driven by the rebound in household consumption, the support provided by public demand and the resilience of investment (see Chart 4).

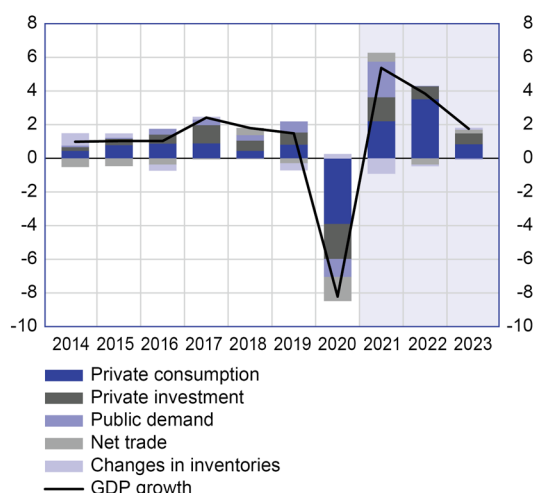
Household consumption is expected to remain constrained at the start of 2021 due the extension of the health restrictions such as the curfew and local lockdowns. In mid-2021 it should still be 6% below its end-2019 level. In counterpart to this, the household saving ratio should remain high over the first half of 2021, as in the second half of 2020. The excess financial savings households have built up since March 2020 should therefore continue to rise until mid-2021 (see Chart 5).

Each quarter, households save part of their income which, in the case of financial savings, corresponds to the difference between their disposable income and their expenditure on consumption and housing investment. We measure the excess savings accumulated since the start of the health crisis as the cumulative difference between observed or projected financial savings for each quarter and the level that would have been reached if household income and expenditure had continued to rise since end-2019 at the rate observed before the crisis. These excess savings are expected to peak at around EUR 165 billion at the end of 2021 (up from EUR 110 billion at end-2020).

Household consumption is then expected to recover vigorously in the second half of 2021 as the health restrictions are gradually relaxed. The saving ratio should therefore fall sharply, coming back below its pre-crisis level over the course of 2022 (before rising again slightly to more normal levels).

Chart 4: Contributions to GDP growth

(annual average percentage change and percentage point contributions)

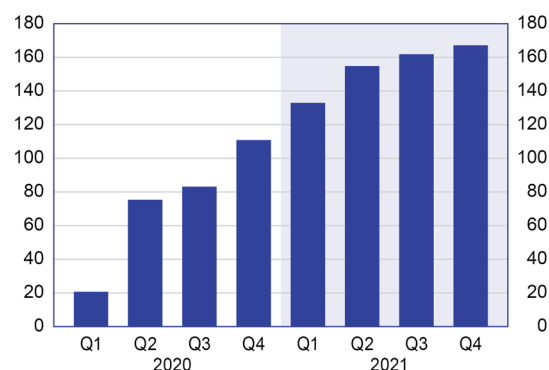


Sources: INSEE data up to the fourth quarter of 2020. Blue-shaded area shows Banque de France projections.

Note: Public demand groups together government consumption and government investment. Private investment groups together business and household investment.

Chart 5: Excess household financial savings

(EUR billions)



Sources: INSEE data up to the fourth quarter of 2020. Blue-shaded area shows Banque de France projections.

Note: Cumulative excess financial savings, measured as the difference versus the pre-crisis trend.

Public demand should also help to stimulate activity in 2021, thanks to the combined effect of the normalisation of public sector activity and a rebound in government investment linked to the recovery plan. The latter should also support business investment. Business investment proved less sensitive than expected to the decline in activity in 2020, but this should mean it also reacts less strongly to the rebound in 2021, with the investment ratio expected to have peaked in 2020.

France's export performances, measured as the ratio of exports to foreign demand, deteriorated considerably in the spring of 2020 but improved again at the end of the year – although they are still not back at pre-crisis levels. In 2021, stronger global demand for French goods and services and the stabilisation of French export performances should mean net trade makes a positive contribution to growth in 2021, after a strong negative contribution in 2020 (–1.5 percentage point). The contribution should turn negative again temporarily in 2022 as imports peak with the rebound in household consumption. It should then be close to neutral in 2023.

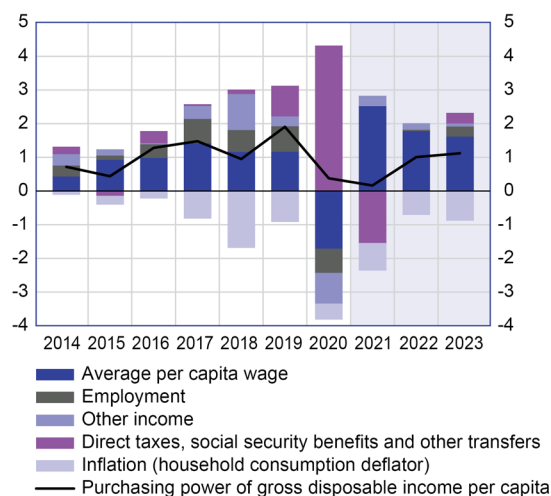
Government measures have so far supported household and business income, and the economic recovery should subsequently take over

The relative resilience of the labour market and scale of the government cushioning measures both helped to preserve household purchasing power in 2020 (see Chart 6), although this of course masks considerable differences in circumstances depending on the household category. Real household income is expected to rise in annual average terms between 2021 and 2023 as the economic situation improves.

In the case of businesses, their profit margin rate contracted in 2020 from 33.2% to 29.3% (this includes the negative base effect caused by the “double accounting impact” of the CICE – tax credit for competitiveness and employment – in 2019, which accounts for around –1.5 percentage point of the decline). The scale of the short-time work and support measures, such as the solidarity fund, did not completely offset the steep drop in activity. However, the corporate margin rate should improve considerably in 2021 and especially in 2022: on the one hand, the weight of the wage bill is expected to be alleviated by the rebound in activity; on the other, the business support measures included in the recovery plan, such as the cuts to production taxes and the introduction of certain investment subsidies, should help to boost margins.

Chart 6: Contributions to gains in household purchasing power and gains in purchasing power per capita

(annual average percentage change and percentage point contributions)



Sources: INSEE data up to the fourth quarter of 2020. Blue-shaded area shows Banque de France projections.

Inflation is expected to be fairly volatile and should rebound temporarily in 2021, before remaining contained in 2022 and 2023

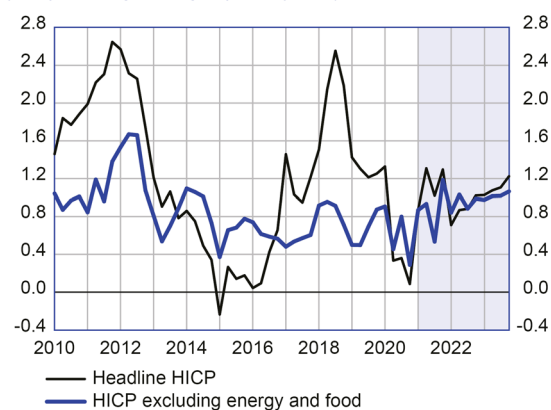
Inflation as measured by the Harmonised Index of Consumer Prices (HICP) surprised on the upside in January 2021 thanks to the combined impact of three factors. First, since our December 2020 projections, the price of oil has recovered significantly (to USD 59.4 a barrel in January 2021, which is USD 16 higher than the assumption underlying our December 2020 forecast). Second, the pushing back of the winter sales resulted in a spike in manufactured goods inflation which was subsequently reabsorbed in February. Third, services prices have been less sluggish than expected in the short term due to one-off rises in certain sectors, notably communications and air transport.

Headline HICP inflation is expected to remain very moderate, at 1.1% in 2021, while HICP inflation excluding energy and food is now projected to come out at 0.9%. These upward revisions to the very low forecasts in our December 2020 publication reflect the positive surprises of January 2021, as well as the upward revision to the price of oil (to USD 59 in 2021 based on futures contracts, which is USD 15 dollars higher than our December assumption) and a better than expected labour market.

Headline HICP inflation and HICP inflation excluding energy and food should nonetheless prove volatile in 2021 (see Chart 7). In Appendix D we attempt to clarify one of the causes of this volatility – the impact of the change in HICP weights to reflect unusual shifts in the

Chart 7: HICP and HICP excluding energy and food

(year-on-year percentage change, quarterly data)



Sources: INSEE data up to the fourth quarter of 2020. Blue-shaded area shows Banque de France projections.

structure of household expenditure in 2020 as a result of the health crisis. These effects are expected to be neutral on average over 2021 but should lead to fluctuations, notably in the summer.

After 2021, HICP inflation excluding energy and food should remain moderate, at 0.9% in 2022 and 1.0% in 2023, while headline HICP inflation should come out at 0.9% in 2022 and 1.1% in 2023. The inflation projections for these years have only been revised slightly versus our December publication, reflecting changes in our forecasts for unemployment which are in part offset by our assumption, based on oil futures, that the price of oil will decline in 2022 and 2023.

After rising significantly in 2020, the government deficit should remain high in 2021 before gradually falling again as activity recovers; government debt is expected to reach slightly over 115% of GDP in 2023

The extension of the emergency support measures due to the maintenance of the health restrictions, and the roll-out of the recovery plan should all mean the government deficit remains high in 2021, at 7% of GDP, after rising markedly between 2019 and 2020 (to 8% of GDP in 2020 in our projection; INSEE will publish its preliminary figures for the 2020 government deficit and debt on 26 March 2021). This projection is based on the assumption that the health restrictions – and therefore the associated support measures – will be kept in place over the first half of 2021 to control the spread of the pandemic. Then, as the economy returns to growth, the exceptional measures are wound down and the European support funds start to come in, the deficit should gradually decline despite the continuing recovery plan, reaching around 4% of GDP by the end of our projection horizon.

In the absence of any fiscal consolidation measures, the government deficit should thus remain higher than predicted before the health crisis, and higher than the level that would allow the government debt-to-GDP ratio to stabilise. Based on these assumptions, the debt ratio should continue to rise after the high reached in 2020 (113% of GDP in our projection), and should slightly exceed 115% of GDP in 2023.

This projection is subject to several risks regarding both the health situation and the macroeconomic environment

This projection remains strongly contingent on the evolution of the health situation in France and the rest of the world, which poses both an upside and downside risk. Owing to this high degree of uncertainty, we have framed our baseline forecast with two alternative scenarios, one based on more severe assumptions regarding public health, and one where the environment is more favourable (see box).

In addition to the uncertainty over the outlook for the epidemic and health restrictions, there are also various macroeconomic risks to our projection, both to the downside and the upside.

On the one hand, firms have had to borrow significantly during the health crisis to cover their liquidity needs, and tensions in their finances could prevent them from investing or hiring. On the other hand, in light of the most recent indicators published, such as industrial output for January, first-quarter 2021 growth could prove slightly stronger than projected when these forecasts were finalised. Households could also spend the excess savings they have built up to a greater extent or at a faster pace than in our baseline scenario. At the international level, the stimulus measures announced by the US administration, which are not incorporated into this projection, are liable to boost global demand and confidence, even though their direct impact on France will probably be limited compared with that seen in the United States.

The general macroeconomic environment already suggests prices will remain sluggish, but this dampening effect could be amplified if growth were to disappoint. Conversely, inflation could strengthen more markedly if the macroeconomic situation were to improve, especially if the extra costs linked to the health measures became more permanent, if the recent sharp price rises for certain commodities and goods such as semi-conductors continued, and if certain sectors saw a return to profitability with the rebound.

Alternative scenarios can be used to take into account different possible developments of the pandemic, with very different impacts on economic recovery

As has been the case since the start of the crisis caused by the Covid-19 pandemic, the very high level of uncertainty regarding the health situation has led us to consider two scenarios based on a “mild” and “severe” evolution of the pandemic.

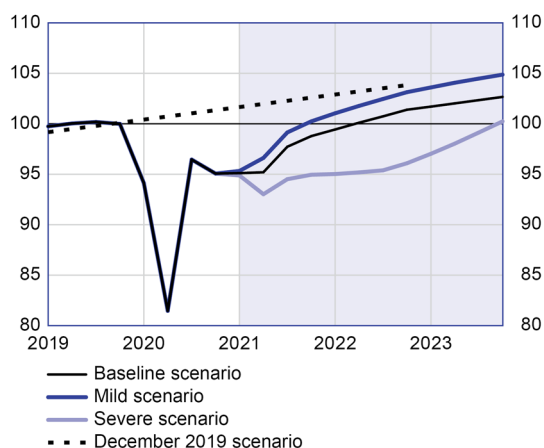
Under the mild scenario, we assume that the roll-out of vaccines in France, particularly for the most vulnerable populations, would make it possible to ease health constraints more rapidly: the economy would then begin to rebound in the second quarter of 2021.

Conversely, under the severe scenario, the fight against the health crisis would encounter a number of obstacles, such as the emergence and proliferation of new variants that would reduce the overall effectiveness of the vaccine. Activity could thus decline again in the second quarter of 2021. In this case, a sufficient roll-out of effective vaccines would not allow a real lifting of health restrictions until the end of 2022.

Under these assumptions, GDP growth would be around 3% in 2021 under the severe scenario, while it would be around 7% under the mild scenario (see table below). Moreover, in addition to the variations in time profiles linked to the possible health constraints, GDP levels could ultimately be very different at the end of the projection horizon: under the mild scenario, GDP would return to its end-2019 level as early as the fourth quarter of 2021, as opposed to only at the end of 2023 under the severe scenario.

Chart: Level of GDP under the mild and severe scenarios

(Q4 2019 = 100)



Sources: INSEE data up to the fourth quarter of 2020. Blue-shaded area shows Banque de France projections.

Main characteristics of the mild and severe scenarios

	Mild scenario				Severe scenario			
	2020	2021	2022	2023	2020	2021	2022	2023
GDP (annual average % change) ^{a)}	-8.2	7	4	2	-8.2	3	1	3
HICP (annual average % change)	0.5	1.3	1.5	1.8	0.5	0.4	0.1	0.6

Source: INSEE data up to the fourth quarter of 2020 (quarterly national accounts published on 26 February 2021). Blue-shaded columns show Banque de France projections.
a) Projections rounded to the nearest whole unit.

Appendix A: Eurosystem technical assumptions

Table A: Technical assumptions and international environment^{a)}

	March 2021 projections					Revisions since December 2020 projections		
	2019	2020	2021	2022	2023	2021	2022	2023
Technical assumptions								
Brent oil price (USD/barrel)	64.0	42.3	59.3	55.7	53.7	15.3	10.1	6.7
Brent oil price (EUR/barrel)	57.2	37.1	49.1	46.2	44.4	11.9	7.6	4.8
Non-energy commodity prices in EUR (annual percentage change)	1.7	1.1	12.5	-2.1	-1.4	8.2	-2.5	-3.1
USD/EUR exchange rate	1.12	1.14	1.21	1.21	1.21	0.0	0.0	0.0
Euro nominal effective exchange rate (annual percentage change) ^{b)}	-1.5	3.4	1.7	-0.1	0.0	-0.2	-0.1	0.0
3-month Euribor ^{c)}	-0.4	-0.4	-0.5	-0.5	-0.4	0.0	0.0	0.1
10-year French government bond yields ^{c)}	0.1	-0.1	-0.1	0.1	0.2	0.2	0.2	0.2
International environment, annual percentage change								
Extra-euro area competitors' prices on the export side (in EUR)	3.1	-5.1	0.8	1.7	1.6	0.7	-0.5	-0.4
World real GDP	2.8	-2.9	6.2	4.0	3.5	0.6	0.1	0.1
World (excluding euro area) real GDP	2.9	-2.4	6.5	3.9	3.7	0.7	0.1	0.1
Global (excluding euro area) trade	-0.4	-9.1	9.0	4.1	3.4	1.9	0.2	0.0
Foreign demand for French goods and services	1.2	-10.8	7.5	5.3	3.5	0.7	0.4	0.0
<i>Intra-euro area</i>	2.6	-10.3	6.4	6.8	4.0	-0.6	0.6	0.0
<i>Extra-euro area</i>	0.1	-11.2	8.3	4.2	3.1	1.7	0.3	0.1

Sources: Eurosystem. Blue-shaded columns show Eurosystem projections.

Revisions to the December 2020 projects are expressed as absolute variations for levels and as percentage points for rates of growth.

a) These technical assumptions and international environment projections were constructed by the Eurosystem on 16 February 2021 for market data and foreign demand for French goods and services, in accordance with the principles set out in *A guide to the Eurosystem/ECB staff macroeconomic projection exercises*, July 2016, available at: <https://www.ecb.europa.eu/pub/pdf/other/staffprojectionsguide201607.en.pdf>. Foreign demand corresponds to the average imports of France's main trading partners weighted by the share of each country in France's exports. The method of calculation is described in the *Occasional Paper* "Trade consistency exercise in the context of the Eurosystem projection exercises – an overview", available at: <https://www.ecb.europa.eu/pub/pdf/scpops/ecbocp108.pdf>.

b) Calculated against 38 trading partners of the euro area.

c) The forecasts for interest rates were calculated using the yield curve.

Appendix B: Detailed projection

Table B: Detailed technical projections for France and revisions since December 2020

	March 2021 projections					Revisions since December 2020 projections			
	2019	2020	2021	2022	2023	2020	2021	2022	2023
Real GDP	1.5	-8.2	5.4	3.9	1.8	1.1	0.6	-1.2	-0.5
Contributions to GDP growth (in percentage points) ^{a)}									
Domestic demand (excluding changes in inventories)	2.2	-7.1	5.8	4.3	1.4	0.7	-0.1	-1.2	0.0
Net exports	-0.3	-1.5	0.4	-0.4	0.2	0.1	0.7	0.1	0.1
Changes in inventories	-0.4	0.3	-0.8	-0.1	0.1	0.3	0.0	-0.2	-0.6
Household consumption (52%) ^{b)}	1.5	-7.0	4.0	6.4	1.6	1.2	-0.1	-1.6	0.2
Government consumption (23%)	1.7	-3.1	6.3	0.1	0.6	0.2	-1.1	-0.6	0.2
Total investment (23%)	4.3	-10.3	8.7	3.2	1.8	0.4	1.0	-0.7	-0.6
Government investment (3%)	7.7	-9.9	16.0	-0.3	-5.6	-0.7	-0.1	-0.5	0.0
Household investment (5%)	1.8	-12.8	8.9	1.8	1.9	1.8	3.7	-2.2	-1.8
Business investment (NFCs-FCs-IEs) (14%)	4.4	-9.6	6.9	4.6	3.7	0.2	0.3	-0.3	-0.4
Exports (32%)	1.8	-16.3	11.5	5.7	3.8	0.8	3.7	0.3	-0.2
Imports (33%)	2.6	-11.5	8.9	6.5	2.9	0.4	1.2	0.2	-0.3
Real household gross disposable income	2.1	0.6	0.4	1.2	1.3	0.2	-0.2	-0.5	-0.3
Net job creations (thousands)	326	-310	-2	20	129	107	348	-404	-90
ILO unemployment rate (France and overseas departments, % of labour force)	8.4	8.0	8.9	9.3	9.0	-0.5	-1.8	-0.2	0.1
HICP	1.3	0.5	1.1	0.9	1.1	0.0	0.7	0.1	0.1
HICP excluding energy and food	0.6	0.6	0.9	0.9	1.0	0.0	0.4	0.2	0.2
GDP deflator	1.2	2.3	-0.2	0.4	0.8	0.4	0.9	0.0	-0.1

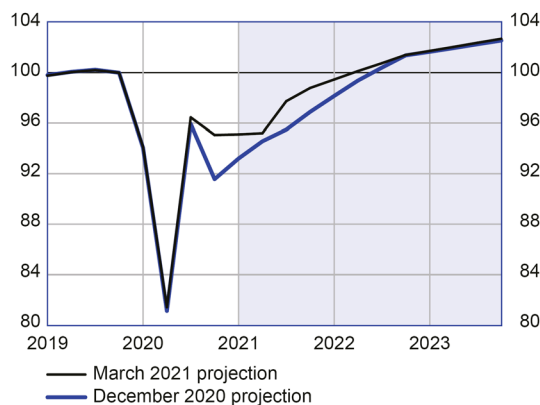
Sources: INSEE data up to the fourth quarter of 2020 (quarterly national accounts published on 26 February 2021). Blue-shaded columns show Banque de France projections. Figures are adjusted for the number of working days. Annual percentage change except where otherwise indicated.

a) Individual contributions may not add up to GDP growth as figures have been rounded.

b) Percentages in brackets refer to each item's share of GDP in 2018.

Chart: Level of real GDP

(Q4 2019 = 100)



Sources: For the March projection, INSEE data up to the fourth quarter of 2020. Blue-shaded area shows Banque de France projections.

Appendix C: Additional indicators

Table C1: Breakdown of contributions to GDP growth

			March 2021 projections		
	2019	2020	2021	2022	2023
Real GDP	1.5	-8.2	5.4	3.9	1.8
Contributions to GDP growth (in percentage points) ^{a)}					
Private consumption	0.8	-3.9	2.2	3.5	0.8
Private investment ^{b)}	0.7	-2.1	1.4	0.8	0.6
Public demand ^{c)}	0.7	-1.1	2.1	0.0	-0.1
Net exports	-0.3	-1.4	0.4	-0.4	0.2
Changes in inventories	-0.4	0.2	-0.8	-0.1	0.1

Sources: Blue-shaded columns show Banque de France projections.

Annual percentage change except where otherwise indicated.

a) Individual contributions may not add up to GDP growth as figures have been rounded.

b) Private investment groups together business and household investment.

c) Public demand groups together government consumption and government investment.

Table C2: Change in household consumption and purchasing power

(annual average percentage change)	2019	2020	2021	2022	2023
Real household consumption	1.5	-7.0	4.0	6.4	1.6
Purchasing power	2.1	0.6	0.4	1.2	1.3
Purchasing power per capita	1.9	0.4	0.2	1.0	1.1
Saving ratio (% of gross disposable income)	14.9	21.3	18.5	14.3	14.1

Sources: INSEE quarterly national accounts published on 26 February 2021. Blue-shaded columns show Banque de France projections.

Table C3: Ratios of non-financial corporations

(annual average, in %)	2019	2020	2021	2022	2023
Margin rate (% of value added)	33.2	29.3	31.8	32.6	32.3
Investment ratio (% of value added)	24.5	24.9	24.9	24.8	25.0
Self-financing ratio (savings/investment)	94.7	80.9	95.0	98.8	95.7

Sources: INSEE quarterly national accounts published on 26 February 2021. Blue-shaded columns show Banque de France projections.

Table C4: Change in wages and productivity in the market sector

(annual average percentage change)	2019	2020	2021	2022	2023
Value added deflator	1.5	1.6	0.3	0.1	0.6
Unit labour costs	-0.8	4.0	-0.5	-1.6	1.0
Productivity per capita	0.1	-8.2	5.2	4.7	1.5
Average per capita nominal wage	1.9	-4.0	4.6	3.0	2.5
Average per capita real wage ^{a)}	1.0	-4.4	3.7	2.3	1.6

Sources: INSEE quarterly national accounts published on 26 February 2021. Blue-shaded columns show Banque de France projections.

a) Adjusted for the household consumption deflator.

Note: In the national accounts, only social security contributions are included in unit labour costs. The CICE (tax credit for competitiveness and employment) therefore has no impact on this indicator: the decline in unit labour costs in 2019 is attributable to the cut in employer social security contributions introduced to replace the CICE.

Table C5: Change in employment and unemployment for the entire economy

(annual average change in thousands)	2019	2020	2021	2022	2023
Total employment	326	-310	-2	20	129
Market-sector salaried employment	258	-239	-43	-3	116
Non-market sector salaried employment	-3	-38	35	0	0
Non-salaried employment	71	-33	7	23	12
Labour force	140	-452	297	154	40
Unemployment	-186	-142	300	134	-89
ILO unemployment rate ^{a)}	8.4	8.0	8.9	9.3	9.0

Sources: INSEE data (Labour Force Survey, quarterly national accounts published on 26 February 2021). Blue-shaded columns show Banque de France projections.

a) France and overseas departments, % of labour force.

Appendix D: Some explanations about the effects of the changes to the weights of the HICP

The Harmonised Index of Consumer Prices (HICP) is a price index that aggregates consumption items according to fixed weights that are changed in January of each year by INSEE to take account of changes in the structure of household consumption. For 2021, these weights have been updated in order to be more representative of the structure of household consumption in 2020. They therefore reflect the significant changes in this consumption structure caused by the health crisis. For example, the weight of food spending increased from 20.3% to 22.9% of the total consumption basket. Conversely, the weight of energy and services, for which expenditure fell sharply in 2020, decreased. Accordingly, the weight of energy decreased from 9.2% to 8.6% of overall consumption, and that of services decreased from 45.4% to 43.4%. The weight of manufactured goods remained stable at 25.1%.

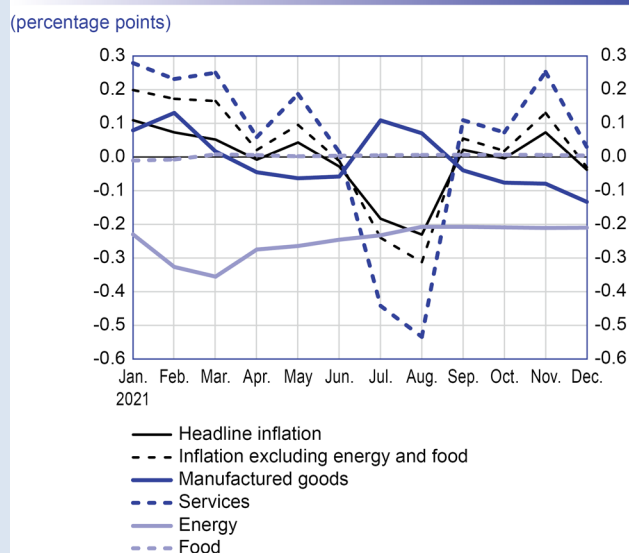
Due to their magnitude this year, these changes in weights in 2021 relative to 2020 may temporarily affect the measurement of year-on-year inflation in the components of the HICP, whereas in other years they would not have had any consequences.

In January 2021, for example, the weight of oil products in the HICP fell sharply (from 4.7% to 3.7%) whereas their price increased sharply by 3.5% month-on-month in the wake of the rise in oil prices. This increase in the price of oil products between December 2020 and January 2021 therefore contributed less strongly to inflation with the 2021 weights than it would have done with the 2020 weights. For this item, the effect of the new weights was therefore negative for headline inflation. Overall, however, the updated weights had a slightly positive impact in January 2021, contributing 0.1 percentage point to the year-on-year change in the headline HICP and 0.2 percentage point to the year-on-year change in the HICP excluding energy and food; this impact was mainly through services, where the usual price cuts in air transport weighed less heavily than with the previous weights.

The previous examples show the complexity of the effects of these weight changes on the measurement of the year-on-year change in the HICP. We are thus seeking to clarify them here. Ultimately, we should bear in mind that the effects of the weight changes depend not only on the weights themselves but also on the expected changes in the prices of the different products over the year.

The chart shows the effects that we are expecting the weight changes to have in 2021, at the detailed product level, compared with what would have happened with unchanged weights and with our monthly disaggregated forecasts. We estimate that the effects of the new weighting structure on the HICP and the HICP excluding energy and food in 2021 will be zero on average over the year. But they should vary over the course of the year: they are expected to be positive in the first quarter of 2021 (as in January), zero in the second and fourth quarters, but negative in the third quarter. These variations in the weight effects should be mainly attributable to services, and in particular air transport. The estimated negative effect in the third quarter, which mirrors the positive effect in the first quarter, appears to stem from the fact that the transport price index peaks in the summer, which is expected to make a smaller contribution to headline inflation due to its lower weight in 2021 than in 2020.

Chart: Impact of changes in the weights of HICP components in 2021



Sources: INSEE data and Banque de France calculations.