Global and European setting

Global economic developments

Global economy probably regained some momentum in Q4

Global economic growth is likely to have picked up again somewhat in the final quarter of 2021. However, economic developments were fairly different from region to region. In the United States and Japan, real gross domestic product (GDP) saw a return to strong growth due to factors limiting production easing off to a certain extent and COVID-19 cases dropping. In China, the normalisation of the power supply contributed to more dynamic growth. In Europe, by contrast, the economy was stifled by the pandemic once again. In the euro area, the upswing was significantly weakened as containment measures were tightened and consumer behaviour became more cautious again. The United Kingdom, which was one of the first industrial countries to be hit by the especially contagious Omicron variant of the coronavirus, also recorded only moderate GDP growth.

Noticeable revival in global industry

The acceleration of global economic growth was attributable not least to industry and to motor vehicle manufacturers in particular. The worldwide shortage of semiconductor components, for which there is great demand, persisted. However, the situation eased somewhat as production in South-East Asia recovered from temporary restrictions due to the pandemic. Amid the rapid spread of the Omicron variant, there is currently a risk of supply-side obstacles becoming worse again. In many areas, sickness rates climbed to record levels. Furthermore, supply chains and transport routes may have been impaired by closures of factories and ports, particularly in countries that continued to attempt to contain infections using stringent measures.

Short-lived pandemic-related burdens on services sector

High-contact service sectors will probably be significantly less disrupted by the consequences of the spread of the Omicron variant than they had been in previous waves of infection. Containment measures were generally tightened to just a moderate degree, or even recently relaxed, because, in many places, the Omicron variant was affecting largely vaccinated populations and symptoms were more frequently mild. However, the high case numbers mean that more people are subject to isolation and quarantine rules, hampering economic activity. Accordingly, there was a deterioration in sentiment among purchasing managers in the services sector around the world in January. Even so, judging by the experiences of other countries, the Omicron wave could subside again quickly, meaning that these burdens are likely to be quite short-lived.

Against the backdrop of the increased numbers of infections, amongst other factors, the staff of the International Monetary Fund (IMF) re-

Global economic indicators*

Q4 2019 = 100, seasonally adjusted, log scale

Sources: CPB, national data, Haver Analytics and Bundesbank calculations. * Groups of countries vary due to differences in data availability. **1** Bundesbank aggregate of national data, based on the number of units.

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World market prices for crude oil, natural gas and industrial raw materials

Monthly averages, log scale

Sources: Bloomberg Finance L.P. and HWWI. • Latest figures: average of 1 to 11 February 2022, or 1 to 17 February 2022 for crude oil. **1** According to HWWI commodity price index.
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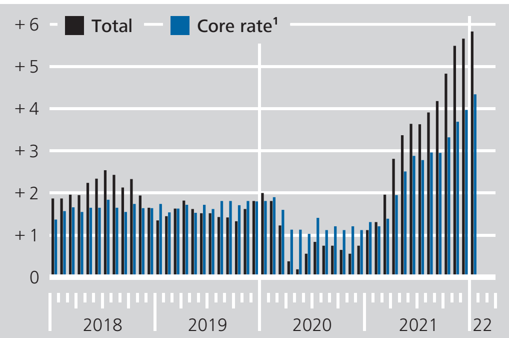
Consumer prices in industrial countries*

Year-on-year percentage change



Sources: Bundesbank calculations based on national data. * EU, Japan, Canada, Norway, Switzerland, the United States and the United Kingdom. **1** Consumer prices excluding energy and food; additionally excluding alcoholic beverages and tobacco products for the EU, Norway, Switzerland and the United Kingdom.
Deutsche Bundesbank

IMF revises 2022 global growth forecast significantly downwards, warns of upside risks to inflation outlook

vised its global growth forecast for 2022 downwards by 0.5 percentage point to 4.4%.[1] In light of China's zero-COVID strategy and the ongoing problems in its real estate sector, the IMF reconsidered China's growth prospects to be less favourable. The IMF staff lowered its growth projection for the United States by an even larger amount in order to incorporate the likely failure of major fiscal initiatives as well as the prospect of monetary policy accommodation being reversed earlier than originally announced. At the same time, the IMF now expects that higher rates of inflation in many regions of the world will persist for longer and once again warned of upside risks to the inflation outlook.

Crude oil prices reach seven-year high, futures suggest persistently high gas prices

At the beginning of the year, commodity prices rose once again across the board starting from a high level. In particular, crude oil prices recently rose by a considerable amount and exceeded US$90 per barrel for the first time since 2014. Alongside robust demand, temporary production losses and concerns surrounding continued supply tensions in the global crude oil market had an inflationary impact.[2] Gas prices in Europe dipped slightly at the start of January after having reached record highs in December 2021. The key factors in this context were the unusually warm weather for that time of year and significantly increased liquid natural gas imports from the United States. Due to the protracted political crisis between Russia and Ukraine, however, the cost of future gas flows became significantly more expensive, and futures contracts suggest that gas prices will remain high for the remainder of the year. Industrial commodity prices picked up considerably again, too.

Consumer price inflation in industrial countries rises again

High energy prices made a substantial contribution to the renewed rise in consumer price inflation around the world. According to an initial estimate, the year-on-year rate of change in consumer prices for the industrial countries as a whole rose to 5.8% up to January. But, even defined more narrowly, i.e. excluding energy

1 See International Monetary Fund (2022).
2 The latter were fuelled by a number of factors, which include, for example, low inventories, missed production targets amongst OPEC countries, and geopolitical conflicts. In addition, there has been a perceptible decline in investment in production capacity over previous years, in which deterioration in the longer-term outlook for demand in light of global efforts to reduce CO_2 emissions may have played a role.

and food, consumer price inflation climbed to 4.3%, meaning that inflationary pressures had become more broadly based. This development was driven by buoyant demand coupled with high cost pressures initially resulting chiefly from price increases at the upstream production stages and for transport services. Moreover, some industrial countries were already experiencing accelerated wage growth. This holds especially true for the United States, where the labour market appears to have overheated. In the euro area, too, there are increasing signs of tensions on the labour market (see the box on pp. 15 f.). Against this backdrop, many central banks tightened their monetary policy stance or at least considered doing so.

China

Industry revival, but underlying cyclical trend remains weak

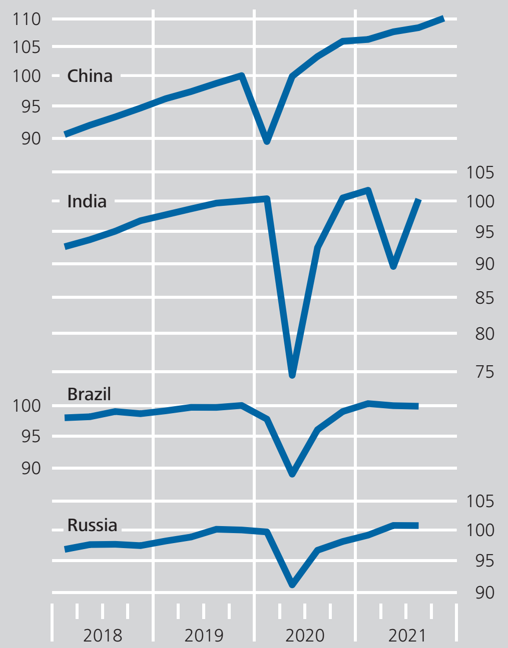
According to official estimates, real GDP in China rose by a seasonally adjusted 1.6% in the final quarter of 2021 compared with the preceding quarter, in which growth of only 0.7% was recorded.[3] The main reason for the higher pace of growth was increased activity in the industrial sector, which had been adversely affected by severe power shortages in the third quarter. Industry also benefited from the ongoing boom in foreign business.[4] The underlying cyclical trend in China remained weak, though. The downturn in the real estate market continued. The number of homes purchased and construction projects commenced once again fell significantly. Should the situation on the housing market come to a head, it could have adverse economic implications not only for China but also for other countries.[5]

Containment measures curb consumption but also inflation

Private consumption also appears to have remained lacklustre in the fourth quarter. This was partly due to the fact that the spread of the Delta variant of the coronavirus led to outbreaks in a number of cities and provinces, which resulted in strict containment measures being imposed at the local level. Dampened consumption activity is probably one reason why consumer price inflation, at 0.9% on the year in January 2022, was very weak by international standards. The rate excluding food and energy was also low, at 1.2%.

Real GDP in selected major emerging market economies

Q4 2019 = 100, seasonally and calendar adjusted, log scale



Sources: National Bureau of Statistics of China, Central Statistics Office of India, Brazilian Institute of Geography and Statistics, Rosstat – Federal State Statistics Service, and Bundesbank calculations.

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Other selected emerging market economies

Recovery continued in India

The Indian economy is likely to have continued to recover in the fourth quarter of 2021 from the consequences of the severe Delta wave in the second quarter. Economic output fell just short of pre-pandemic levels in the third quarter. There was continued strong growth in goods exports throughout the reporting period. Export revenue in US dollar terms was over one-third higher in the fourth quarter than in

3 In a year-on-year comparison, economic growth in the final quarter stood at 4%.
4 With year-on-year growth of +23%, revenue from goods exports (in US dollar terms) again went up very sharply. However, price rises are also likely to have played a large part in this.
5 See Deutsche Bundesbank (2021a).

the same period a year earlier. However, spending on imports also went up sharply due to rising commodity prices. Meanwhile, industrial production expanded only slightly on the year, while motor vehicle production even suffered a setback. Consumer price inflation rose markedly to 6.0% in January 2022. The Indian central bank nevertheless left its policy rate at 4%.

Economy in Brazil persistently weak

In Brazil, real GDP had already returned to pre-crisis levels back in early 2021. However, it dipped back down in the second and third quarters, and it is unlikely to have experienced a revival in the fourth quarter either. Industrial production stagnated, while retail sales decreased markedly in price-adjusted terms. A major reason for the weak consumption activity is likely to have been strong inflation. Consumer price inflation increased to 10.5% in the fourth quarter and remained at a similarly high level at the start of the year. The Brazilian central bank therefore continued to tighten its monetary policy. All in all, it has raised its policy rate by 875 basis points since March 2021 to a current rate of 10.75%.

Two-speed economic development in Russia

According to preliminary government estimates, economic output in Russia increased by 4.6% in 2021 as a whole. This more than compensated for the pandemic-related losses of 2020. In the final quarter, for which no GDP figures are available yet, there appears to have been a two-speed economic development. Manufacturing output increased sharply. Revenue from energy exports also recorded renewed significant growth thanks to a sharp rise in oil and gas prices. However, the week of non-working days between the end of October and start of November ordered across the country in response to the tense pandemic situation is likely to have hit the services sectors especially hard. Up to January, consumer price inflation rose to 8.7% on the year. Given the geopolitical tensions relating to Ukraine, the start of the year saw the rouble come under intensified downward pressure. The Russian central bank has increased its policy rate in three steps by a total of 275 basis points since the start of October to 9.5%.

United States

Strong GDP growth in Q4

In the United States, the economy shifted into a higher gear in the final quarter of 2021. Preliminary estimates indicate that seasonally adjusted real GDP was up by 1.7% on the third quarter. The main reason for this good performance is that adverse factors that had stalled the upswing in the third quarter became less significant. For example, the wave of infections brought about by the Delta variant of the coronavirus continued to subside. After repairing storm damage, factories and ports on the East Coast returned to business as usual. Lastly, the automotive sector benefited from factors affecting upstream stages of production easing off to a certain extent. US firms used the overall strong increase in the supply of domestic and imported goods first and foremost to restock. By contrast, the level of investment in machinery and equipment or buildings only slightly exceeded the level of the previous quarter. Households upped their consumption expenditure only moderately, with recent purchasing power losses decreasing their propensity to purchase. Consumer price inflation continued to rise and in January reached its highest level in almost 40 years, at 7.5%. At 6.0%, the core rate, which excludes energy and food, was only slightly lower. In view of this, the US central bank indicated in January that it could soon raise its interest rates.

Pandemic-related setback at start of year

It is not just due to surging inflation that the US economy will be unlikely to build much on the fourth quarter’s high pace of growth at the start of 2022. The rapid spread of the highly contagious Omicron variant is putting pressure on demand for high-contact services and has already resulted in a considerable number of working hours being lost due to illness and quarantine rules. Total hours worked saw a marked decrease in January.

The current situation in euro area and US labour markets

As the global economy quickly bounced back from the pandemic-induced slump in spring 2020, many countries' labour markets made a brisk recovery as well, first and foremost in the United States and the euro area. So much so, in fact, that labour shortages have been on the rise again at enterprises on both sides of the Atlantic in recent months. Wage growth in the United States has already gained significant traction as a result of this, and the question is whether something similar might happen in the euro area.

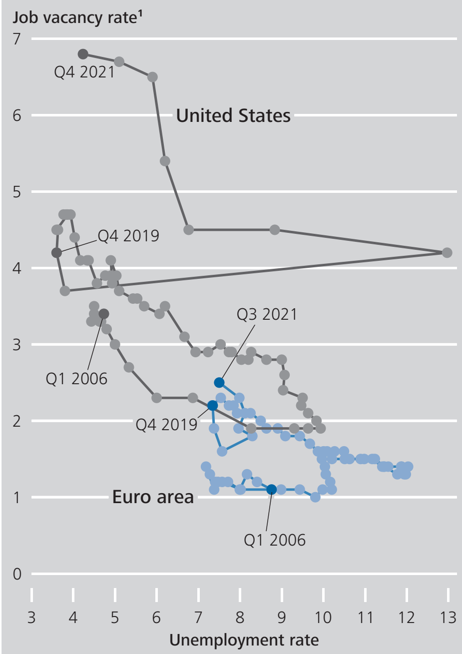
There are considerable differences between the US and euro area labour markets, however. For one thing, the US labour market is far more flexible. For another, there is less intervention to stabilise employment in the United States, as developments during the coronavirus pandemic demonstrated once again. Within the space of two months in spring 2020, the US unemployment rate shot more than 11 percentage points higher, compared with a modest increase of just over 1 percentage point in the euro area. This difference will have been largely the result of comprehensive measures in the euro area aimed at preserving jobs, such as short-time working arrangements. In the United States, by contrast, households received support in the form of increased direct relief payments, while firms were given incentives to quickly hire back employees who may have been laid off. As the economy recovered, the jobless rate in the United States was already almost back at its pre-crisis level at the end of 2021.[1] In the euro area, meanwhile, it even dropped noticeably below its level before the onset of the crisis (which was admittedly substantially higher).

Labour demand in both the US and the euro area has remained exceptionally brisk ever since, with firms finding it increasingly difficult to fill vacancies. The number of unfilled positions in the euro area climbed to an all-time high in the third quarter of 2021. Business survey findings indicate that the situation may have deteriorated further still in the meantime, with the share of firms reporting labour shortages peaking in the first quarter of 2022 in both industry and services sectors.

1 It thus also fell short of widely used estimates of the natural rate of unemployment and the long-term level expected by members of the US Fed's Federal Open Market Committee (FOMC). The decline in the unemployment rate came to a halt in January 2022 due to a resurgence of pandemic-related challenges.

Beveridge curves

%, quarterly data, seasonally adjusted



Sources: US Bureau of Labor Statistics, Eurostat, Haver Analytics and Bundesbank calculations. **1** Number of job vacancies as a percentage of filled and unfilled positions.

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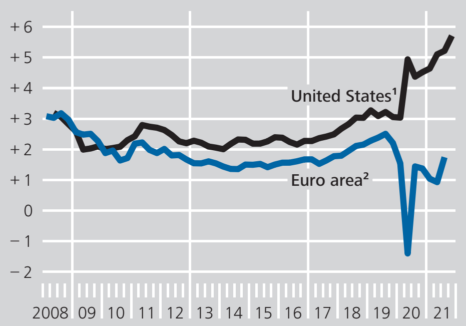
Gross wages and salaries per employee

Annualised changes on the penultimate year, quarterly data, seasonally adjusted



Sources: US Bureau of Labor Statistics, Eurostat, Haver Analytics and Bundesbank calculations. **1** Average weekly earnings of all employees on private nonfarm payrolls. **2** Data for the total economy.

Deutsche Bundesbank

Tense as the situation in the euro area may be, matters are worse still in the United States, where job vacancy figures actually exceeded the number of people seeking work recently. This will undoubtedly be due in part to the US economy's particularly brisk and robust recovery.[2] But not even in earlier boom periods has labour demand in the United States exceeded supply on this scale. This is clearly shown by shifts in the Beveridge curve, which captures the relationship between the unemployment rate and the job vacancy rate. Labour force participation, which contracted as the crisis unfolded and remains depressed, appears to be a notable factor holding back employment growth.[3] The euro area was more successful in keeping people in the labour market, which goes some way towards explaining why labour shortages are less pressing here than they are in the United States.

The different degrees of labour market slack are reflected in wage developments as well. Wage growth has already gained considerable traction in the United States, with the strong increases in wages particularly benefiting workers in high-contact services sectors initially before spreading to other industries.[4] The euro area likewise saw wage growth pick up somewhat of late, albeit at a flatter pace so far than immediately prior to the pandemic.[5] Looking ahead, wage growth will probably accelerate appreciably in the euro area as well, particularly in light of the strong consumer price inflation, but increases are unlikely to be as noticeable as in the United States owing to the differences outlined above.

2 In the United States, real gross domestic product was already above its pre-crisis level in spring 2021, whilst in the euro area, the level immediately prior to the crisis was only reached six months later. Deutsche Bundesbank (2021b) provides background on why the US and euro area economies have fared differently since the onset of the pandemic.
3 US labour force participation did not make a full recovery for a number of possible reasons: the very generous income support programmes during the pandemic, concerns about becoming infected with the coronavirus, the increased demands placed on families (in particular on mothers of younger children), and older workers withdrawing early from the labour force. Sectoral shifts induced by the pandemic may also have led to an increase in the mismatch between job requirements and job seeker profiles. These factors are discussed in Pizzinelli and Shibata (2022), for example.
4 Projections based on modified Phillips curves that include, amongst other things, the job vacancy rate as a measure of the degree of slack in the labour market imply that US wage growth could actually gain even more pace over the next two years. See Domash and Summers (2022).
5 The different labour market responses to the pandemic partly explain the divergent growth rates of average wages in the United States and the euro area in 2020. In the United States, it was particularly people with low incomes who were affected by layoffs, which is why average gross wages per employee increased significantly initially before subsiding again to a degree as workers were rehired. Average gross wages per employee in the euro area, by contrast, fell significantly at first because many employees switched to short-time work schemes. The analysis of wage changes on the penultimate year disregards short-term compositional effects attributable to the crisis.

Japan

Recovery after pandemic-related setback

In Japan, the road to recovery remained bumpy. According to the initial official estimate, in the fourth quarter real GDP rose by a seasonally adjusted 1.3% on the previous quarter, in which it had contracted markedly. Private consumption expanded steeply on the back of a receding number of COVID-19 cases and a relaxation of containment measures. Motor vehicle production also picked up again following a slight easing of supply bottlenecks for semiconductors. Business investment likewise expanded somewhat as a result. Exports rose markedly, driven by an increase in foreign sales of motor vehicles. By contrast, imports recorded a slight decline. Labour market conditions continued to improve and the seasonally adjusted unemployment rate fell to 2.7%. In the current quarter, the spread of the Omicron variant is likely to again dampen economic activity. Furthermore, a resurgence of supply bottlenecks is constraining production in the manufacturing sector. In the first few months of the year, a number of motor vehicle manufacturers again idled production. The year-on-year rate of the consumer price index (CPI) fell to 0.5% in January as a result of base effects.[6] The Bank of Japan recently revised its inflation forecast for the coming fiscal year upwards and now forecasts price risks to be balanced rather than tilted to the downside.

Real GDP in selected industrial countries

Q4 2019 = 100, seasonally and calendar adjusted, log scale

Sources: Bureau of Economic Analysis, Cabinet Office of Japan, Office for National Statistics, Statistics Poland and Bundesbank calculations.
Deutsche Bundesbank

United Kingdom

Moderate economic expansion

In the United Kingdom, the overall economic upturn continued, maintaining its moderate pace in the final quarter of 2021. According to the preliminary estimate, real GDP increased by 1.0% on the quarter after seasonal adjustment and was just short of its pre-crisis level. The services sector was again the driving force behind this growth. High-contact service sectors, such as hotel and restaurant services as well as wholesale and retail trade, suffered a marked dampening towards the end of the year due to the spread of the Omicron variant. However, activity was up significantly in the health and social services sector, boosted by the increase in testing and vaccinations in December. Furthermore, providers of transport services benefited from the increased use of online shopping during the Christmas shopping season. By contrast, a shortage of materials continued to weigh on operations in the manufacturing sector and production stagnated. The construction sector, which is facing a severe shortage of staff, saw only a slight pick-up in activity. In spite of the UK Coronavirus Job Retention Scheme coming to an end on 30 September 2021, the unemployment rate has since continued to fall and now stands at 4.1%. At the same time, the number of reported vacancies reached an all-time high. The tight labour mar-

6 The considerable reduction in mobile phone charges also continues to have a dampening effect here. Since a reform of mobile phone charges in April 2021, they had declined by 48% by January. In January, this one-off effect pushed down the year-on-year rate of the CPI by 1.5 percentage points.

ket situation was also reflected in persistently robust wage growth. The acceleration of wage growth is adding to general cost pressure and could fuel consumer price inflation even further. The year-on-year rate of the Harmonised Index of Consumer Prices (HICP) rose to 5.5% in January. As a result, the Bank of England raised its policy rate by 40 basis points to 0.5%. It believes that some further modest tightening in monetary policy is likely to be appropriate in the coming months.

Poland

Strong growth, significant inflation

Despite another sharp wave of the pandemic, Poland's upturn continued unabated in the final quarter, in which real GDP grew by 1.7% after seasonal adjustment. This was notably attributable to a sharp increase in industrial production. Retail sales likewise rose considerably in price-adjusted terms. In December, the unemployment rate fell to 2.9%, thus returning to its historically low level from March 2020. Initial estimates put growth in the Polish economy at 5.7% for full-year 2021. However, the strong upswing has also meant a significant rise in inflation. The rate of consumer price increase accelerated to 8.6% on the year in December, with the energy component accounting for a substantial portion of this. Yet, even excluding energy and food, consumer prices were still up by 5.3%. Consumer price inflation intensified even further in January, rising to 9.2%. As a result, the Polish central bank has raised its policy rate in three further increments since December, by a total of 150 basis points to 2.75%. The Polish government also instigated measures to curb prices, lowering VAT on gas and electricity for three months and fuel taxes for five months. As of February, VAT on food is to be cut to 0% for five months.

Macroeconomic trends in the euro area

Recovery comes to near-standstill at end of 2021

In the euro area, the economic recovery came to a near-standstill towards the end of 2021. According to Eurostat's flash estimate, real GDP rose by just 0.3% on the preceding quarter after price and seasonal adjustment. A key reason for this was a renewed flare-up of the coronavirus pandemic, which led to containment measures being temporarily tightened, significantly so in some cases. This had a particular impact on accommodation and food service activities as well as various other services, and dampened private consumption. The sharply rising prices for energy and intermediate products increased enterprises' production costs and resulted in considerable price increases that were passed through to consumers. This eroded households' purchasing power. According to the EU survey, the supply bottlenecks that had previously impaired the activities of industrial enterprises continued to spread, but their intensity is likely to have dropped off somewhat. In any case, there was a noticeable increase in motor vehicle production, which had suffered in particular measure under the effects of the semiconductor shortage.

Pre-crisis level reattained

In total, euro area GDP rose by 5.2% in 2021 after having fallen by 6.5% in 2020 due to the pandemic. The pre-crisis GDP level was reattained towards the end of the year.

Pandemic situation more tense again, but measures tightened only to limited extent

In the eastern euro area Member States, the pandemic situation had already deteriorated towards the end of the third quarter. Subsequently, the Delta variant of the coronavirus also increasingly spread throughout the more western Member States. In these countries, however, this wave of infections was considerably less pronounced. Higher vaccination rates are likely to have been one reason for this. There were significant differences in the responses to this wave of the pandemic from country to country. While some individual countries temporarily reimposed very stringent containment measures (including Austria and the Netherlands), other countries tightened their restrictions only to a limited extent. Towards the end of the quarter, the spread of the Omicron variant caused the number of infections to rise to record highs. Although containment measures were tightened somewhat again, more substantial economic losses were likely to have arisen from temporary losses of work due to illness and quarantine as well as from changes in behaviour.

Private consumption shifts down a gear

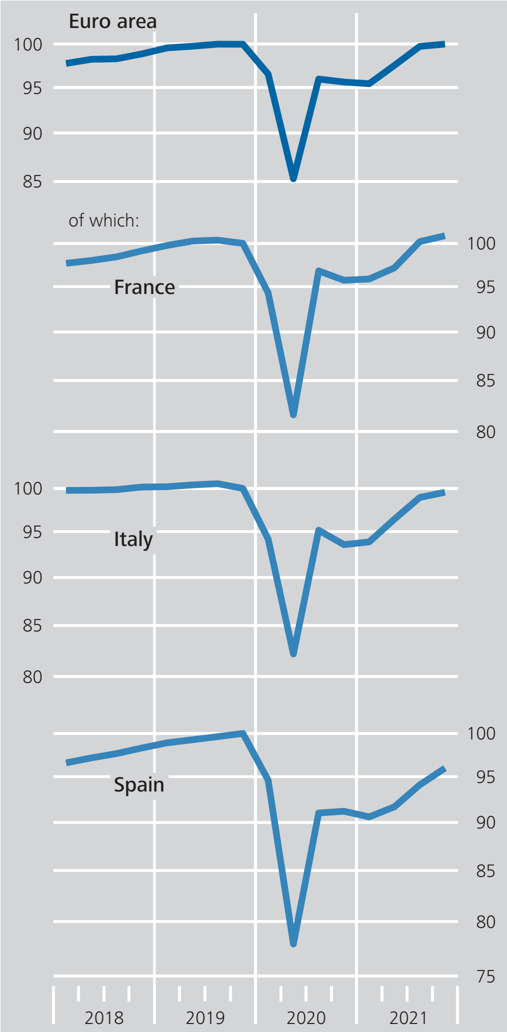
It appears that private consumption did not rise further in the fourth quarter after seeing strong growth in the third quarter. Although retail sales rose somewhat again in price-adjusted terms, new vehicle registrations continued to decline, probably in part due to delivery difficulties among motor vehicle manufacturers. The reasons for the slowdown in private consumption are likely to have been factors related to the wave of infections such as access restrictions, reduced opening hours and capacity restrictions. In this context, demand for recreation and leisure services, which had seen strong growth in the third quarter, experienced a renewed decline. In addition, the considerable rise in the costs of living led to a noticeable reduction in consumers' purchasing power.

Investment remains on upward trajectory

By contrast, gross fixed capital formation is likely to have risen in the fourth quarter.[7] This holds especially true for investment in information and communication technologies as well as investment in intellectual property, which appear to have recorded strong expansion once again. Construction investment appears to have remained subdued. In any case, there was no increase in construction work. It is also likely that purchases of transport equipment only saw little growth. The numbers of commercial vehicle registrations fell once again, probably due in part to delivery difficulties among motor vehicle manufacturers. By contrast, spending on other machinery and equipment is likely to have risen. In October and November, capital goods producers' domestic

Aggregate output in the euro area

Real GDP, Q4 2019 = 100, seasonally and calendar adjusted, log scale



Sources: Eurostat and Bundesbank calculations.
Deutsche Bundesbank

sales markedly exceeded the previous quarter's level after price adjustment.

Goods trade with third countries sees strong growth with rising prices

Goods exports to third countries likely rose somewhat in price-adjusted terms. Based on value, goods exports even rose by a very significant degree due to large rises in prices. In regional terms, the recovery in exports to the United Kingdom continued. Goods exports to the United States saw strong growth. Follow-

7 Excluding Ireland. For several years now, the statistical recording of investment as a whole, and of investment in intellectual property in particular, has been strongly influenced by the strategic planning of multinational enterprises in that country. See Deutsche Bundesbank (2018).

Producer prices in the euro area

Year-on-year percentage change, monthly data

Source: Eurostat. **1** Bundesbank aggregate of sub-indices for capital goods and consumer goods.
Deutsche Bundesbank

ing a weak preceding quarter, exports to China rose again somewhat. According to figures from the balance of payments, services exports from the euro area to third countries grew to a remarkable extent, driven largely by the ongoing recovery in tourism. Goods imports to the euro area from third countries also rose to a considerable extent, both in price-adjusted terms as well as by value. The distinct rise in imports of intermediate products suggests that supply bottlenecks are easing slightly.

Brighter situation in manufacturing due to slight easing of materials shortages

The situation in manufacturing brightened up in the fourth quarter. Although the industrial production index fell markedly compared with the preceding quarter, this was the result of one-off developments in Ireland and in the pharmaceutical sector. In particular, motor vehicle production saw noticeable growth, which was probably attributable chiefly to an improvement in the supply of semiconductors. Nevertheless, materials shortages continued to stifle economic activity. Another dampening factor was the sharp increases in prices for energy and intermediate products. Consequently, there was also a rise in the producer prices of capital goods and consumer goods. According to surveys, the number of orders on hand remained favourable through to the end of the year. There was also hardly any change in capacity utilisation, which slightly exceeded its long-term average.

Interruption in recovery among service providers

In the fourth quarter, activity in various services sectors declined again somewhat as a result of the pandemic; particularly affected were hotel and restaurant services as well as art and cultural activities. Nevertheless, the level of activity was considerably higher than in the previous year. By contrast, economic activity is likely to have risen further in a number of commercial services sectors. The strong upswing in the information and communications sector continued.

Weaker dynamics in all Member States

Economic dynamics weakened considerably towards the end of the year in most euro area Member States. However, there were differences depending on the extent to which each country was affected by the latest wave of infections, the progress made in their vaccination campaigns, and the containment measures taken. Differences in their economic structures as well as their progress in the recovery process also played a role.

French economic output already exceeds pre-crisis level

In France, GDP growth slowed to 0.7% in the fourth quarter. This meant that it had already slightly exceeded its pre-crisis GDP level. Following the very large rise in the third quarter, which was largely due to catch-up effects, private consumption recorded moderate growth once again. In light of the fact that the number of infections had remained subdued over a long period of time, revenues in the hotel and restaurant services sector continued to grow and have since reattained their pre-crisis level. An additional reason for the persistently good consumption activity is likely to have been the government financial assistance that was used to mitigate the effects of rising energy prices on individuals with lower incomes.[8] Following a pause, investment activities were expanded markedly, driven solely by investment in intellectual property. By contrast, expenditure for construction stagnated, and investment in machinery and equipment declined considerably once again. However, there was a distinct rise in external trade. Services exports continued to benefit from the recovery in tourism, and goods exports also recorded significant growth.

Slowdown in economic recovery in Italy

In Italy, the overall economic recovery slowed down considerably towards the end of the year. Based on preliminary figures, real GDP increased by 0.6% in the fourth quarter and thus fell short of its pre-crisis level by 0.5%. Services sectors, which had recorded strong expansion in the second and third quarters, are likely to have lost momentum in particular. While tourism made further progress towards normalisation, it did not achieve this in full. According to the most recent figures, retail sales only saw marginal growth in price-adjusted terms. Production in the manufacturing sector, which had already noticeably exceeded pre-crisis levels, is likely to have expanded further. Most recently, however, there was a significant rise in the number of enterprises reporting factors limiting production. The upswing in the construction sector continued. On the expenditure side, goods exports and gross fixed capital formation are likely to have increased markedly. Private consumption expenditure is likely to have seen only little growth in real terms, meaning that hardly any progress was made in closing the considerable gap to its pre-crisis level.

Spanish recovery continues

The economic recovery in Spain, which is lagging behind that of other major euro area countries, continued largely unhindered. According to preliminary estimates, aggregate output increased in the fourth quarter by 2.0% from the preceding quarter. Nevertheless, it still fell short of its pre-crisis level by 4%. A key driver of the recovery was tourism. In light of the relatively calm situation with regard to the pandemic, the tourism season was able to be extended well into the fourth quarter. However, sales in the accommodation and food service activities sector remained around 10% below their pre-crisis level. Investment activities also saw perceptible growth. Construction investment rose again for the first time since the end of 2020. By contrast, there was a decline in private consumption. A reason for this is likely to have been the loss of purchasing power resulting from the sharp increase in energy prices.[9]

Noticeable heterogeneity amongst other Member States as well

In the autumn, economic output also rose in most other Member States as well. The rise was especially pronounced in Portugal. By contrast, Belgium, Slovakia and Lithuania posted only little growth in GDP. More substantial declines were seen in Germany and Austria; in the case of the latter, this was probably due to the drastic measures that were implemented to contain the pandemic. In the Netherlands, economic output continued to grow despite the temporary, comprehensive restrictions. In Latvia, output fell only to a marginal degree.

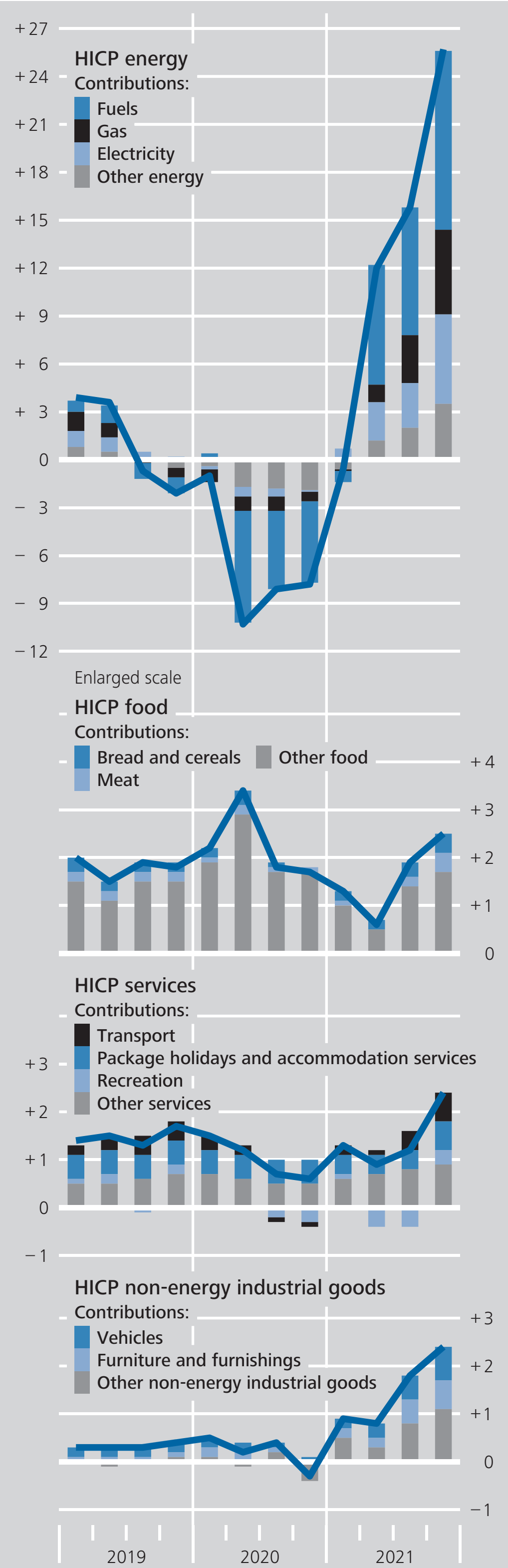
Labour market situation remains favourable

The situation on the labour market continued to improve. The unemployment rate fell further and stood at 7.0% in December, which represented the lowest rate since the start of monetary union. The number of persons in employment rose to a lesser extent than in the previous quarter, but exceeded its pre-crisis level for the first time. The number of hours worked is also likely to have risen, but probably fell short of its pre-crisis level. These favourable developments were chiefly attributable to the strong demand for labour (see the box on pp. 15 f.). Furthermore, job retention schemes are still in effect in some countries, and the number of employees in the public sector has grown by 1 million since the outbreak of the crisis. This is

8 In October, the French government approved a one-off "inflation payout" of €100 to each person with a monthly net income of less than €2,000. The payments were disbursed in December. Furthermore, households that were already receiving financial support for energy costs were given an additional payment of €100.
9 In Spain, energy prices rose by 38% over the previous quarter in the fourth quarter. This was considerably sharper than the rise recorded in the euro area as a whole, which amounted to 26%.

Contributions of selected components to HICP sub-aggregates in the euro area*

Quarterly data, year-on-year percentage change, contributions in percentage points



Sources: Eurostat and Bundesbank calculations. * The sum of the contributions may differ from the year-on-year rate due to rounding.
Deutsche Bundesbank

also likely to have contributed to the labour shortage, about which complaints are becoming increasingly vocal. Looking ahead, all of these factors, in conjunction with higher inflation, are likely to considerably increase pressure on wages.

Consumer price inflation intensifies significantly in Q4

The rise in consumer prices in the euro area intensified to an exceptionally strong degree in the fourth quarter of 2021. As measured by the HICP, prices increased by 1.5% compared with the previous quarter after seasonal adjustment. Energy prices recorded an especially sharp increase, rising by 9.1%. However, this intensification of inflationary pressures also comprised other categories of goods. As a result, annual HICP inflation jumped from 2.8% in the third quarter to 4.6%, while the rate excluding energy and food climbed from 1.4% to 2.4%.

Broad-based inflationary pressures across all components

The rise in inflation in 2021 was broadly based. Major reasons were the considerable increase in crude oil prices and the sharp rise in wholesale prices for gas. Despite government intervention, consumer prices for gas rose by 26% on the year in the fourth quarter. For electricity, for which peak loads are often provided by gas facilities, prices increased by 19%. Fuel prices were up by 29%. Prices for food products also rose by 2.5% on the year, most recently as a result of sharp rises in the wholesale prices of meat and cereal products. For services, inflation rose to 2.4%. In this context, a key role was played by price rises in high-contact services. These include, in particular, transport, travel, accommodation and food service activities. Inflation for non-energy industrial goods also continued to rise significantly, reaching 2.4%. It was mainly new and used cars, furniture, clothing and hygiene and wellness products that saw prices go up steeply. The reasons for this were strong inflation for intermediate goods, increased transport costs, as well as ongoing delivery bottlenecks against strong demand at the same time.

Average euro area inflation for 2021 stood at 2.6%, following a rate of just 0.3% in the previous year. This shift was due primarily to energy prices, which, after a decline of almost 7% in 2020, rose by 13% in 2021. However, the rate excluding energy and food also doubled from 0.7% to 1.5%. This was attributable to increased inflationary pressures for both industrial goods as well as high-contact services.

Inflation rate rises further in January

According to Eurostat's flash estimate, the annual HICP rate grew to 5.1% in January 2022. The expiration of baseline effects should have considerably dampened inflation; however, this was instead overcompensated by larger increases in prices for energy and food. Only the rate excluding energy and food declined slightly from 2.6% to 2.3%. This was mainly due to the prices of non-energy industrial goods, with special factors regarding the timing of seasonal sales in 2021 playing a role.

Pandemic a drag on economic activity at start of year, too

In the first quarter, the Omicron wave is likely to stifle the economic upturn to a large extent; this is due less to additional administrative restrictions and more to expected labour losses resulting from illness and quarantine rules. Although enterprises know how to manage these absences, it is not possible to fully rule out supply constraints. In addition, consumer sentiment has become more subdued. Alongside the wave of infections, the greater rises in prices are likely to be a key reason for this. Once this wave of infections has abated, the underlying expansionary forces should have a stronger impact again. The numbers of orders on hand in the industrial and construction sectors remain favourable, and households' demand for services should normalise quickly. A similar picture is also obtained from business surveys. However, increased rises in costs and prices as well as the slow resolution of shortages are cause for concern.

Sentiment indicators for the euro area*

Balance of positive and negative responses as a percentage of all responses, seasonally adjusted, monthly data

Source: European Commission. * Deviations from the respective average since 2000.
Deutsche Bundesbank

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