

## Update on business conditions in France at the start of June 2021

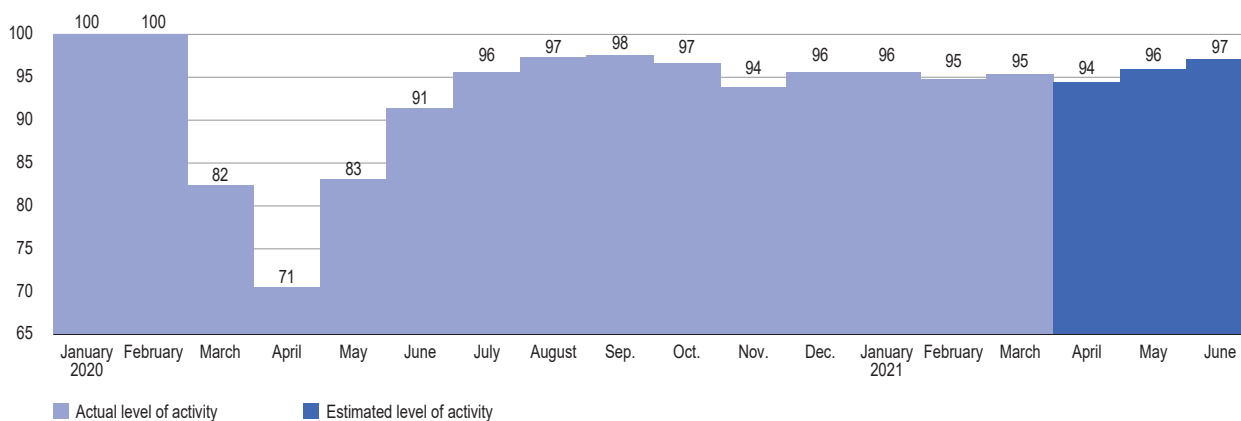
May was marked by the gradual easing of health restrictions, with the authorisation of inter-regional travel, the reopening of secondary schools on 3 May, followed by the reopening of all shops, outdoor restaurants, museums, theaters and sports activities (excluding sports halls), and the shifting of the curfew to 9 pm on 19 May. In this context, and according to our business survey conducted between 27 May and 3 June among 8,500 companies and establishments, activity improved in most industrial sectors and in market services. As for the latter, accommodation and food services started to recover while remaining at low levels of activity. In the construction sector, activity remained strong. Overall, we estimate the loss of GDP compared to pre-crisis levels at 4% in May, after 6% in April.

This month we focus on supply issues: nearly half of companies surveyed in industry and construction report facing supply difficulties, which are tending to increase. Many of them also mention recruitment difficulties. However, at this stage, this does not prevent their own business prospects from improving.

For June, thanks to the continued easing of health restrictions, business leaders expect activity in industry and construction to pick up slightly, and services to grow more strongly. Under these conditions, the loss of GDP compared with pre-crisis levels should be 3% in June and GDP growth should be about ½ point in the second quarter of 2021.

### Level of activity

(as a % of normal level)



### 1. In May, against a backdrop of more relaxed health measures, activity increased in industry and services and remained strong in construction

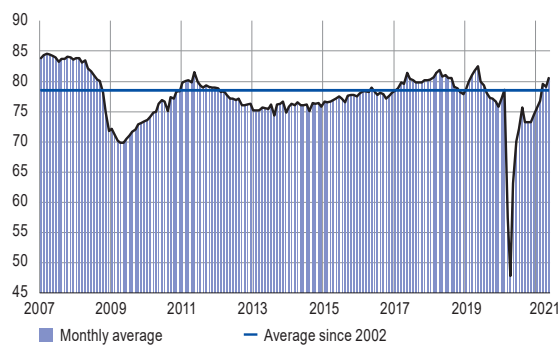
In **industry** as a whole, the capacity utilisation rate inched up to 81% from 79% in February. This rate picked up in the automobile industry after a particularly low month of April (rising from 73% to 81%), and increased in clothing and textiles (from 81% to 83%), as well as in metallurgy and metal products (from 76% to 78%). Conversely, the capacity utilisation rate fell in electrical equipment (from 83% to 81%) and other industrial products (from 84% to 83%). Although it was up slightly, it remained particularly low in the aeronautics and other transport sector (edging up to 74% from 72% in April).

Activity levels remained heterogeneous across the various sectors of industry. They were close to pre-crisis levels in rubber and plastic products, chemicals and agri-food, but remained low in the aeronautics and other transport sector.

In May, business leaders in industry once again reported a sharp rise in raw material and finished product prices. They expect sales prices to continue rising in June.

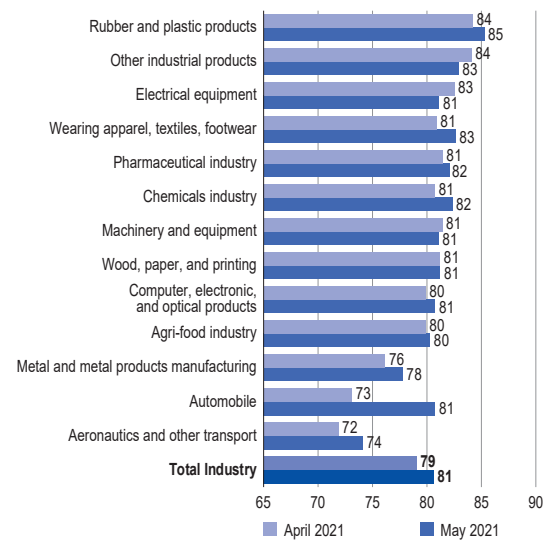
### Capacity utilisation rate in industry

(%)



### Capacity utilisation rate

(%)



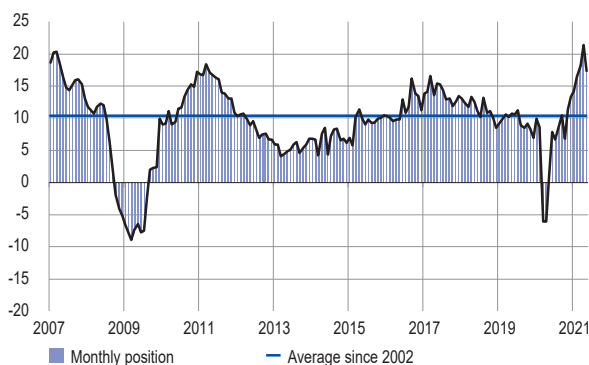
In **market services**, activity rose in May, in particular in local services concerned by the easing of health measures. The accommodation and food services sectors recorded strong increases, while remaining at very low levels compared to the pre-crisis situation. Equipment rental (cars, etc.) also fared well. In business services, activity remained close to its pre-crisis level.

In the **construction** sector, activity was virtually stable, around its pre-crisis level.

In industry, the balance of opinion on **cash positions** stabilised at a high level. It improved further in services and was slightly above its long-term average.

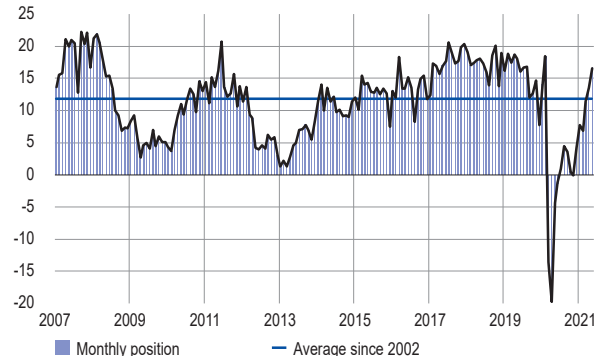
### Cash position in industry

(balance of opinion)



### Cash position in market services

(balance of opinion)



## 2. In June, business leaders expect activity to increase slightly in industry and construction, and to recover more strongly in services

With the upcoming stages of lockdown exit, business leaders expect activity to improve slightly in industry and construction; in services, the increase should be more pronounced.

In **industry**, activity is expected to increase slightly, particularly in computer, electronic and optical products and in agri-food. Activity is expected to remain relatively subdued in the automobile industry, as well as in the aeronautics and other transport sector, which is expected to be running at about  $\frac{3}{4}$  of its pre-crisis pace.

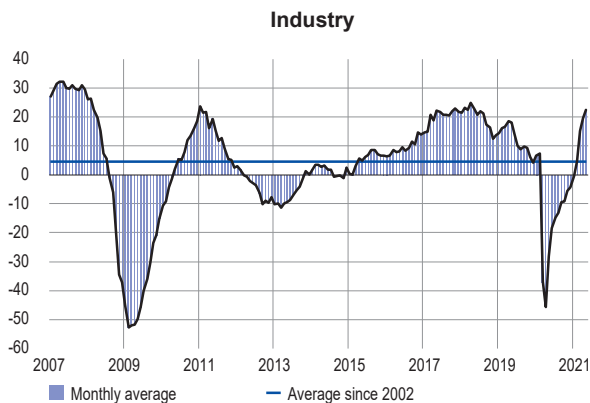
The improvement should be more pronounced in **services**, in line with the planned final stages of lockdown exit. Activity in accommodation and food services is expected to rise markedly, but it should still be only about 50% of the level deemed normal. The recovery should also be significant in recreation and personal services, and in equipment rental (automobiles, etc.).

In **construction**, activity is expected to remain virtually stable, at a level slightly above its pre-crisis level.

The balance of opinion on **order books** was good and continued to improve in industry in May. In construction, it deteriorated very slightly, to a level close to that before the crisis.

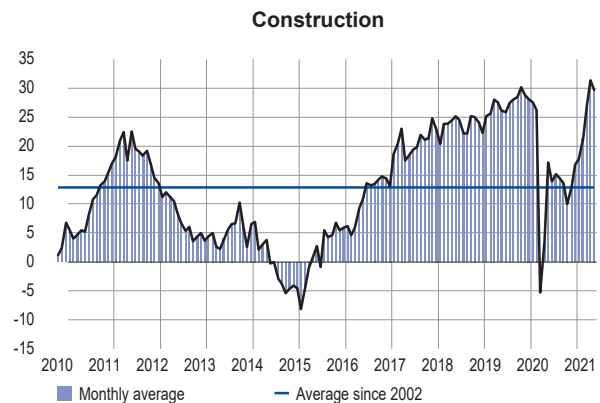
### Level of order books

(balance of opinion)



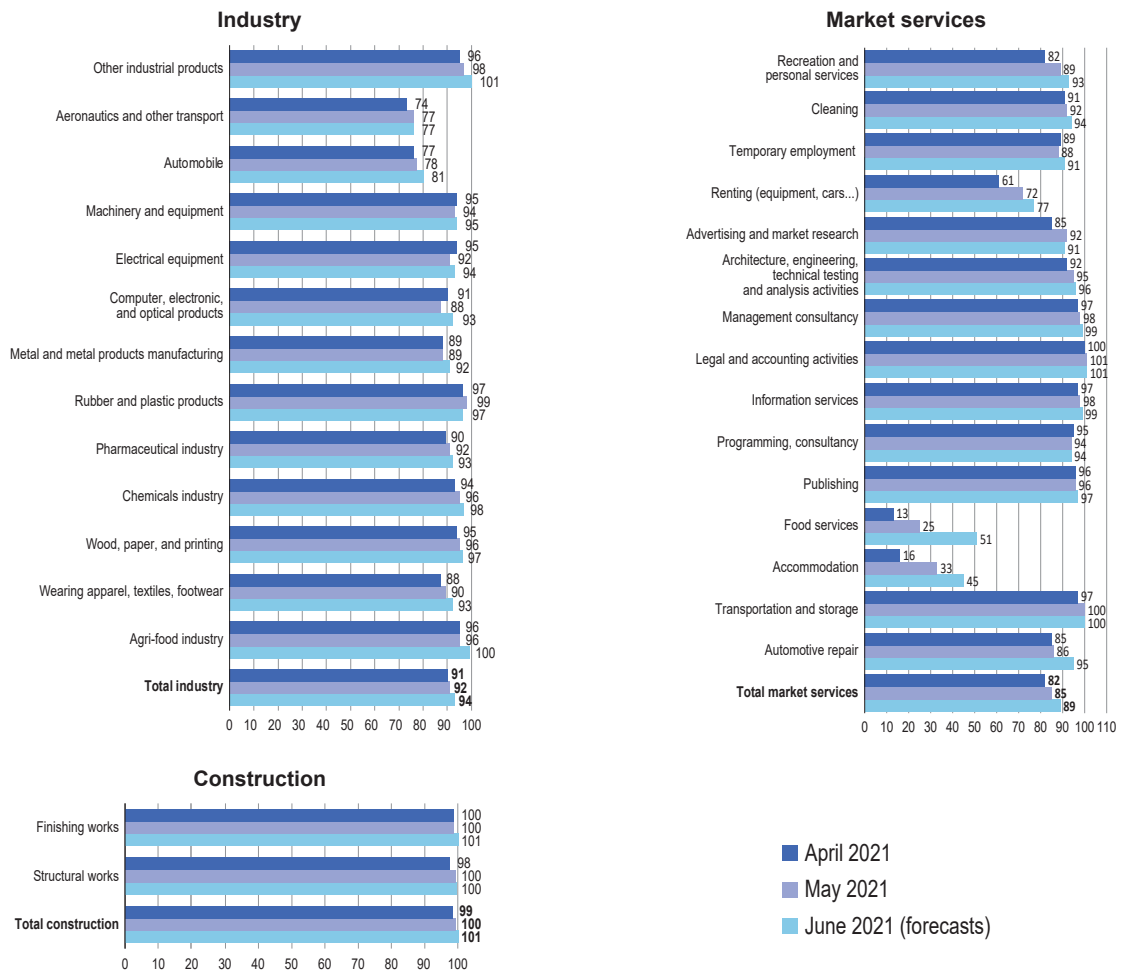
### Level of order books

(balance of opinion)



## Business leader's assessment of their activity levels and expectations for June

(% of level deemed "normal")



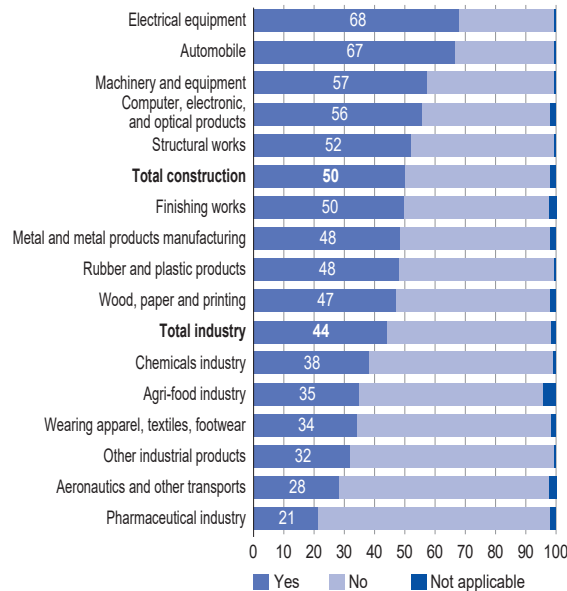
## Supply and recruitment difficulties

Since the start of the year, an increasing number of business leaders surveyed have spontaneously mentioned the issue of **supply**. When asked this month more specifically about this topic, 44% of business leaders in industry and 50% in construction reported supply difficulties having had an impact on production.<sup>1</sup>

The automobile and electrical equipment sectors are the most impacted, with close to 70% of companies reporting difficulties and half of construction companies are also affected.

### Supply difficulties

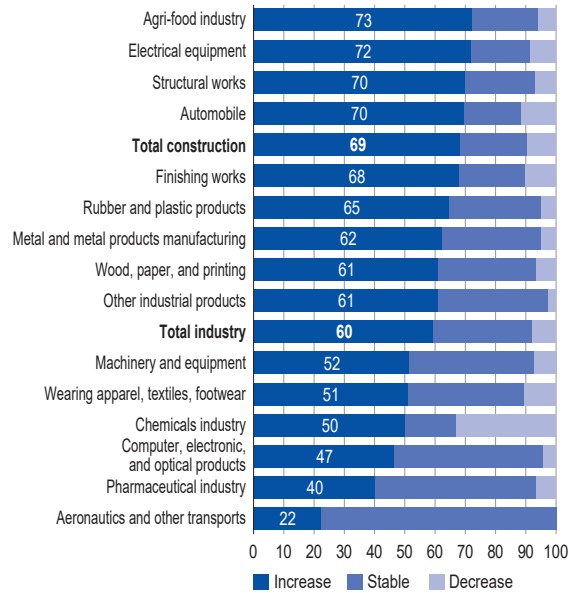
(%)



In most sectors of industry and construction, business leaders consider that these difficulties have increased over the past month, particularly in the electrical equipment, agri-food, automobile and construction sectors.

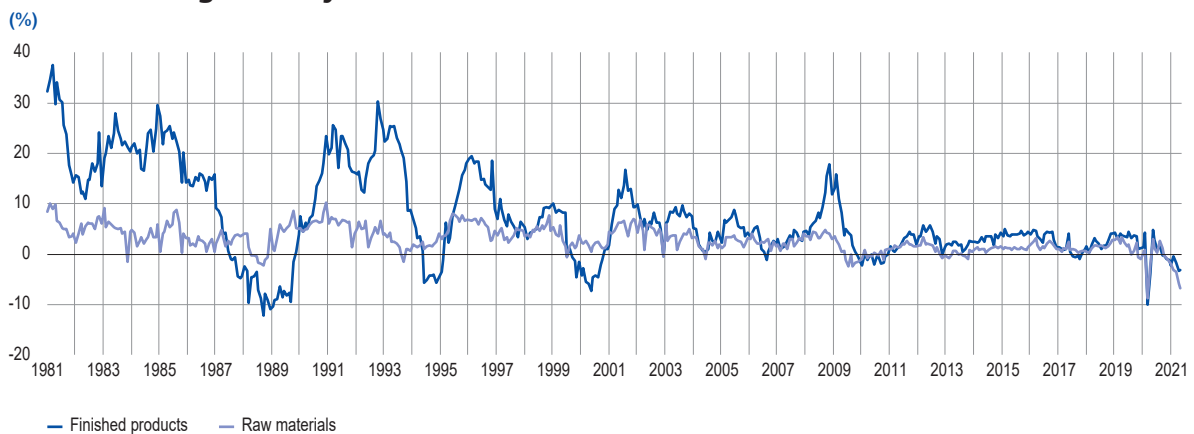
<sup>1</sup> The "Update on business conditions at the start of May 2021", published on 10 May, shed a different light on the same issue, showing that just over a quarter of companies in industry and construction mentioned the issue of supply. This measure is not comparable with the one presented here. This is because specific questions on supply were added to the survey this month, whereas the figures presented last month concerned the proportion of companies that spontaneously raised this topic during Banque de France surveys, without having been asked the question.

### Changes in supply difficulties compared with the previous month (%)



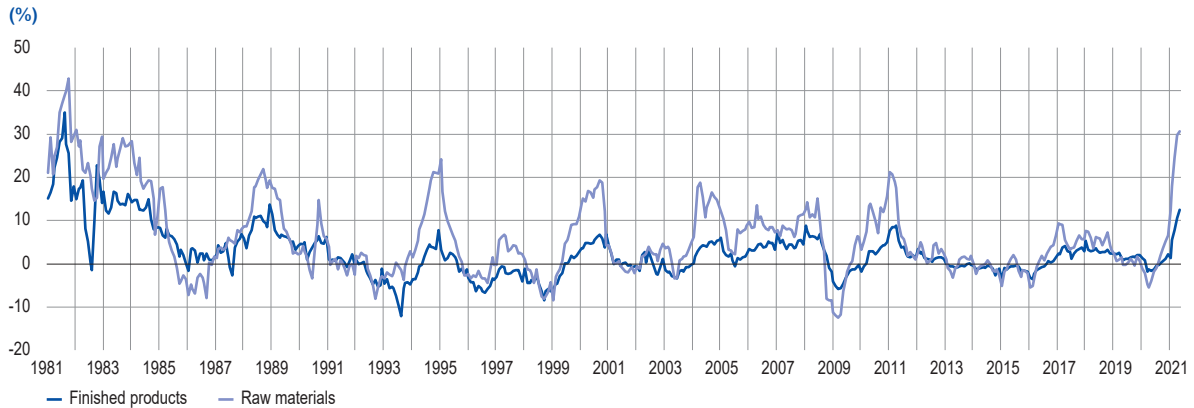
In this context, the inventories of finished products are continuing to fall; the impact on activity appears to vary greatly depending on the company.

### Balance of opinion on the level of inventories compared to normal Manufacturing industry (%)



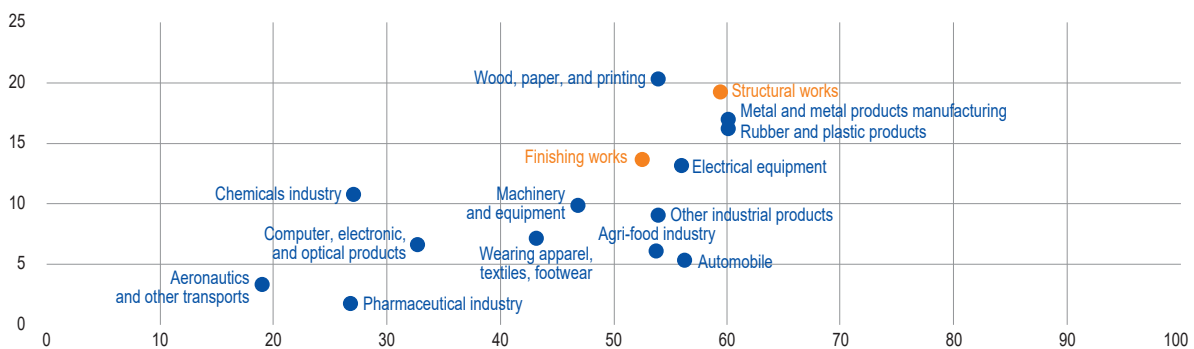
These supply difficulties are once again accompanied by a rise in raw material prices, which reached particularly high levels in the survey. However, the balance of opinion on the evolution of companies' selling prices shows a much more moderate increase than that of raw material prices. The latter are not the only determinant of companies' selling prices, which depend on their entire cost structure (inputs excluding raw materials, wages, rents, taxes, etc.).

### Balance of opinion on price developments compared with the previous month Manufacturing industry



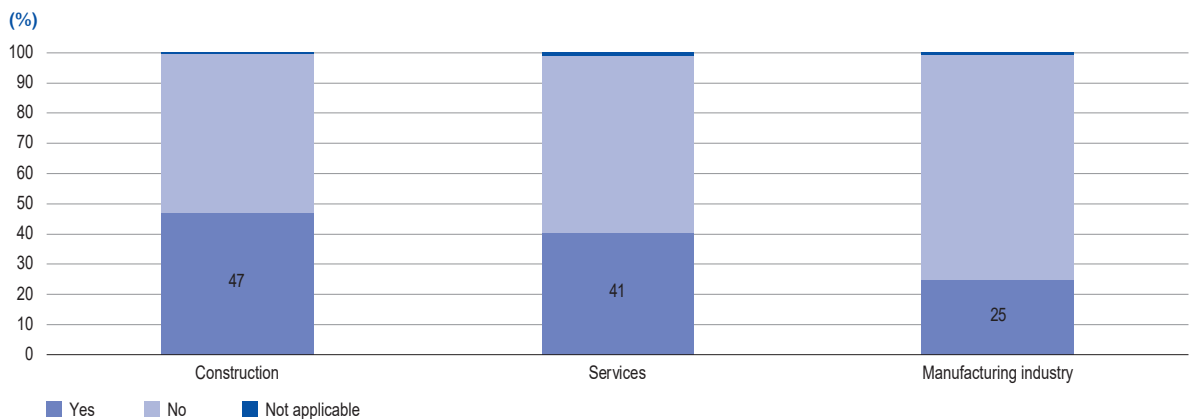
### Balance of opinion (not seasonally adjusted) on the evolution of supply difficulties and the expected change in prices at M + 1

(x-axis: balance of opinion on the evolution of supply difficulties;  
y-axis: balance of opinion (not seasonally adjusted) on the expected change in prices at M + 1)



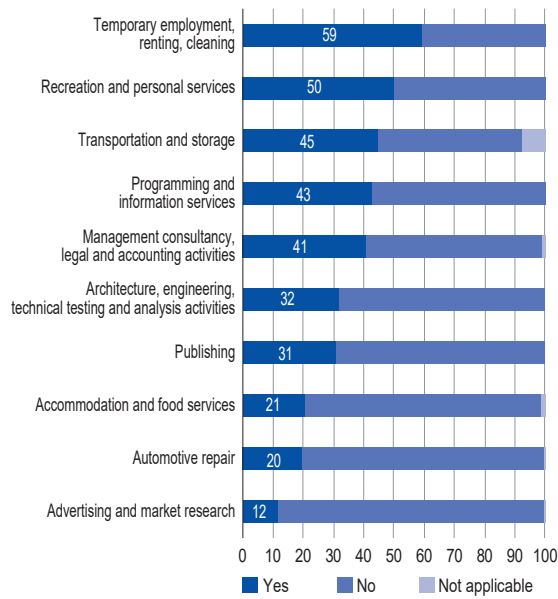
Business leaders were also questioned for the first time this month about their **recruitment difficulties**: these are more marked in services and construction than in industry.

### Recruitment difficulties



Within services, the temporary employment and transport sectors experience the most difficulties; at this stage, and before their complete reopening, business leaders in the accommodation and food services sector report difficulties in only 20% of cases, although these difficulties have significantly increased.

**Recruitment difficulties (services sector)**



Weightings take account of value added and staff numbers.



### 3. The survey results by sector lead us to estimate the loss of activity compared to its normal level at around 4% for May, after 6% in April, and suggest a decrease to 3% in June with the further easing of health measures

As a reminder, in our previous update on business conditions published on 10 May 2021, we estimated the loss of GDP compared to its pre-crisis level at 4% for the entire first quarter. The release of the detailed quarterly accounts on 28 May led us to revise this loss to 5%, while maintaining an estimated loss of around 5% for March. Our estimate for April also remains unchanged at 6%.

**Using the survey data at a fine level of disaggregation and the other data available to us, we estimate the loss of activity for May to be around 4%.** This estimate confirms that of our previous update on business conditions. The improvement compared to April is mainly driven by the accommodation and food services, transport, trade and household services sectors, and it can be attributed to the lift of travel restrictions from 3 May, followed by the reopening of shops, museums and theaters, and outdoor bars and restaurants from 19 May.

**This assessment is corroborated by the high-frequency data that we monitor for additional information** for sectors not covered by the survey, and in order to confirm our assessment on industry and trade in particular. Indeed, bank card transactions provide useful indications for the trade, transport, and accommodation and food services sectors. The recovery was particularly marked for retail trade from the week of 3 May and further amplified from the week of 17 May. Firms' electricity consumption data, which provide additional information on industry in particular, show an upturn in activity for energy-intensive sectors from mid-April. The more general Google Mobility data (mobility to and from home) and road traffic data also show a rise in activity. Finally, the Google Mobility indicator for retail and recreational activities indicates a strong upturn for these sectors from mid-May.

#### Impact of the Covid-19 crisis on value added by sector

(%)

Activity sector	VA share	April	May	June
<b>Agriculture and industry</b>	<b>15</b>	<b>-4</b>	<b>-4</b>	<b>-3</b>
Agriculture and agri-food	4	-2	-2	-1
Energy, water, waste, coking and refining	3	3	3	4
Manufacturing industry excluding food, coking and refining	9	-7	-7	-6
<b>Construction</b>	<b>6</b>	<b>-11</b>	<b>-11</b>	<b>-10</b>
<b>Market services</b>	<b>57</b>	<b>-8</b>	<b>-5</b>	<b>-4</b>
Wholesale and retail trade, transport, accommodation and food services	18	-18	-12	-8
Financial and property services	17	-1	-1	-1
Other market services	22	-5	-4	-3
<b>Non-market services</b>	<b>22</b>	<b>0</b>	<b>1</b>	<b>1</b>
<b>Total</b>	<b>100</b>	<b>-6</b>	<b>-4</b>	<b>-3</b>

Firms' expectations for June point to a further improvement in activity, in particular in transport services and accommodation and food services, in line with the shift in the curfew to 11pm from 9 June, as well as the reopening of bars and restaurants, the reopening of sports halls and the authorisation of gatherings of up to 5,000 people. This information provided in the survey, combined with assumptions about the sectors partially or not covered by the survey, leads us to estimate the loss of activity in June at around 3%.

**Taking into account our estimates for April, May, and June, GDP growth in the second quarter of 2021 is estimated at around ½ point.**