

Update on business conditions in France at the start of August 2021

The end of June was marked by the continued easing of public health restrictions. In July and August, however, with the resurgence of the Covid-19 epidemic, new restrictions were introduced.

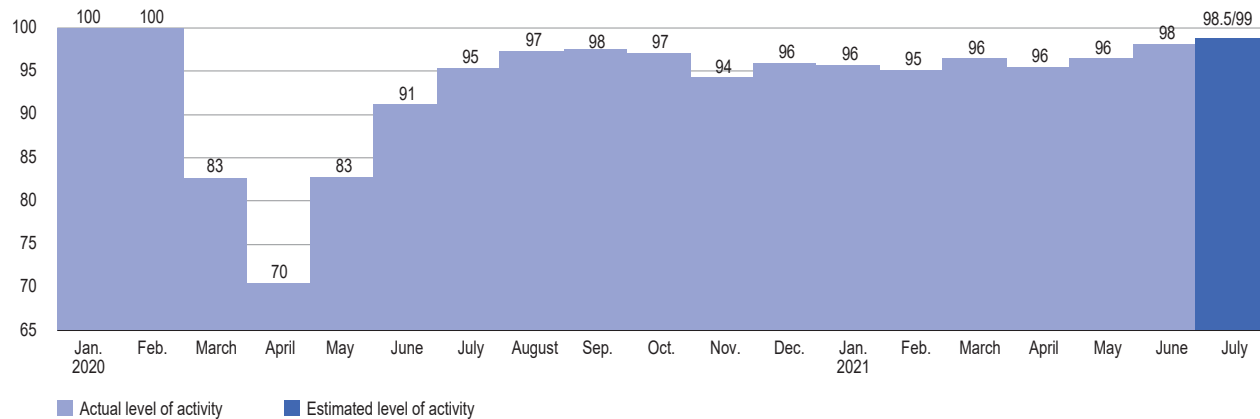
Despite these new measures, our latest economic survey of 8,500 firms and establishments, conducted from 22 July to 4 August, suggests that recovery in activity was confirmed in July. Activity remained stable in numerous segments of industry, construction and market services, while accommodation and food service activities, which are being buoyed by past decisions to ease public health restrictions, continued to recover sharply. Overall, for July, we estimate the loss of GDP relative to pre-crisis levels at between 1% and 1.5%, which is slightly better than estimated in our previous update on business conditions.

As in June, firms were questioned on their supply and recruitment difficulties. In July, the share of firms reporting supply difficulties continued to rise in industry (to 49% from 47% in June), but remained stable in construction (60%). The share of firms reporting recruitment difficulties increased again (to 48% in July from 44% in June).

In August, business leaders expect activity to remain overall stable.

Level of activity

(as a % of normal level)



1. In July, activity was relatively stable at the aggregate level, but continued to recover in accommodation and food services

In July, in industry, market services and construction, observed levels activity were more or less in line with business leaders' expectations last month.

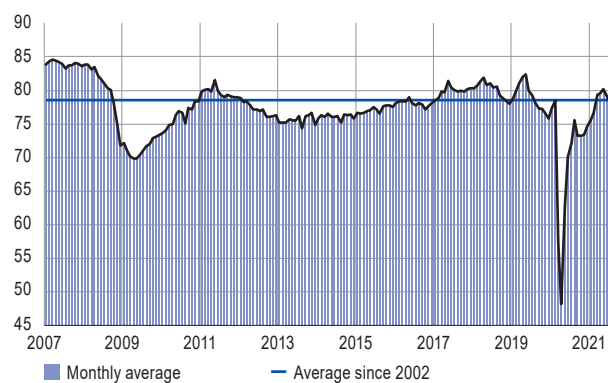
In **industry**, the overall capacity utilisation rate declined slightly for the second consecutive month, to 78% from 79% in June, but remained close to its pre-crisis level (79% in February 2020). The declines were particularly marked in computer, electronic and optical products (from 82% in June to 80% in July), wood, paper and printing (from 81% to 79%), and electrical equipment (from 80% to 78%). Capacity utilisation rates also fell in the automobile industry, as well as in aeronautics and other transport, where they remain at low levels (respectively 69% in July versus 72% in June, and 72% versus 73%). Conversely, in the chemicals industry, the capacity utilisation rate increased to 83% in July from 82% in June.

Within industry, activity continues to vary markedly across sub-sectors, with some now back at pre-crisis levels (agri-food and chemicals), and others, in contrast, with production still below 80% of the pre-crisis levels (automobiles, aeronautics and other transport).

As in previous months, business leaders in industry said prices of raw materials and finished products rose in July. Selling prices are expected to continue rising in August, albeit at a more moderate rate.

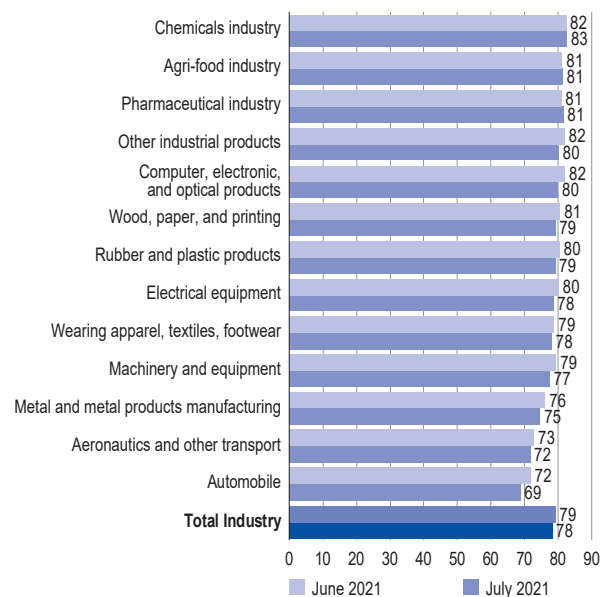
Capacity utilisation rate in industry

(%, seasonal and working-day adjusted)



Capacity utilisation rate

(%, seasonal and working-day adjusted)

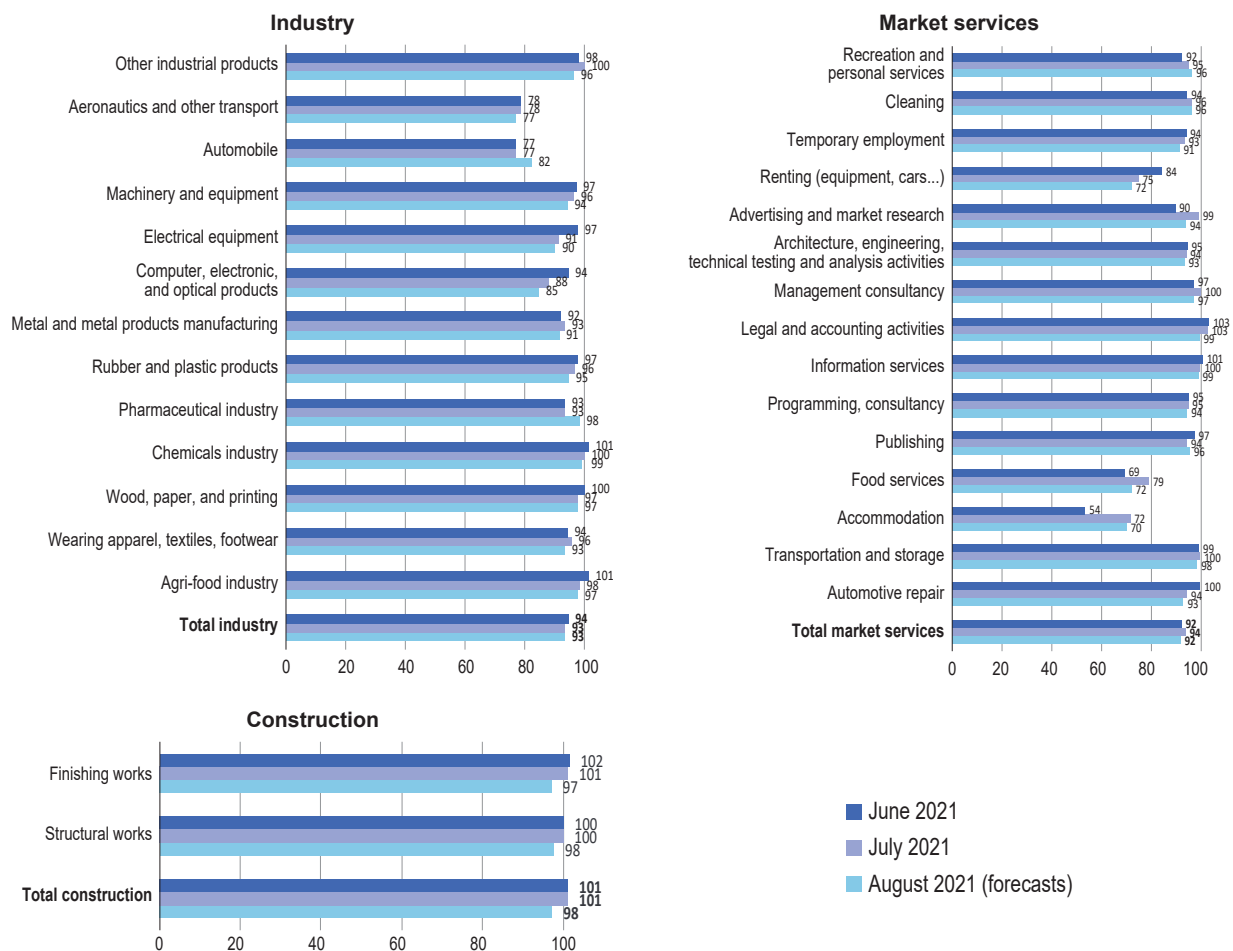


In **market services**, activity was fairly stable in all sub-sectors in July, but increased sharply in accommodation and food services where the recovery is continuing thanks to past decisions to ease public health restrictions. Activity in food and beverage services was deemed to be at 79% of normal levels in July, compared with 69% the previous month, while in accommodation it reached 72%, compared with 54% in June.

In **construction**, activity remained stable in July at close to pre-crisis levels.

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

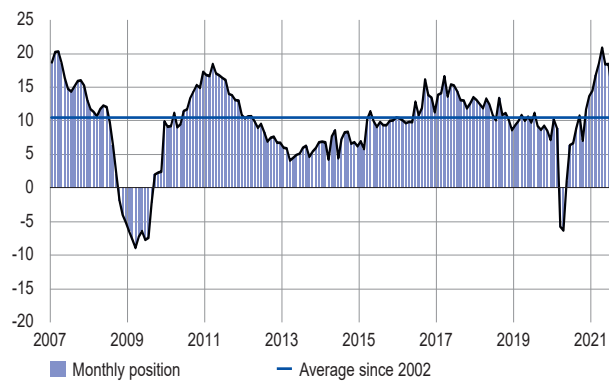
(% of level deemed "normal"; unadjusted data)



The balance of opinion on **cash positions** deteriorated in industry but remained well above its long-term average. In market services, it declined again while also remaining above its long-term average. In food and beverage services and, to a slightly lesser extent, accommodation, it remained well below normal levels.

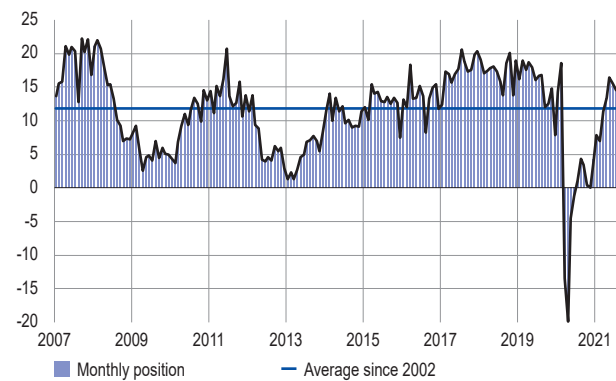
Cash position in industry

(balance of opinion, seasonal and working-day adjusted)



Cash position in market services

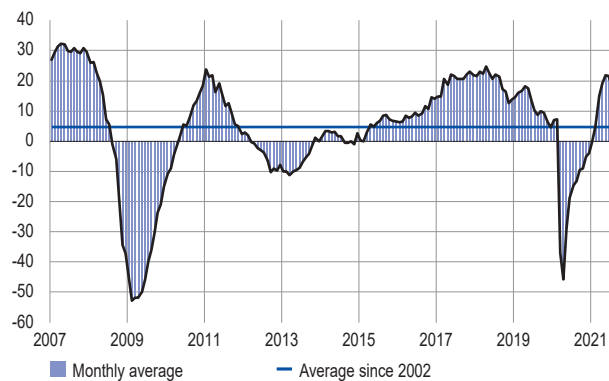
(balance of opinion, seasonal and working-day adjusted)



The balance of opinion on **order books** remained very favourable in July in both construction and industry, despite a modest decline. In the equipment manufacture sub-sectors (computer, electronic and optical products, electrical equipment, machinery and equipment), order books remained particularly well stocked.

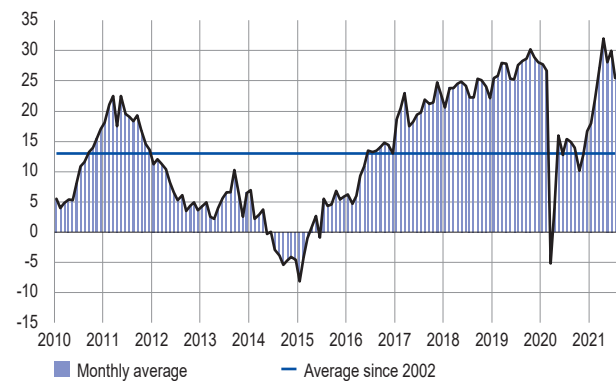
Level of order books in industry

(balance of opinion, seasonal and working-day adjusted)



Level of order books in construction

(balance of opinion, seasonal and working-day adjusted)



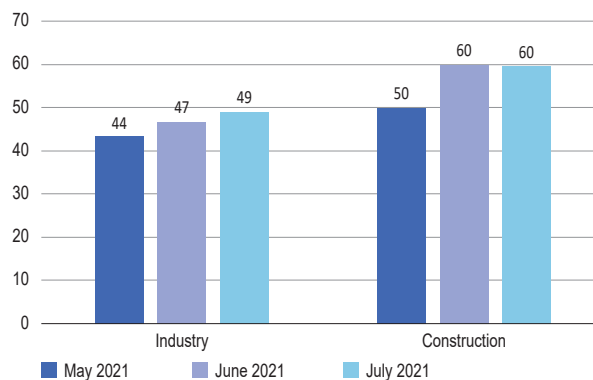
In August, business leaders expect activity to remain stable in most sectors. There is always a strong seasonal effect in August, with many firms and establishments closing down over the month. Owing to this, the outlook and expectations for activity in August need to be viewed with caution.

Supply and recruitment difficulties

For the third month in a row, business leaders were questioned about their **supply difficulties**. The share of leaders reporting that supply difficulties had affected production rose again slightly in industry, to 49% in July from 47% in June. In construction, the share remained stable (at 60%, as in June). Within the construction sector, 62% of firms in finishing works cited supply difficulties as a factor that could weigh on activity, compared with 54% in structural works.

Share of firms reporting supply difficulties

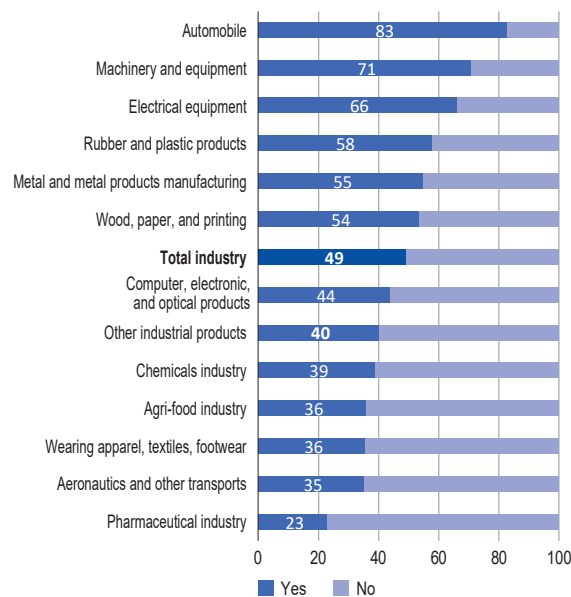
(%, unadjusted data)



In industry, aside from automobiles, the worst-affected sub-sectors were in equipment manufacturing (computer, electronic and optical products, electrical equipment, and machinery and equipment), and those strongly reliant on raw materials (rubber and plastic products, metal and metal products manufacturing, wood, paper and printing).

Share of firms reporting supply difficulties – Industry, July 2021

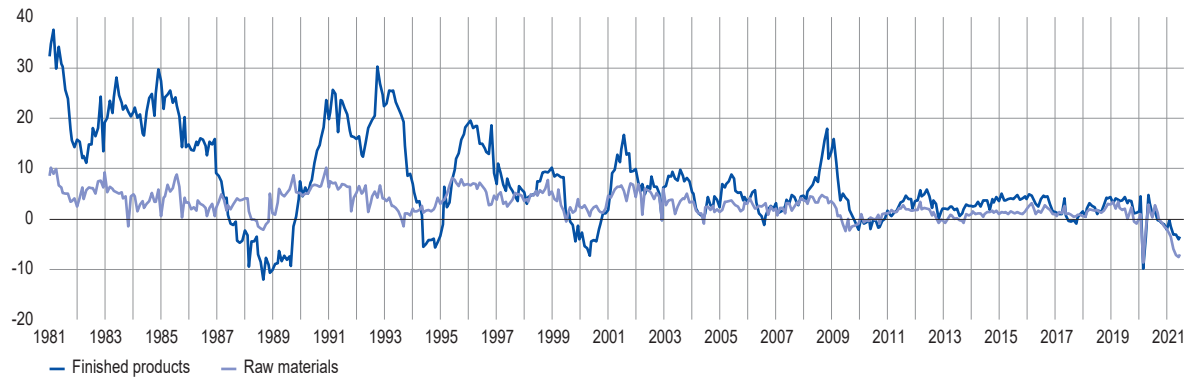
(%, unadjusted data)



In this context, inventories remained at historically low levels in industry, according to surveyed firms. However, the balances of opinion on raw materials and finished goods inventories stopped declining in July.

Balance of opinion on the level of inventories compared to normal Manufacturing industry

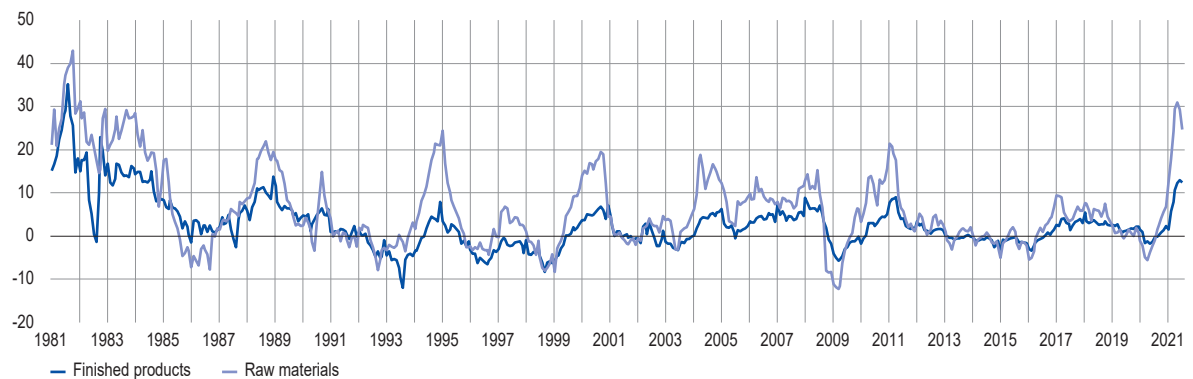
(balance of opinion, seasonal and working-day adjusted)



These supply difficulties are still being accompanied by rises in raw materials prices, although the balance of opinion on price developments has declined slightly over the past two months. The balance of opinion on developments in selling prices is rising at a more moderate pace than that on raw materials prices, as firms' selling prices are determined not just by raw materials prices, but by their overall cost structure (which includes the cost of inputs other than raw materials, wages, rents, taxes, etc.).

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

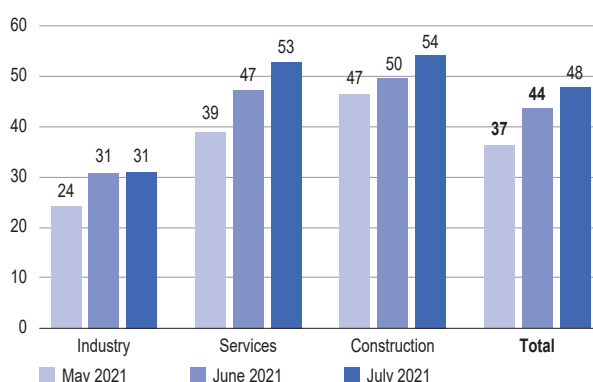
(balance of opinion, seasonal and working-day adjusted)



Business leaders were also asked about **recruitment difficulties**: as in June, these intensified in July in industry, market services and construction alike. More than half of firms in construction and market services said they were facing recruitment difficulties, compared with a third in industry. It should be noted, however, that the worst-affected market services sub-sector was temporary employment agencies (90% of firms), which notably recruit temporary staff for industry. In July, the share of firms reporting recruitment difficulties stood at 43% in accommodation and at 44% in food and beverage services. In industry, the worst-affected sub-sector was machinery and equipment (44% of firms).

Share of firms reporting recruitment difficulties – May, June and July 2021

(%, unadjusted data)



2. The survey results by sector suggest that activity improved slightly in July (estimated loss of GDP between 1% and 1.5% compared with normal levels, after 2% in June)

In our previous update on business conditions, published on 7 July 2021, we estimated **that quarter-on-quarter GDP growth** would come out at close to 1% in the second quarter. According to INSEE (quarterly national accounts), GDP growth was 0.9% in the second quarter.

For July, based on the granular survey results and other available data, we estimate the loss of activity at between 1% and 1.5%. This estimate is more optimistic than in our previous update, where we estimated the loss at 2% based on business leaders' expectations at the end of June. This smaller loss of GDP stems from the upward revision to activity at the end of the second quarter as well as an improvement of activity confirmed in the current survey, mainly in accommodation and food service activities, transportation, and recreation and cultural activities.

This assessment is corroborated by the high-frequency data that we monitor in parallel for information on sectors not included in the survey or covered only partially, and to confirm our assessment on industry and trade in particular. Bank card transactions, for example, provide useful indications on activity in retail trade, and in accommodation and food services, and show that the recovery that began in May continued in July in both these sub-sectors. Data on firms' electricity consumption, which provide additional information, notably on industry, also confirm that activity has been improving since mid-April, as do, more generally, road traffic, air traffic and Google Mobility data.

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

(%)

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

Firms' expectations for August point to a slight deterioration in certain sub-sectors (possibly in relation with the increase in Covid-19 infections and the introduction of new public health restrictions, as well as to supply difficulties), but a slight improvement in others. Overall, the survey data, combined with assumptions about those sectors not included or covered only partially, lead us to estimate that activity will be stable on the whole in August. However, our estimates for August are subject to uncertainty, owing to the specific nature of the month (see above), and to risks surrounding the health situation.