

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

In July and again in August, in response to the resurgence of the Covid-19 epidemic, new health measures were introduced, including the extension of the 'health pass' from 9 August.

According to our business survey, conducted between 27 August and 3 September among 8,500 companies or establishments, there was little change in activity in August in industry and market services. While the accommodation sector continued to recover, the food services sector experienced a slight downturn. In the construction sector, activity declined slightly, but remained close to normal. Overall, we estimate the loss of GDP for August at 1% compared to the pre-crisis level, as in July and after a 2% loss in June.

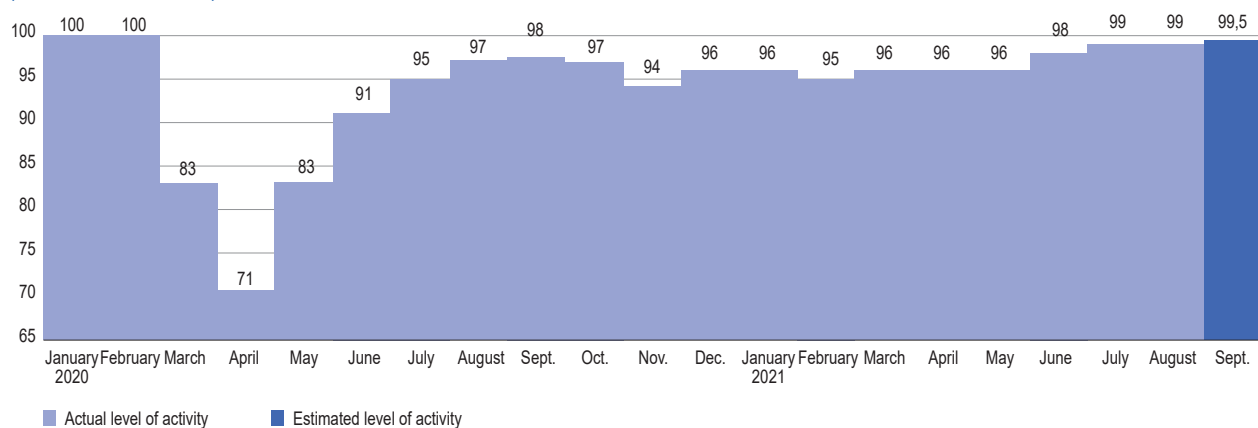
As in the previous month, companies were asked about their supply and recruitment difficulties. In August, the share of companies reporting supply difficulties increased slightly in industry (to 51%, after 49% in July) and in construction (to 61%, after 60% in July). The share of companies reporting recruitment difficulties increased again: in total, half of the business leaders surveyed reported difficulties.

For September, business leaders expect overall activity to increase in construction and, to a lesser extent, in services, and to remain almost stable in industry with orders being fairly robust.

We estimate that GDP should be down by ½ percentage point in September compared to the pre-crisis level. GDP growth in the third quarter is expected to be close to 2.5%.

Level of activity

(as a % of normal level)



1. In August, activity remained almost unchanged in industry and services, while it fell slightly in construction

As expected last month by business leaders, activity in industry was relatively stable in August.

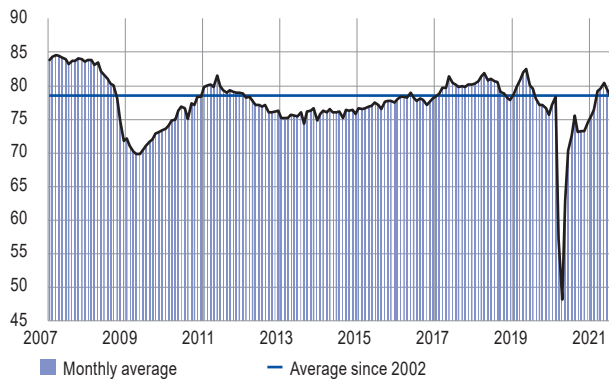
In **industry** as a whole, the capacity utilisation rate remained at 79%, i.e. its pre-crisis level. It improved notably in the other industrial products sector (from 82% to 86%) and in the aeronautics and other transport sector, while remaining at a fairly low level in this sector (from 72% to 74%). It decreased in the pharmaceutical industry (from 80% to 78%).

There were differences in activity levels across the different sectors of industry, with some sectors returning to pre-crisis levels (agri-food and chemical industries) and others where production was only three-quarters of the pre-crisis level (automotive, aeronautics and other transport).

As in previous months, business leaders in industry reported a marked increase in raw material prices in August (especially in electrical equipment, other industrial products, computer equipment and chemicals) and in finished goods prices (especially in the electrical equipment and wood sectors). They expect their sales prices to continue to rise in September.

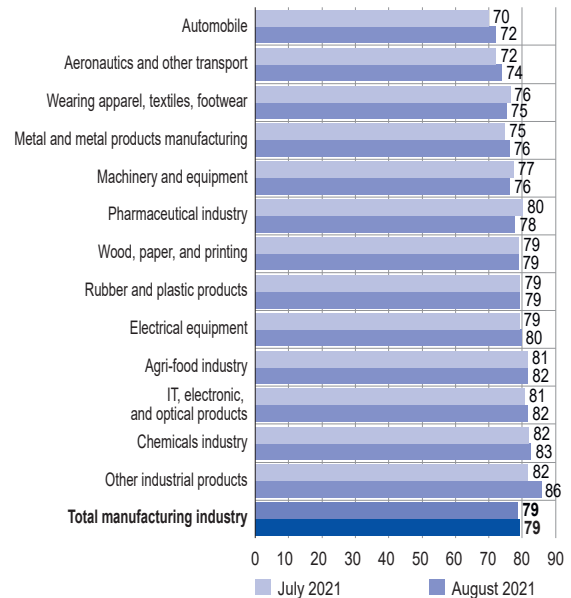
Capacity utilisation rate in industry

(%, data adjusted for seasonal and working day variations)



Capacity utilisation rate by sub-sector

(%, data adjusted for seasonal and working day variations)



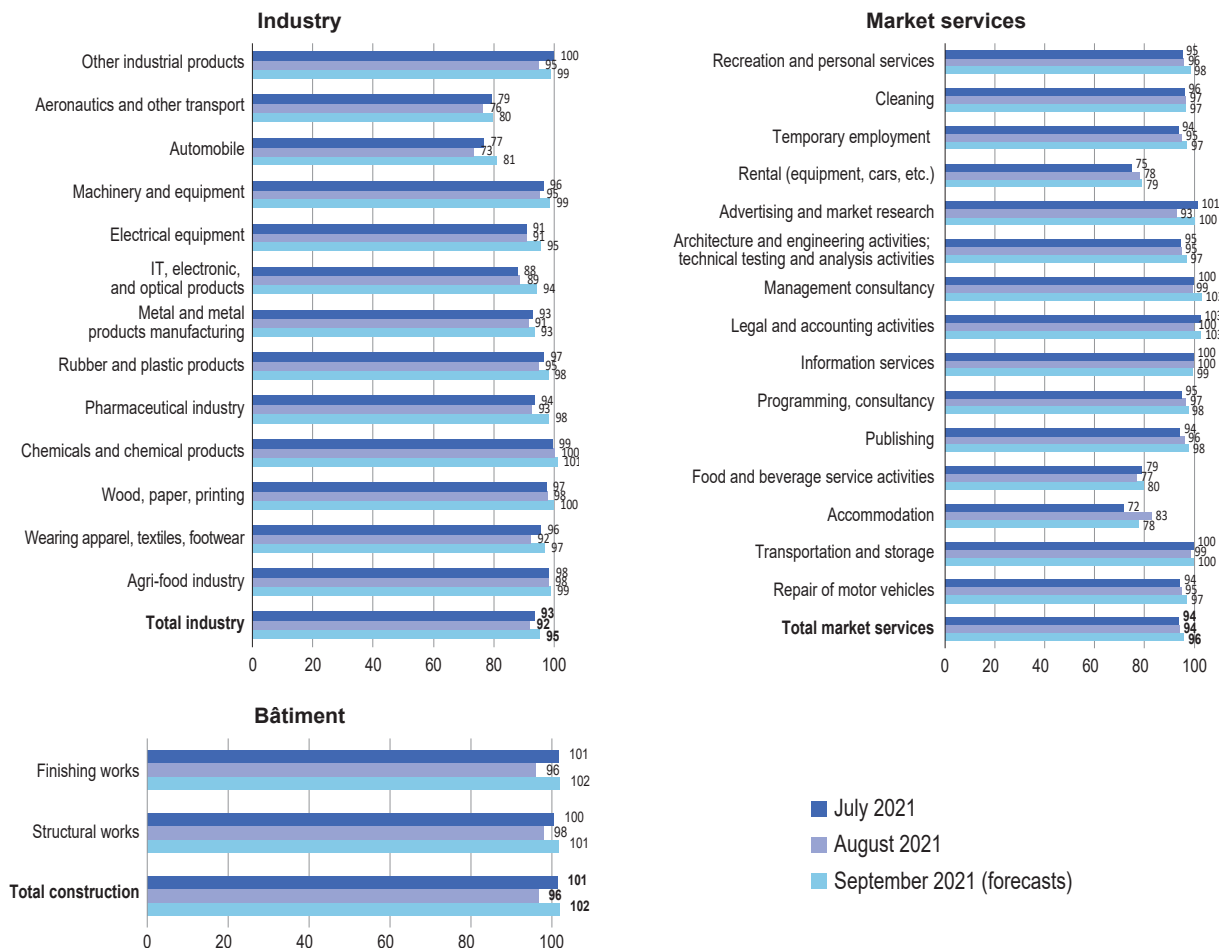
In **market services**, activity was stable in August, but this stability masks contrasting developments. The accommodation sector continued to pick up, with activity now at 83% of its pre-crisis level; this was also the case for the equipment rental sector (cars, etc.) at 78% of its pre-crisis level. However, on average, the food services sector recorded a slight decline, probably due to the combined effects of the health measures, less favourable than usual weather conditions and recruitment difficulties.

In the **construction** sector, activity, which had returned to its pre-crisis level, fell slightly. Shortages of raw materials may have led some business leaders to reduce their activity over the month.

Estimates of activity levels for August should be treated with caution due to the particular nature of this month, usually marked by numerous closures.

Opinion of business leaders regarding their level of activity and forecasts for September

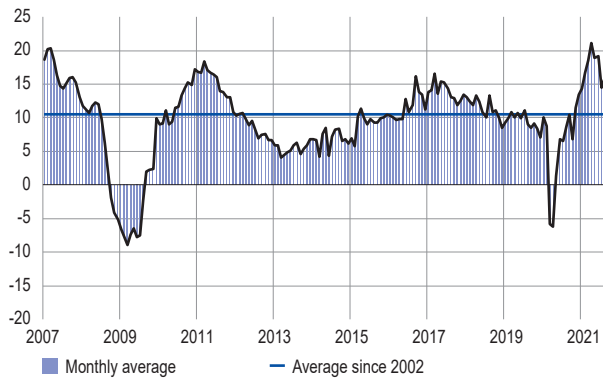
(as a % of the level deemed “normal”, unadjusted data)



After a decline in the previous months, the opinion on the **cash position** improved very slightly in industry, and is now well above its long-term average. In services, it decreased slightly, but remained above its long-term average. However, it remains significantly below normal in the food services sector.

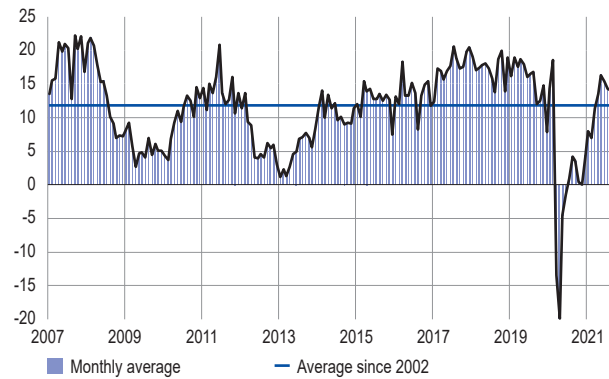
Cash position in industry

(Balance of opinions seasonal and working-day adjusted)



Cash position in market services

(Balance of opinions seasonal and working-day adjusted)



2. Companies expect activity to increase in September in the construction sector and to rise very slightly in services, with orders remaining strong in industry

In **industry**, activity is expected to increase in clothing and electrical equipment and to remain buoyant in the chemicals sector. In the automotive sector, the outlook is uncertain, due to supply difficulties.

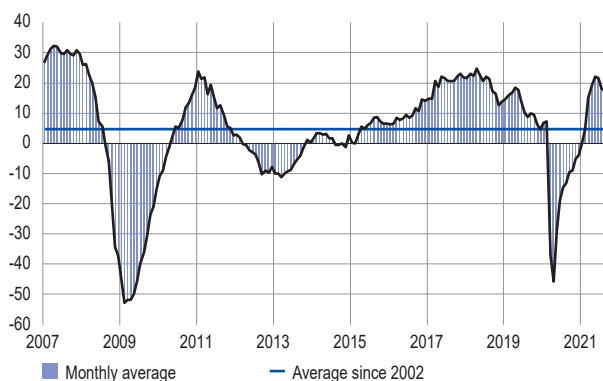
In September, activity in **services** is expected to rise very slightly. Business services are expected to perform well overall, but temporary work is expected to suffer from increased recruitment difficulties. After the downturn in August, the food services sector is expected to recover.

In the **construction** sector, activity is expected to increase after the slight decline recorded in August.

Despite a very slight decline, the balance of opinion on order books remains favourable in industry; they continued to be particularly strong in the machinery and equipment, and computer, electronic and optical products sectors. In construction, they are above their pre-crisis level.

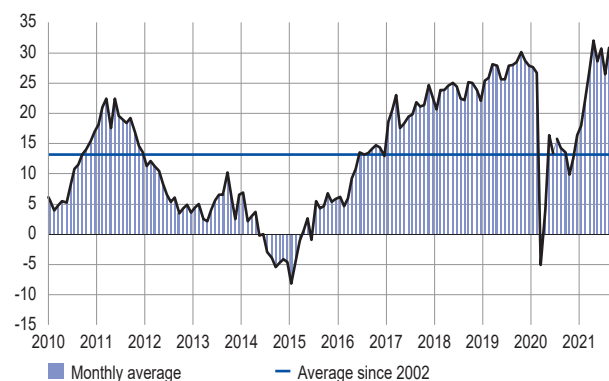
Level of order books in industry

(Balance of opinions seasonal and working-day adjusted)



Level of order books in construction

(Balance of opinions seasonal and working-day adjusted)

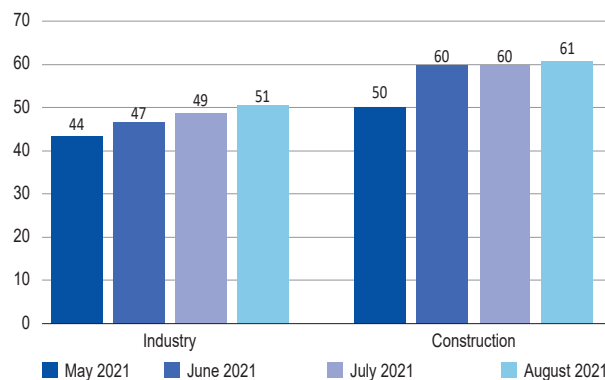


Supply and recruitment difficulties

For the fourth month in a row, business leaders were asked about their supply difficulties. The share of business leaders reporting difficulties that have had an impact on production rose again slightly in industry to 51% in August, after 49% in July, and in construction to 61% after 60% in July. In particular, within the construction sector, 63% of companies in the finishing works sector cited difficulties that could slow down their activity, compared with 57% of companies in the structural works sector.

Share of firms reporting supply difficulties

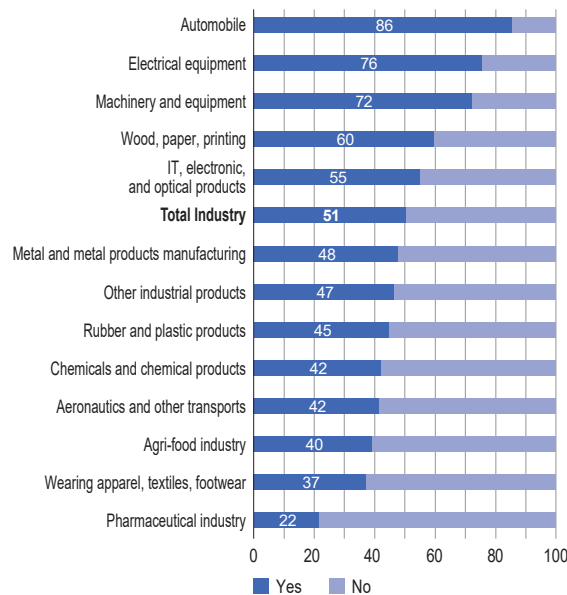
(as a %, unadjusted data)



In industry, as in the previous month, the sectors most affected are the automotive, machinery and equipment, and electrical equipment sectors; there has also been a sharp increase in the difficulties recorded in the computer, electronic and optical products sector.

Share of firms reporting supply difficulties - Industry, August 2021

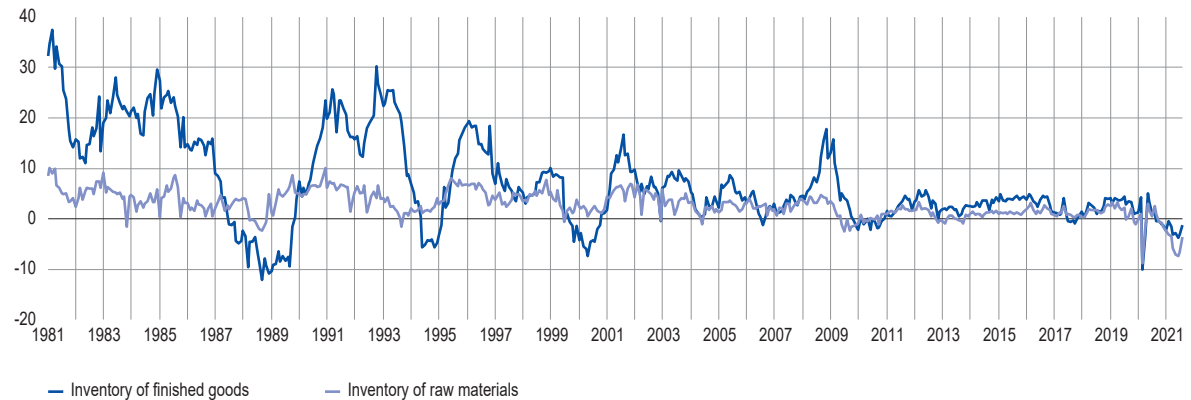
(as a %, unadjusted data)



In this context, inventories of raw materials and finished goods remained at low levels in industry, even though they were recovering according to the leaders surveyed. However, inventories of finished goods are high for automotive suppliers, as manufacturers' orders were disrupted by shortages of certain electronic components.

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

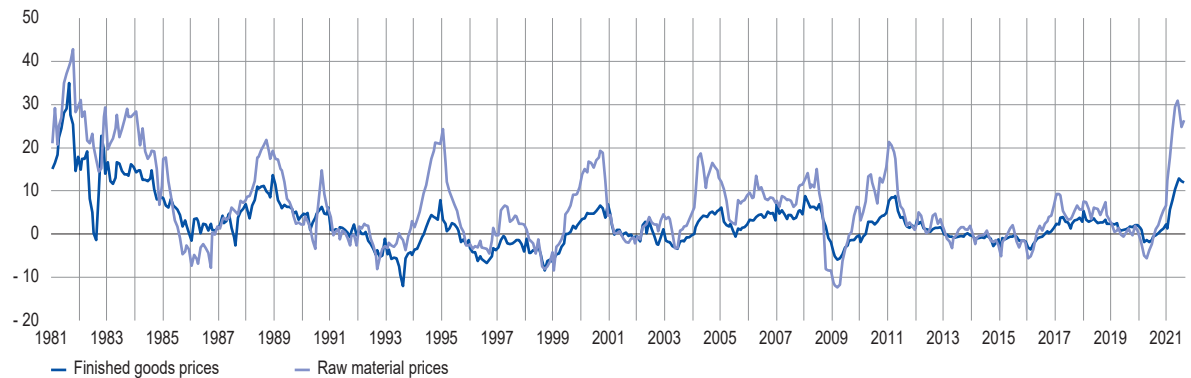
(Balance of opinions, seasonal and working-day adjusted)



These supply difficulties were accompanied by further increases in the prices of raw materials and finished goods. However, the balance of opinion continued to indicate that sales prices were rising more moderately than those of raw materials. The latter are not the only determinant of firms' selling prices, which depend on their overall cost structure (inputs excluding raw materials, wages, rents, taxes, etc.).

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

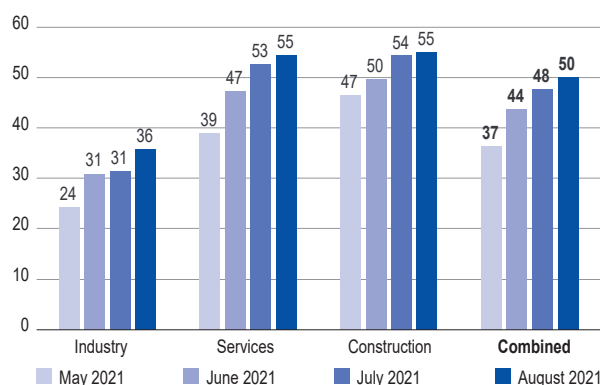
(Balance of opinions, seasonal and working-day adjusted)



Half of the business leaders surveyed now report difficulties in recruiting. These difficulties worsened in August, especially in industry and services. The sector most affected was temporary work, where 90% of companies reported difficulties, but this sector recruits temporary workers for all sectors, especially industry. The share of companies reporting recruitment difficulties has risen sharply in food services, where two-thirds of business leaders (compared with 44% in July) reported difficulties, and remained high in computer services (70% in August, after 64% in July).

Share of businesses reporting recruitment difficulties

(as a %, unadjusted data)



3. Estimates based on the survey's sector-level data and high frequency data suggest that the level of GDP was stable in August, and would rise slightly in September

For August, using granular survey data and other available data, we estimate the loss of GDP compared to the pre-crisis level at -1%. This estimate is in line with the upper bound of our previous publication of 9 August 2021, based on business leaders' expectations at the end of July.

This assessment is also based on the high frequency data that we monitor additionally for sectors with little or no survey coverage (as well as to confirm our assessment on industry or the retail sector). In particular, credit card spending provides useful insights for the retail sector, where the recovery continues, and the accommodation and food services sector, which experienced a decline in activity in August. Google mobility data, in particular, show a certain decline in the transport sector after the increase observed in July.

Impact of the Covid19 crisis on value added by sector (%)

(%)

Activity sector	VA share	May	June	July	August
Agriculture and industry	15	-2	-2	-2	-2
Agriculture and agri-food industry	4	0	0	0	0
Energy, water, waste, coking and refining	3	10	9	9	10
Manufacturing industry excluding food, coking and refining	9	-7	-6	-6	-6
Construction	6	-3	-2	-2	-4
Market services	57	-5	-2	-2	-1
Wholesale and retail trade, transport, accommodation and food services	18	-13	-6	-4	-5
Financial and real-estate services	17	0	0	0	0
Other market services	22	-4	0	-1	0
Non-market services	22	0	0	1	1
Total	100	-4	-2	-1	-1

Business leaders expect an improvement in September in construction and, to a lesser extent, in market services, and almost no change in industry. Lastly, based on the information from the survey, combined with assumptions regarding the sectors partially or not covered by the survey, we estimate that the loss of GDP in relation to the pre-crisis level should slightly decrease in September, to -½ point.

GDP growth for the third quarter is expected to be close to 2.5% compared to the previous quarter.