BANQUE DE FRANCE
EUROSYSTÈME

Monthly Business Survey – December 2022

Despite the highly uncertain economic environment, marked by a series of massive external shocks, activity remained generally resilient. According to the business leaders surveyed (approximately 8,500 companies and establishments questioned between 28 November and 5 December, activity improved in December in the three major sectors, and to a greater extent than expected the previous month. For December, business leaders expect activity in services to continue to firm, while it should stabilise in industry and decline in construction; the medium-term outlook is shrouded in greater uncertainty.

Supply difficulties eased further in industry (41% of industrial firms reported difficulties in November after 43% in October), and in construction (36%, after 41%). Finished goods prices continued to rise at a sustained pace. Recruitment difficulties eased slightly (cited by 53% of respondents compared with 55% in October).

Our uncertainty indicator declined in services, but increased in construction and remained high in industry. Firms' cash position stabilised at a subpar level in industry, and slightly below in average in services.

As regards the consequences of the energy crisis, 24% of companies reported that their activity over the past month had been affected, of which 6% significantly. For the next three months, 35% of firms expect this to have an impact (weak or strong) on their activity (42% in industry). In terms of the impact on their margins over the next three months, two-thirds of companies in the construction and manufacturing sectors reported concerns, and nearly half of companies in market services.

Based on the survey results, combined with other indicators, we expect GDP to rise slightly in November and to be almost stable in December. GDP is thus expected to grow by around 0.1% in the fourth quarter of 2022 compared with the previous quarter, in line with our three-year projection for the French economy.

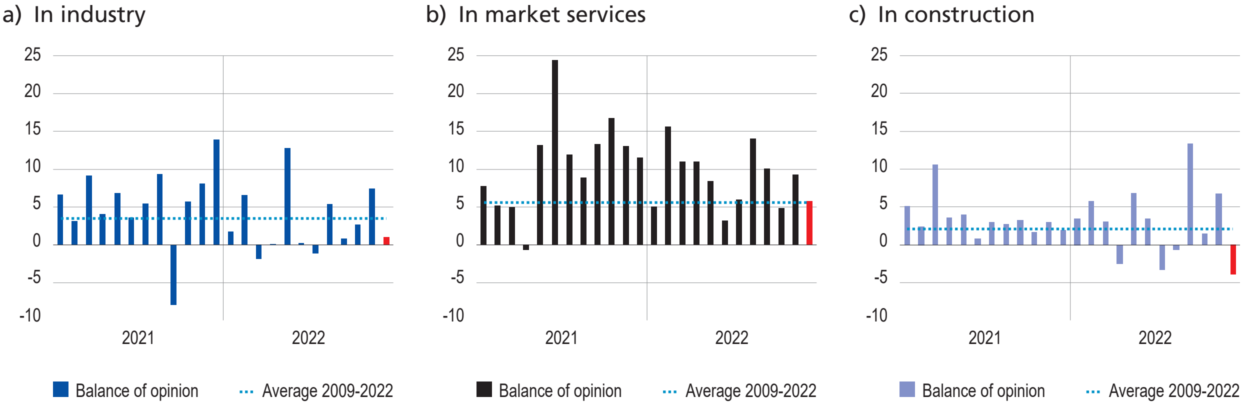
1. In November activity picked up in industry, market services and construction

In November, activity increased in **industry**, somewhat more vigorously than expected by business leaders the previous month.

The balances of opinion on production in November suggest a marked increase in activity in the pharmaceutical industry, electrical equipment, computer, electronic and optical products and, to a lesser extent, in the automobile industry. Conversely, activity in the chemicals industry and rubber and plastic products was down on the previous month.

Balance of opinion on the outlook for activity

(balance of opinion, adjusted for seasonal and working-day variations; for December: forecast)



Note: The balance of opinion on the outlook for activity (which measures the difference between the share of firms reporting an increase in activity and those reporting a decrease over the past month) stood at almost 6 points in industry in November, i.e. above the long-term average for the indicator. For December (red bar), business leaders in industry expect a slight increase in activity, of around 1 percentage point.

Stocks rose and are deemed to be at a high level. This increase may be due to a drop in demand (machinery and equipment, rubber products, plastics), or to supply difficulties – resulting in an increase in stocks of semi-finished goods in purchasing companies – or in the delivery of finished goods (automotive, aeronautics). Conversely, in the food and pharmaceutical industries, stocks are still deemed to be well below their normal level.

In **market services**, activity continued to strengthen – again more rapidly than expected by business leaders last month – both in personal services (accommodation, food services) and in business services (management consulting, information services, programming, publishing).

Activity in the **construction** sector rose sharply, particularly in the finishing works sector.

The balance of opinion on the **cash** position was almost stable in industry compared to last month, albeit at very low levels compared to the past 15 years, especially for large enterprises. With the exception of the transport equipment sector (including the automotive industry), most industrial sectors reported a significant divergence between the current cash position and its long-term average, particularly in the chemicals industry, electrical equipment and computer, electronic and optical products, where the gap was close to 20 points.

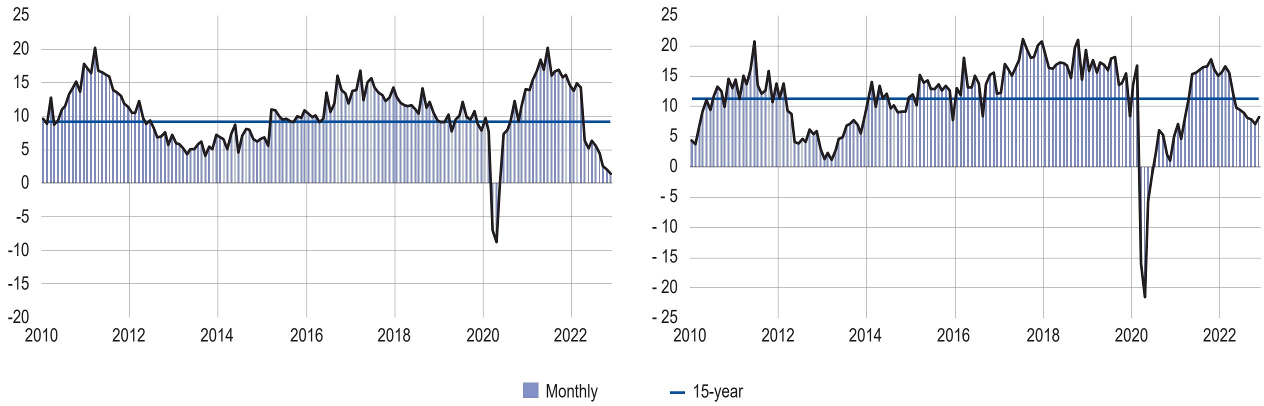
In market services, the slow deterioration in the cash position came to a halt in November, with the spread between the balance of opinion and the long-term average standing at only -3 percentage points.

Cash position

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

a) In industry

b) In market services



2. In December, business leaders expect activity to continue to expand in services, be almost stable in industry and decline in construction

For December, business leaders in **industry** expect activity to remain almost stable overall, but with ongoing **significant sectoral disparities**. Some sectors are expected to decline sharply: this is the case for electrical equipment, rubber and plastic products, wood, paper and printing and, to a lesser extent, chemicals. Conversely, activity is expected to pick up again in pharmaceuticals, computer, electronic and optical products, automobiles and aeronautics, and other transport.

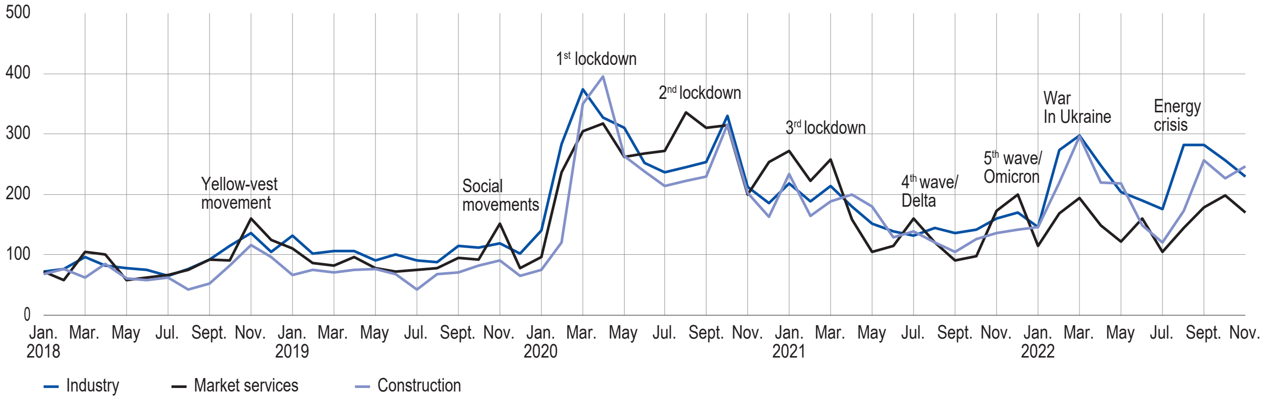
In services, business leaders expect activity to grow further in most sectors, notably accommodation, food services and management consultancy. Staff levels are expected to continue to grow strongly.

Lastly, in the **construction** sector, activity is expected to slow, in both structural and finishing works.

Our monthly uncertainty indicator, which is constructed using text mining of respondents' comments, reflects high levels of uncertainty compared to normal, but with sectoral differences. While it declined slightly in services and industry, it increased in construction.

Indicator of uncertainty in the comments section in the Monthly Business Survey (MBS)

(unadjusted data)

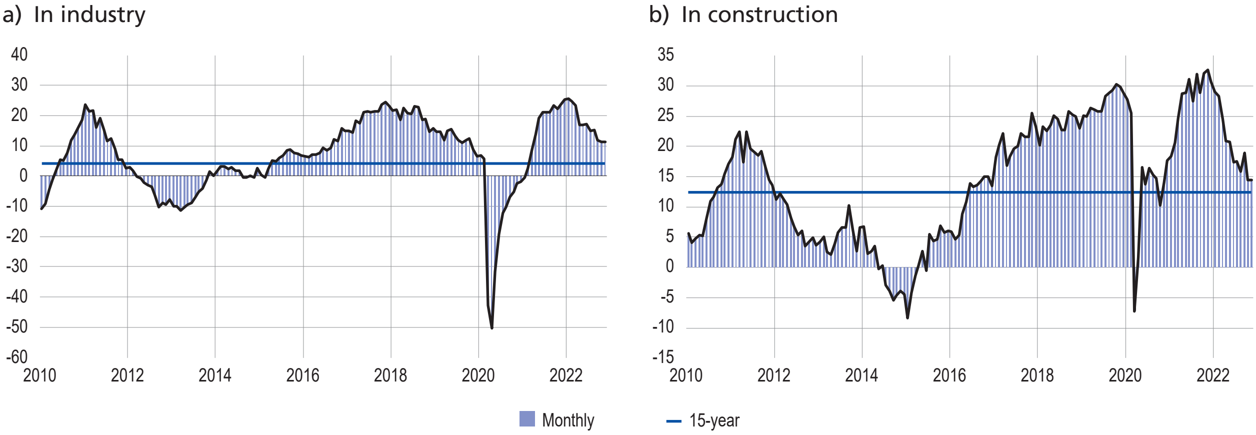


Note: The baseline value is set at 100, which corresponds to the value around which the indicator fluctuates in normal times.

The balance of opinion on **order books** was stable at in November in industry and in construction. In both cases, the current levels remained slightly about their long-term average. However, this situation also reflects marked differences across sectors, with very healthy order books in aeronautics, machinery and equipment, and computer, electronic and optical products, while they are considered to be lacklustre in chemicals and rubber and plastic products.

Level of order books

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

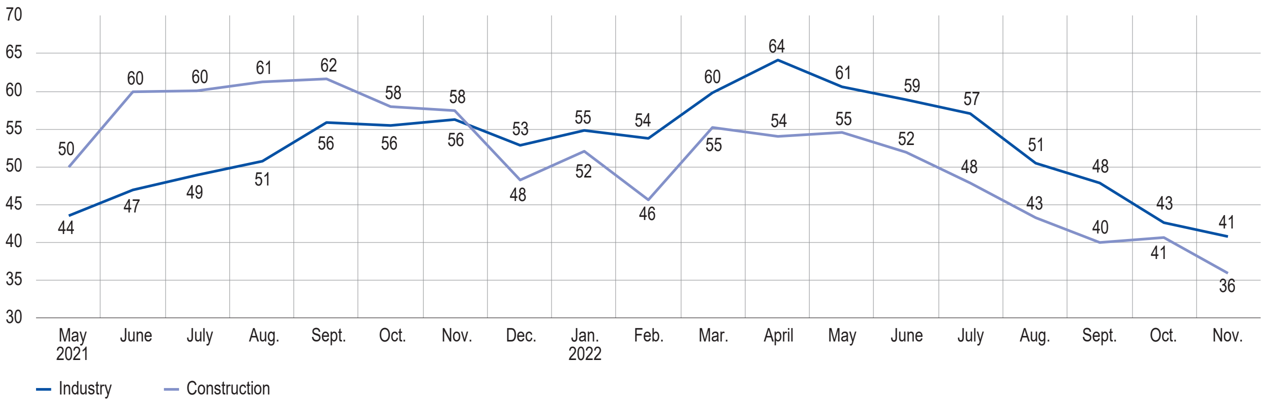


3. Further decline in supply and recruitment difficulties; finished goods prices continued to rise at a steady pace

Supply difficulties continued to decline in November in industry (41%, down from 43%) and construction (36%, down from 41%), and are now significantly below their spring 2021 levels.

Share of businesses reporting supply difficulties

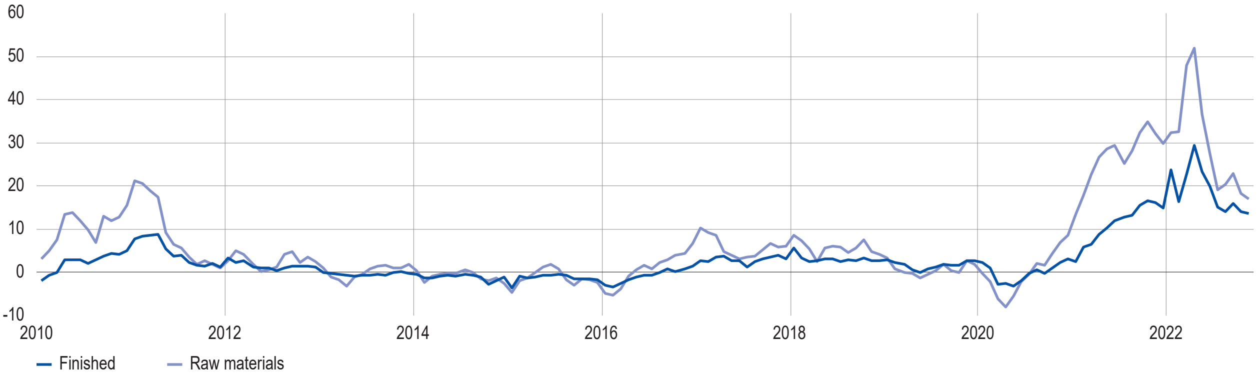
(%, unadjusted data)



According to the business leaders in industry, the rate of increase in the prices of raw materials and finished products remained unchanged.

Opinion on price developments compared with the previous month

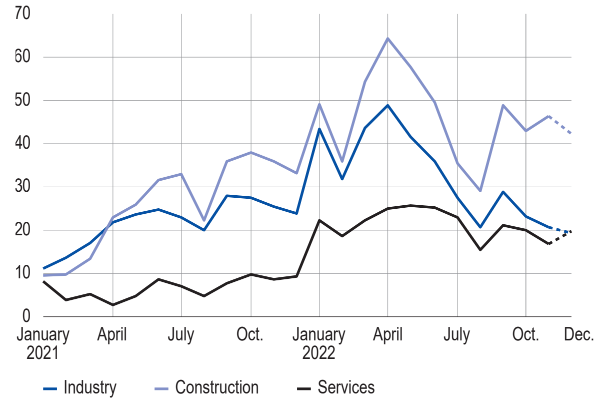
(balance of opinion, adjusted for seasonal and working-day variations)



More specifically, 21% of business leaders in the manufacturing industry reported they had raised their selling prices in November. This proportion stood at 47% in construction and 17% in market services. Prior to the seasonal increases expected early next year, the outlook for December suggests a decrease in this share in industry (19%), construction (42%), and a slight increase in market services (20%).

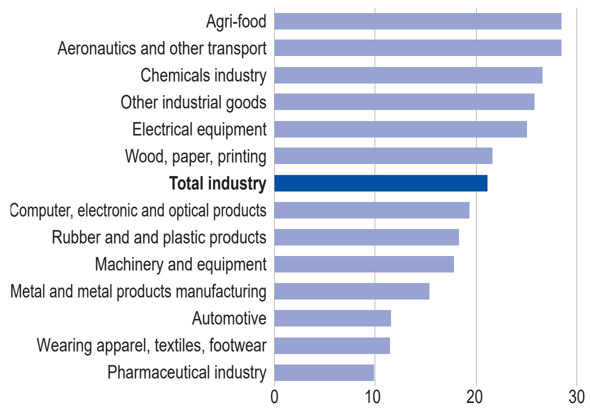
Share of business leaders who increased their selling prices, by broad sector

(%, unadjusted data; for December: forecast)



Share of business leaders in industry who increased their selling prices in November, by sector

(%, unadjusted data)



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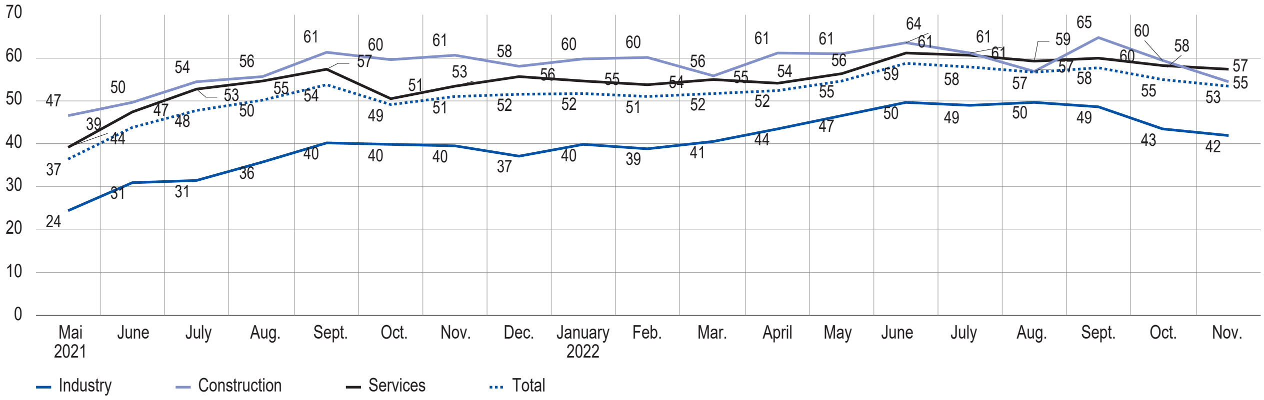
Business leaders were also asked about their **recruitment difficulties**. These difficulties remained high at 53% across the board, but declined for the second month in a row, most notably in construction (55%, down from 60%).

Share of businesses reporting recruitment difficulties

(%, unadjusted data)



The impact of the energy crisis on activity and margins

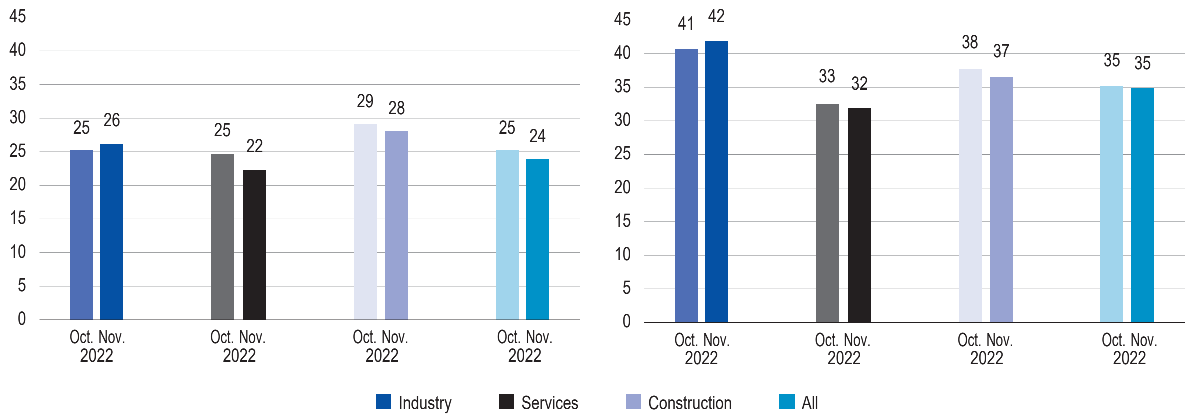
Three specific questions related to changes in the prices and availability of energy were included in the previous survey at the beginning of November: the impact on the firm's activity over the past month, the expected impact on the firm's activity over the next three months and the expected impact on the firm's margins over the next three months (with three possible answers in each case: no impact, low impact, high impact). These questions should continue to be included in the survey for as long as this issue remains relevant.

Share of firms reporting a significant impact of the energy crisis on their activity

(% number of companies surveyed)

a) Past activity

b) Activity in the next three months



Note: In industry, 26% of companies say that the energy crisis had a significant impact on their business in November. For the next three months, 42% of them expect a significant impact.

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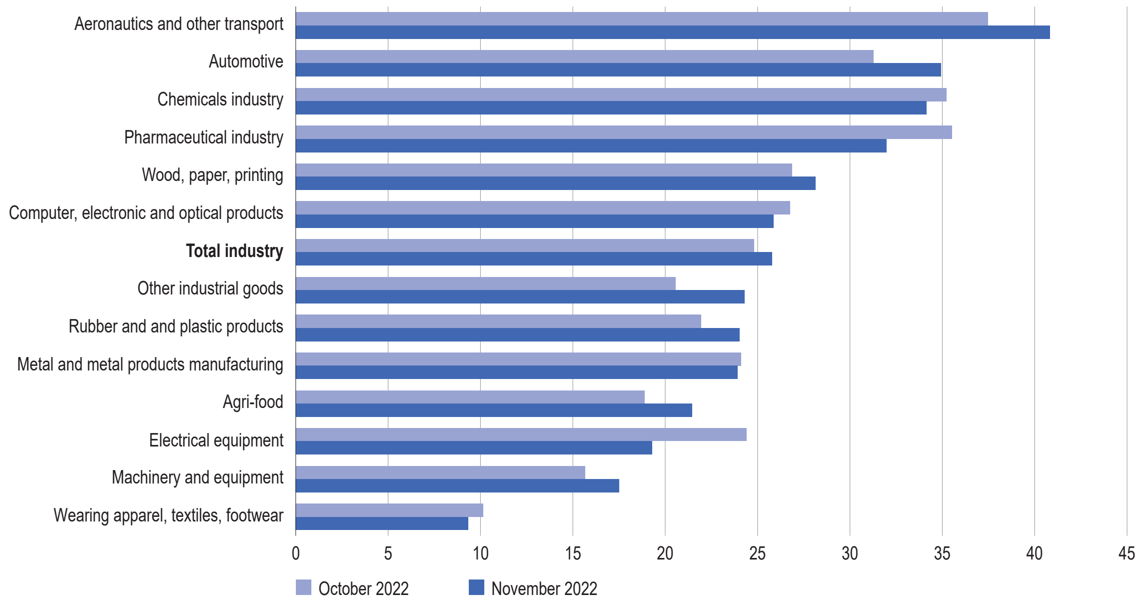
For the three sectors combined, around 6% of firms reported that the energy crisis had a significant impact on their activity in November. This share is very similar across the three main sectors (industry, market services, construction). The share of firms that consider that the energy crisis has had a significant impact (weak or strong) stood at just over 24%, close to the level measured in October (25%).

This share increased slightly for industry, to 26%, with significant differences across sectors: it was higher for the automotive and aeronautics sectors, where it rose compared to last month. In contrast, business leaders in the wearing apparel/textiles/footwear sector and in the machinery and equipment sector were the least numerous in reporting a significant impact in November. It should also be noted that the share of firms reporting an impact is significantly lower in the pharmaceutical and electrical equipment industries.

Share of firms in industry reporting a significant impact of the energy crisis on their activity

(% number of companies surveyed)



For the next three months, these shares are higher, particularly in industry: nearly 17% of companies in this sector believe that the energy crisis will have a strong impact on their activity, compared to 10% in construction and 8% in market services. Overall, the share of firms that believe the energy crisis will have a significant (weak or strong) impact on their business over the next three months stood at 35%, unchanged from October.

Impact on margins

18% of firms believe that the energy crisis will have a strong impact on their margins over the next three months, with the industrial sector being particularly affected (29%). The share of firms that believe more generally that the energy crisis will have a significant (weak or strong) impact on their margins at over the next three months stood at 55%, after 52% in October).

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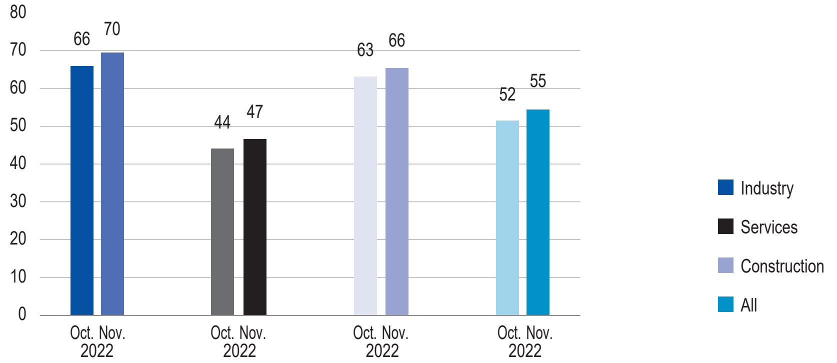
Share of firms expecting a significant impact of the energy crisis on their margins in the next three months

(en % du nombre d'entreprises interrogées)



Thus, a higher share of companies believe that the energy crisis will have an impact on their margins rather than on their activity over the next three months. This difference is particularly pronounced in industry and construction.

4. Estimates derived mainly from the survey, supplemented by other indicators, suggest that the level of GDP in November was higher than that of October, and that GDP should then be almost stable in December

For November, using granular survey data and other available data, we estimate that GDP should increase compared to October. This is due to an improvement in industry, construction and market services.

Based on survey data, value added should grow in the food and manufacturing industry. However, like in the previous quarter, the energy sector (which is not covered by the survey) is expected to dampen growth in industry as a whole. Maintenance operations in nuclear power plants, on the supply side, and the reduction in consumption following sobriety policies, on the demand side, contribute to the decrease in production.

Activity in the services covered by the survey should pick up after an October disrupted by fuel shortages.

The high-frequency data, which we monitor to supplement the service sectors not or only partly covered by the survey, indicate a rebound in activity in transport and retail trade.

Monthly change in GDP in France

(%)

Activity sector	VA share	September	October	November
Agriculture and industry	**15**	**-0.8**	**-2.0**	**0.3**
Agriculture and agri food	4	-0.3	-0.2	0.1
Energy, water, waste, coking and refining	3	-3.1	-5.8	-0.3
Manufacturing industry excluding food, coking and refining	9	-0.5	-1.8	0.5
Construction	**6**	**0.1**	**1.6**	**0.3**
Market services	**57**	**0.0**	**-0.4**	**0.3**
Wholesale and retail trade, transportation, accommodation and food services	18	-0.3	-1.2	0.6
Financial and real-estate services	17	0.0	-0.1	0.0
Other market services	22	0.3	0.1	0.3
Non-market services	**22**	**0.0**	**-0.1**	**-0.1**
Total GDP	**100**	**-0.1**	**-0.4**	**0.2**

In December, business leaders expect PIB to be almost stable compared with November, albeit to differing degrees across sectors. However, the environment remains highly uncertain, particularly with regard to the cost and availability of energy

Fourth-quarter GDP is thus expected to grow by around 0.1% compared with the previous quarter.