

Update on business conditions in France at the start of October 2022

In an economic environment marked by the energy crisis and supply and recruitment difficulties, activity is proving resilient overall, although industry is being worse affected than other sectors. According to the business leaders surveyed (approximately 8,500 companies and establishments questioned between 28 September and 5 October), activity was stable in industry in September but rose in the market services covered by the survey as well as in construction. For October, business leaders expect activity to change little in industry and construction but to rise again in market services, albeit at a slower pace than in previous months.

Supply difficulties eased further in September in both industry (49% of industrial firms cited difficulties after 51% in August) and construction (40% after 43% in August). Finished goods prices began to rise again at the start of September, due in large part to a seasonal catch-up effect after the summer. Recruitment difficulties remained high (cited by 58% of respondents compared with 57% in August).

Our uncertainty indicator increased again in September, driven by the energy crisis (price rises and concerns over short/medium term availability). Cash positions continued to deteriorate in industry but remained little-changed in services.

Based on the survey results as well as other indicators, and with GDP remaining stable in September, we estimate that GDP grew by around ¼% in the third quarter of 2022 compared with the previous quarter. Early indicators point to a slight increase in GDP in October.

1. In September, activity was stable in industry and rose in market services and construction

In September, although business leaders were anticipating a slight rise last month, activity remained stable overall in **industry**. However, performances varied across sectors.

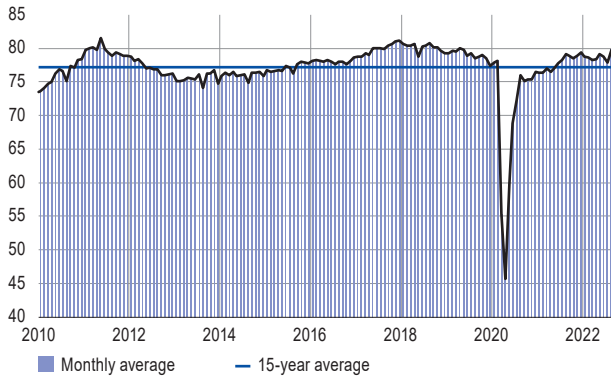
Balances of opinion on production indicate that activity increased in September in computer, electronic and optical products, machinery and equipment, and electrical equipment. Conversely, activity declined compared with the previous month in rubber and plastic products.

In industry as a whole, the capacity utilisation rate decreased slightly to 79% in September (from 80% the previous month). The rate was above its long-term average in the majority of sectors, with the main exception being aeronautics and other transport where it was 5 percentage points below its long-term average.

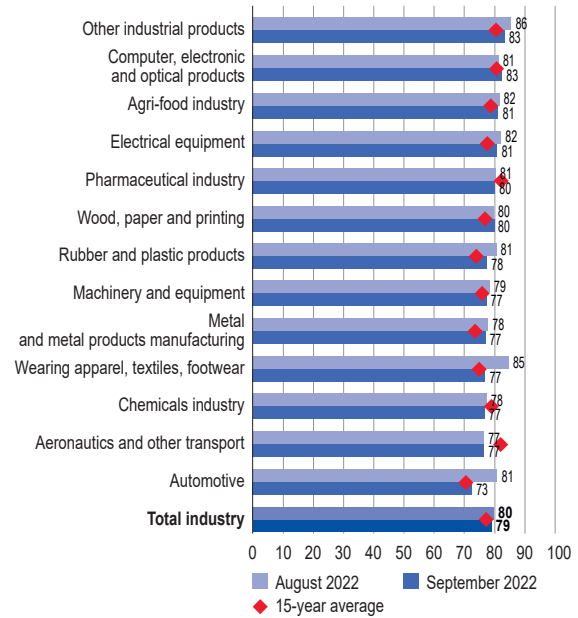
Capacity utilisation rate

(%, adjusted for seasonal and working day variations)

a) In industry



b) By sub-sector



In **market services**, activity expanded again in September, and at a slightly higher pace than expected last month by business leaders. The improvement was felt in nearly all business services – information services, publishing, management consultancy, engineering activities – as well as in personal services (accommodation and food services).

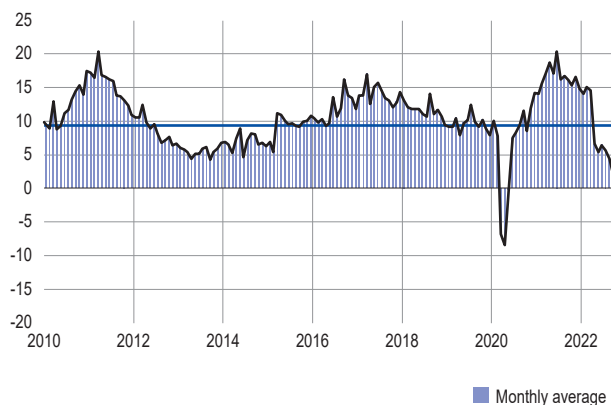
Activity grew markedly in **construction**, both in finishing and structural works.

The balance of opinion on **cash positions** continued to deteriorate in industry, and is now well below its long-term average, both for large corporations and SMEs. This deterioration, linked notably to energy and raw material prices, is affecting some industrial sectors more than others, especially pharmaceuticals, chemicals, wood, paper and printing, and electrical equipment. The balance of opinion on cash positions continued to decline in market services but remains close to its long-term average.

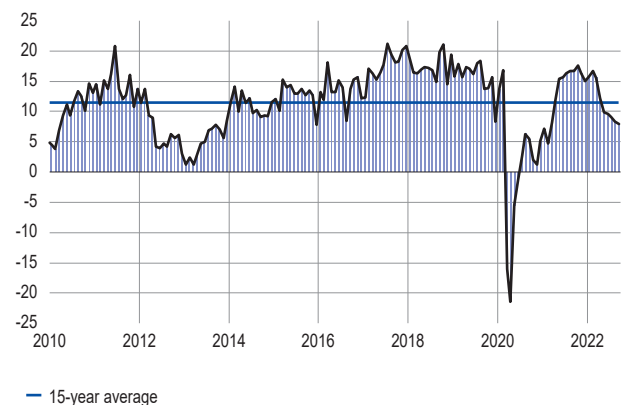
Cash position

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

a) In industry



b) In market services



2. In October, business leaders expect activity to remain little-changed in industry and construction, and to increase slightly in services.

For October, the surveyed business leaders expect activity to remain stable in **industry**. Certain sectors should see an improvement, notably computer, electronic and optical products, machinery and equipment, pharmaceuticals and aeronautics; in contrast, sectors that are strongly reliant on energy for production – rubber and plastic products, chemicals, metal and metal products manufacturing – are expected to see further falls in activity.

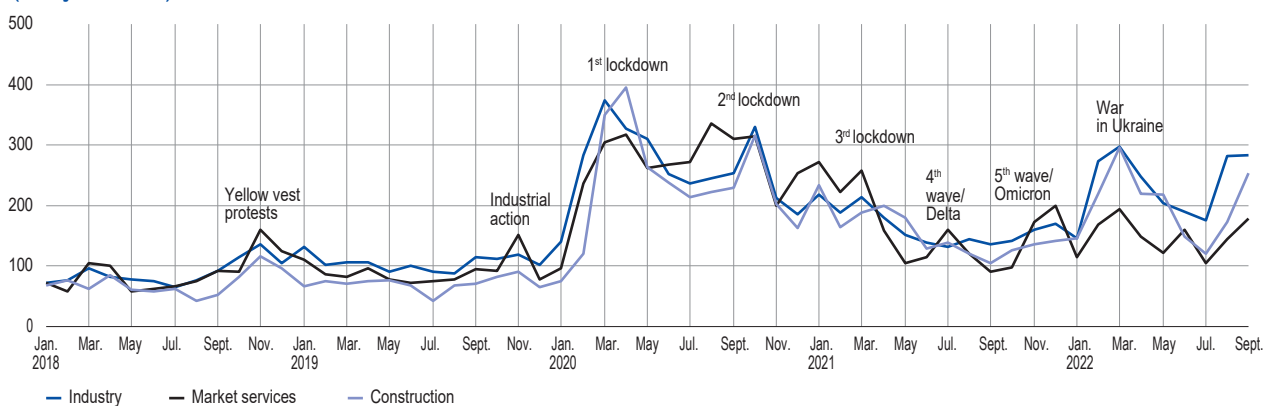
In **services**, business leaders predict that activity will rise slightly in most sectors, although at a lower rate than in previous months.

In **construction**, activity is anticipated to remain little-changed overall, with a slight contraction in structural works and a rise in finishing works.

Our monthly uncertainty indicator, which is constructed from a textual analysis of comments by the respondent companies, shows that uncertainty increased in September. The rise was particularly marked in construction and, to a lesser extent, in services. Business leaders mainly cited higher energy prices as the main factor of uncertainty for the coming months.

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

(unadjusted data)



Note: The reference value is set at 100 and corresponds to the value around which the indicator fluctuates in normal periods.

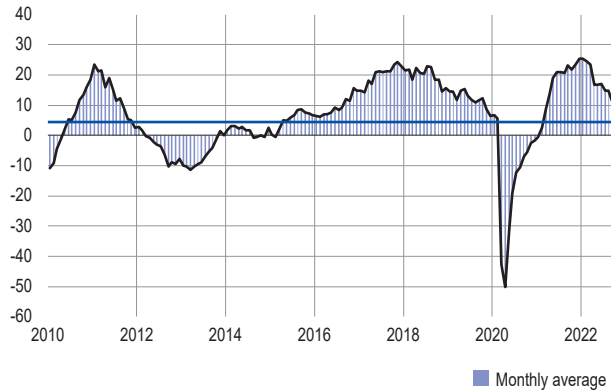
The balance of opinion on **order books** deteriorated in September in industry. After the peaks seen in January 2022, order books declined in nearly all industrial sectors. In construction, however, the balance of opinion on order books improved slightly. Nevertheless, current levels in both cases remain above their long-term average.

Whereas inventories of finished products had been deemed low in industry since the Covid crisis, the upward trend that began in the summer is being confirmed; inventory levels are now considered to be above normal. Indeed, certain firms said they were overstocking in anticipation of production difficulties linked to the energy crisis in the coming months.

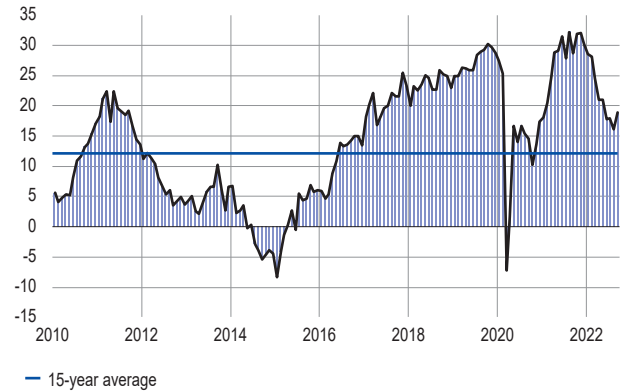
Level of order books

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

a) In industry



b) In construction

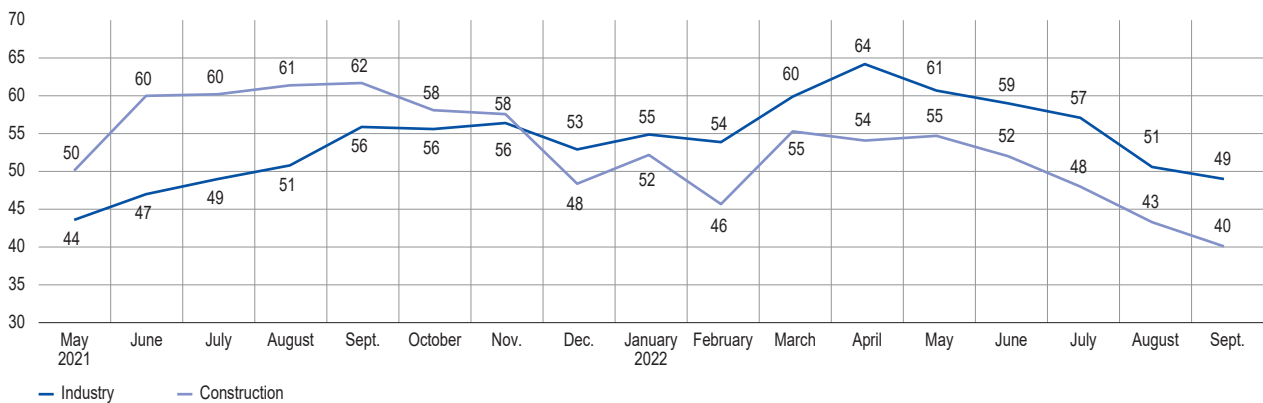


3. Supply difficulties are continuing to ease, prices have started to rise again and recruitment difficulties remain high

Supply difficulties continued to ease in September, while nonetheless remaining high. The share of business leaders who said that supply difficulties were putting pressure on their activity declined in industry (49% after 51% in August) and in construction (40% after 43% in August).

Share of businesses reporting supply difficulties

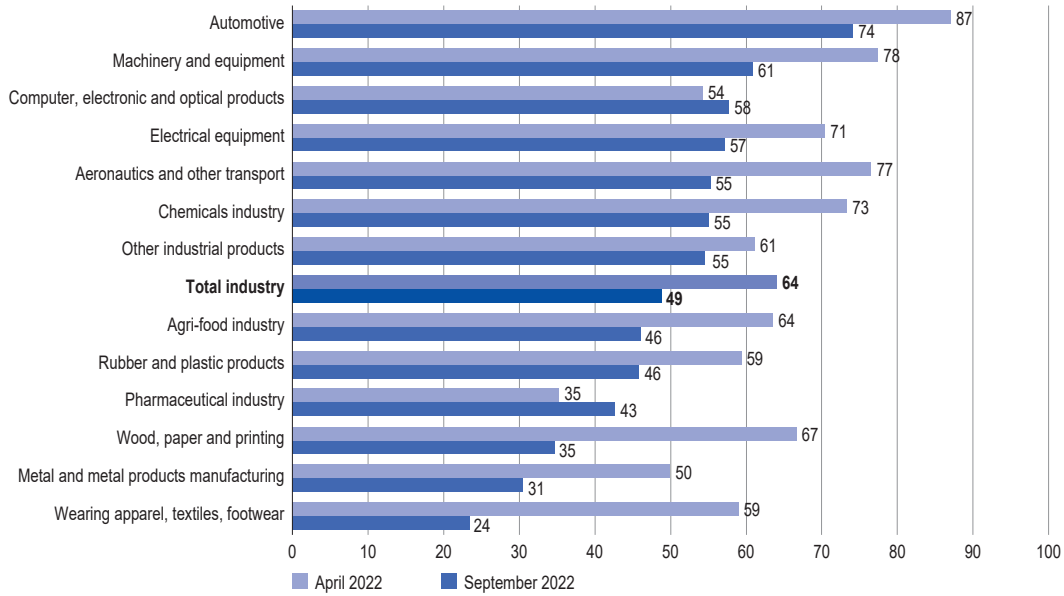
(%, unadjusted data)



Since the peak recorded in April 2022 for industry (when 64% of firms said they were experiencing supply difficulties), all sectors have seen an improvement (of 15 percentage points on average), especially wearing apparel, textiles and footwear (improvement of 36 percentage points), and wood, paper and printing (improvement of 32 percentage points).

Share of firms reporting supply difficulties – Industry, September 2022

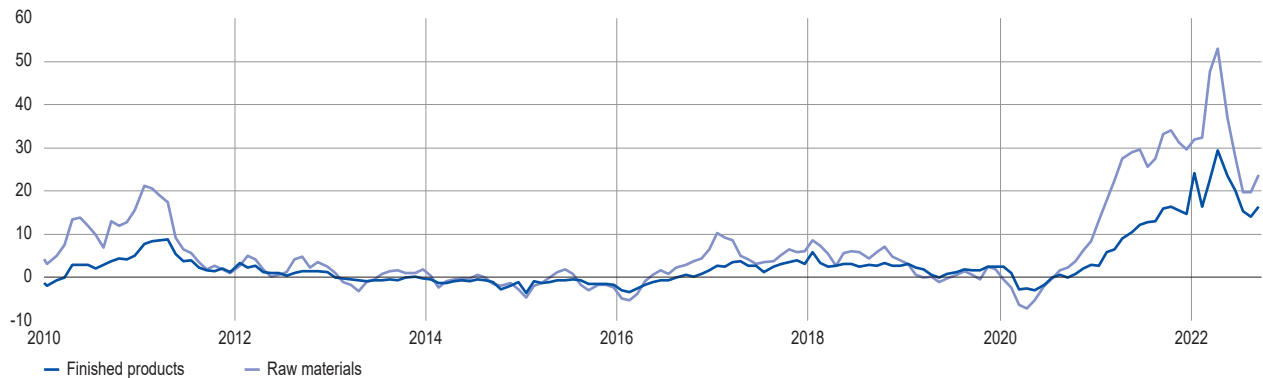
(%, unadjusted data)



The balance of opinion on developments in finished goods prices over the previous month started to rise again in industry after declining for four consecutive months, reflecting increases in raw material and gas/electricity prices.

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

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

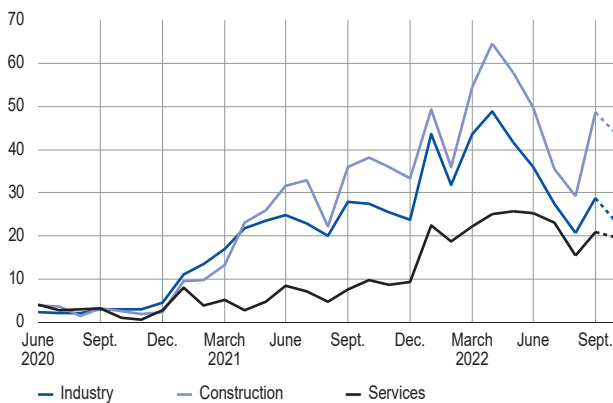


Prices also increased in the market services covered by the survey, especially in personal services (accommodation and food services, automotive repair) and in transportation.

More specifically, 29% of business leaders in the manufacturing industry said they had raised their selling prices in September. The proportion was particularly high in agri-food (where 43% of firms said they had increased their prices), chemicals, and wood, paper and printing. In construction it stood at 49% and in market services at 21%. This renewed growth in September (based on unadjusted data, i.e. not corrected for seasonal variations) may in part reflect a seasonal “catch-up” effect that was already observed at the same time last year, as there are generally fewer price rises in July and August. The outlook for October suggests a slight fall in the share of business leaders reporting price rises in industry (23%), services (20%) and construction (44%)

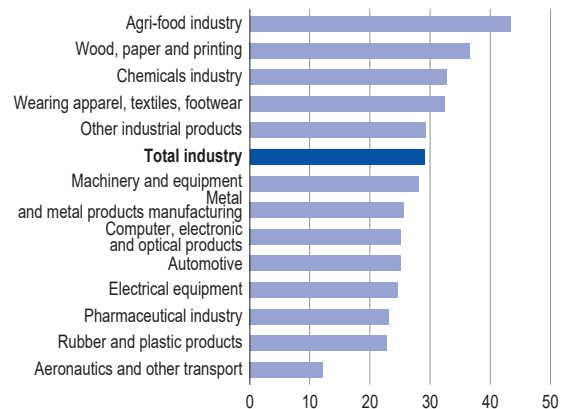
Share of business leaders that increased their selling prices, by major sector

(%, unadjusted data; forecast for October)



Share of business leaders in industry that increased their selling prices in September, by sector

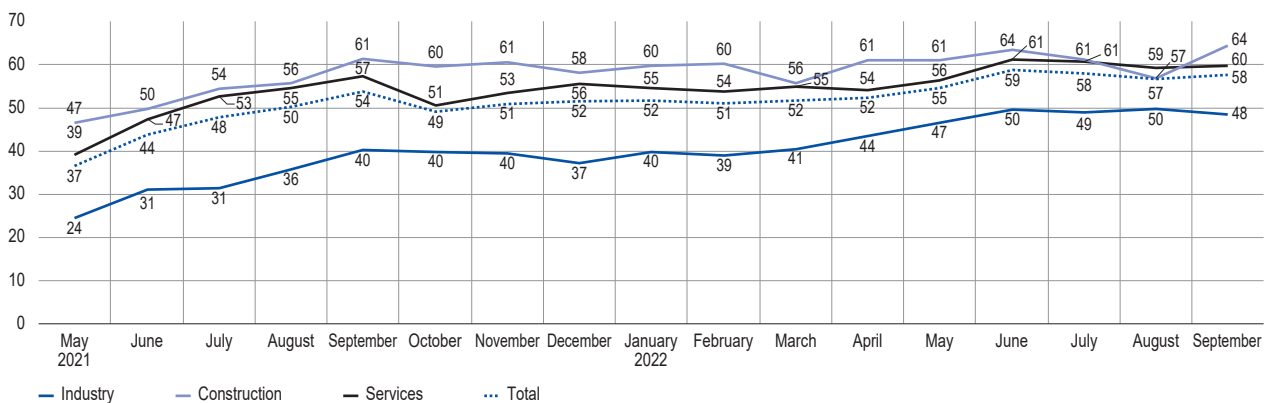
(%, unadjusted data)



Business leaders were also asked about their **recruitment difficulties**. These remain high, affecting 58% of respondents in all sectors combined. Difficulties are easing slightly in industry, to 48%, and rising in construction (64% after 57% in August).

Share of businesses reporting recruitment difficulties

(%, unadjusted data)



4. Estimates primarily derived from the survey, supplemented with other indicators, suggest that GDP stabilised in September compared with August and should expand slightly in October.

For the month of September, using granular survey data and other available economic data, we estimate that GDP remained stable compared with August. This reflects the stability of activity in both industry and services. Value added in construction is expected to have increased slightly in September.

This assessment is based on INSEE data on the industrial production for July and August, and on the production in services for July, which have led us to revise activity down for July and up for August. Our forecast is also based on high-frequency data that we monitor in parallel for sectors not covered by the survey (notably construction, wholesale and retail trade and transportation), to confirm our assessment of those industries and services that are covered. In particular, road traffic and credit card data provide information on the transportation sector, where activity is estimated to have declined in September. Credit card data also provide information on retail trade, which is also estimated to have fallen slightly in September.

French GDP – monthly level

(percentage deviation from fourth quarter of 2021)

Activity sector	VA share	July	August	September
Agriculture and industry	15	-0.4	1.5	1.6
Agriculture and agri-food	4	1.8	1.8	1.8
Energy, water, waste, coking and refining	3	-8.3	-7.3	-7.3
Manufacturing industry excluding food, coking and refining	9	1.0	4.1	4.1
Construction	6	-1.6	-2.6	-2.5
Market services	57	0.9	1.3	1.3
Wholesale and retail trade, transportation, accommodation and food services	18	1.2	2.0	1.8
Financial and real-estate services	17	0.6	0.6	0.6
Other market services	22	1.0	1.3	1.5
Non-market services	22	-0.6	-0.6	-0.6
Total	100	0.3	0.7	0.7

Overall, in the quarter ending in September, activity is estimated to have held up well, supported by the strength of certain market services but also by value added growth in industry over the summer. In the third quarter of 2022, GDP growth is expected at ¼% compared with the previous quarter.

In a highly uncertain environment, especially regarding the cost and availability of energy, business leaders' expectations for October at this stage are slightly upward oriented, although again with strong variations depending on the sector.