

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

The war in Ukraine and lockdown measures in China continued to impact the French economy in April. At this stage, activity is holding up, while the effects on prices have become more pronounced.

These shocks are having contrasting effects across sectors. Industry and construction are being hardest hit by supply challenges and higher prices for raw materials. Personal services, meanwhile, are benefiting as the health situation gets back to normal and international customers return. According to the business leaders surveyed (approximately 8,500 companies and establishments surveyed between 27 April and 4 May), activity was broadly stable in industry in April and improved in the market services covered by the survey. Construction recorded a slight downturn.

For the month of May, business leaders expect activity to grow in market services and at a slower pace in industry, and show little change in the construction sector. However, this outlook is subject to considerable uncertainty, even if our uncertainty indicator is down from last month's reading.

Against this backdrop, supply difficulties rose sharply again in industry, where they affected 65% of companies, after 60% in March, and were roughly unchanged in construction, impacting 54% of companies, down from 55% in March. Recruitment difficulties have been at the same level since December but continue to affect just over half of all companies. In connection with these difficulties, industrial firms said that they were raising their selling prices more frequently in response to persistent pressures on raw materials prices.

After rebounding vigorously in the second half of 2021, GDP stalled in the first quarter of 2022 owing to the effects of the Omicron wave and the initial impacts of the war in Ukraine. It grew slightly in April compared with March on the back of increased activity in the market services sector. The initial indications are that activity will hold up in May. Subject to developments in June, at this stage we expect GDP to grow moderately in the second quarter of 2022, increasing by around 0.2% compared with the previous quarter.

1. Activity was stable in industry in April and continued to head in a positive direction in market services; construction showed a mild contraction

In April, in a setting marked by the war in Ukraine and lockdown measures in China, activity was broadly stable in industry, i.e. slightly weaker than forecasted by business leaders last month. However, there were contrasting developments across sectors.

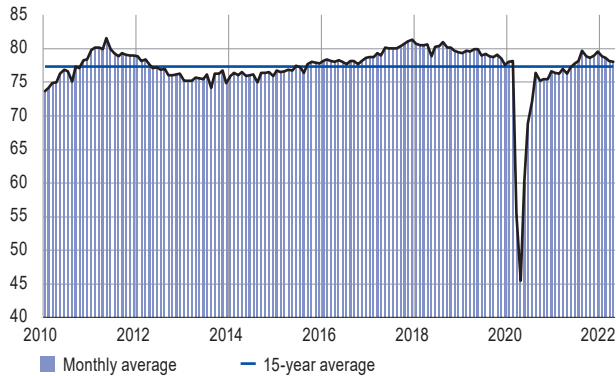
Balances of opinion on production in April point to healthy growth in the pharmaceutical and chemicals industries, while the automotive sector recorded a downturn for the fourth month running, in connection with supply difficulties. Production in the equipment sector (computer, electronic and optical products, machinery and equipment, electrical equipment) was disrupted by China's lockdown measures and especially the closure of the port of Shanghai.

The overall capacity utilisation rate in **industry** was stable at 78% in April, with the rate holding steady in virtually all sectors. The utilisation rate is tracking above its historical average in most sectors, with the exception of automotive (9 percentage points below) and aeronautics and other transport (6 percentage points below).

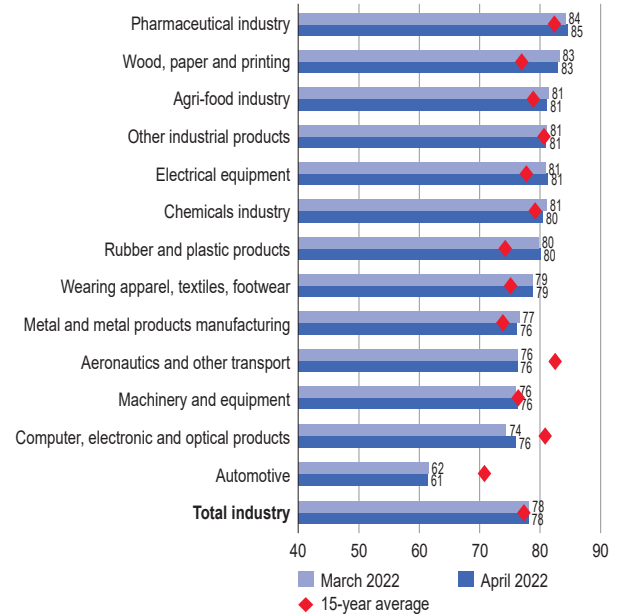
Capacity utilisation rate

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

a) In industry



b) By sub-sector



Activity improved in **market services** in April. Growth was recorded in personal services – particularly food services and accommodation with the return of international customers – and in equipment and car rental and business services other than temporary work, which put in a flat performance due to slacker demand from industry and construction and difficulties in recruiting temporary workers.

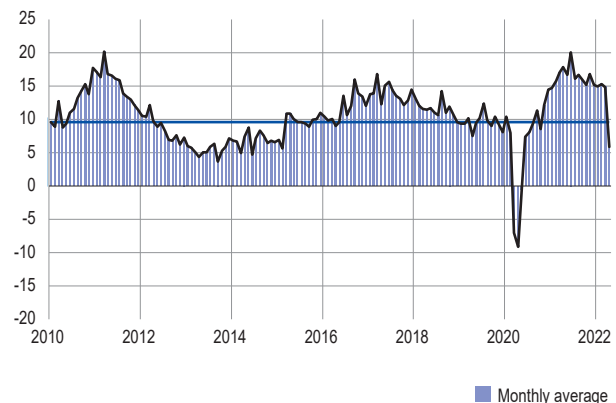
Construction registered a small contraction, consistent with last month's business expectations, with finishing works showing a slight decrease in activity and structural works seeing little change.

Balances of opinion on the **cash position** pointed to a decline from high levels in many industrial sectors. The shift may be linked to higher prices for raw materials and transport costs, with some business leaders reporting the first signs of margin erosion. Several sectors, such as electrical equipment, computer, electronic and optical products

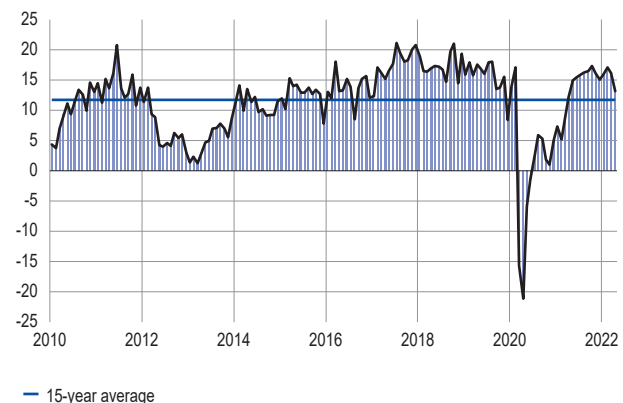
Cash position

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

a) In industry



b) In market services



and the chemicals industry, saw especially noticeable decreases. In the case of chemicals, however, the current level is close to its long-term average. In market services, the decline was smaller and primarily concerned firms providing temporary work and cleaning services

2. In May, businesses expect activity to grow in services and at a slower pace in industry, and show little change in the construction sector

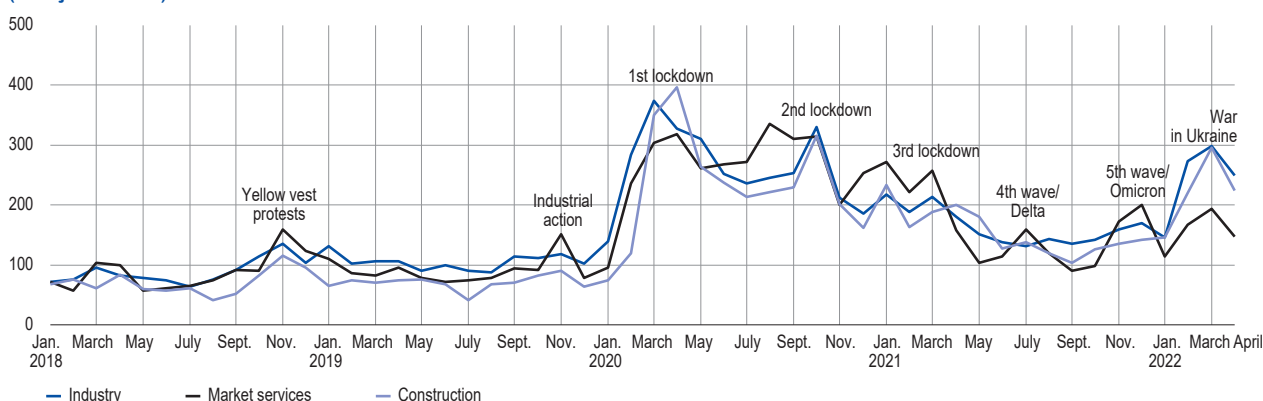
For the month of May, the **industrial firms** surveyed expect production to pick up slightly following April's dip, particularly in chemicals, computer, electronic and optical products and electrical equipment. The medium-term outlook is far less certain, however.

In **services**, business leaders expect activity to increase in most sectors, but at a slower pace. The temporary work, accommodation, computer programming and consultancy sectors are set to see the sharpest improvements. Firms in the transport sector are especially cautious in their expectations owing to the impact of diesel prices and pallet shortages.

Little change is expected in **construction** activity, with a slight downturn in structural works and a small increase in finishing works.

Our monthly uncertainty indicator, which is constructed from a textual analysis of comments by the respondent companies, shows that uncertainty lessened in April across the three surveys: after peaking in March in connection with the war in Ukraine and the worsening health situation in China, the indicator is now back at its February level in all of the broad sectors. In services, where the indicator chiefly reflects health restrictions, uncertainty is moderate. In industry and construction, uncertainty remains especially acute in automotive and chemicals, as well as in agri-food, which is also struggling with the effects of bird flu.

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



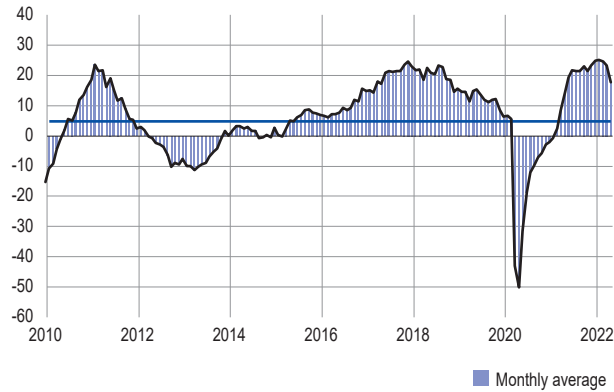
Note: The reference value is set at 100 and corresponds to the value around which the indicator fluctuates in normal periods.

The balance of opinion on **order books** in industry was still comfortably above its long-term average, but fell for the second month in a row, with virtually all sectors down from the peaks recorded in the early part of the year. Order books also thinned in construction, especially in structural works, but remain well above their long-term average.

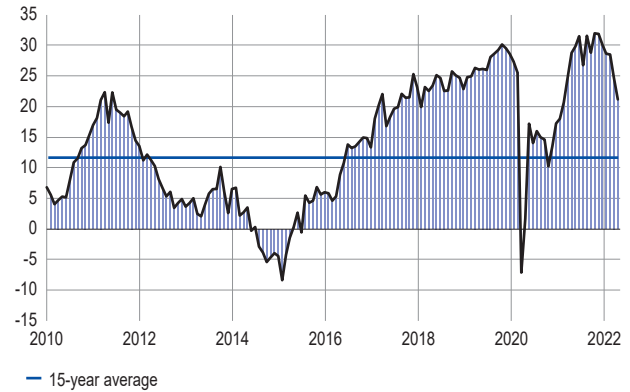
Level of order books

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

a) In industry



b) In construction

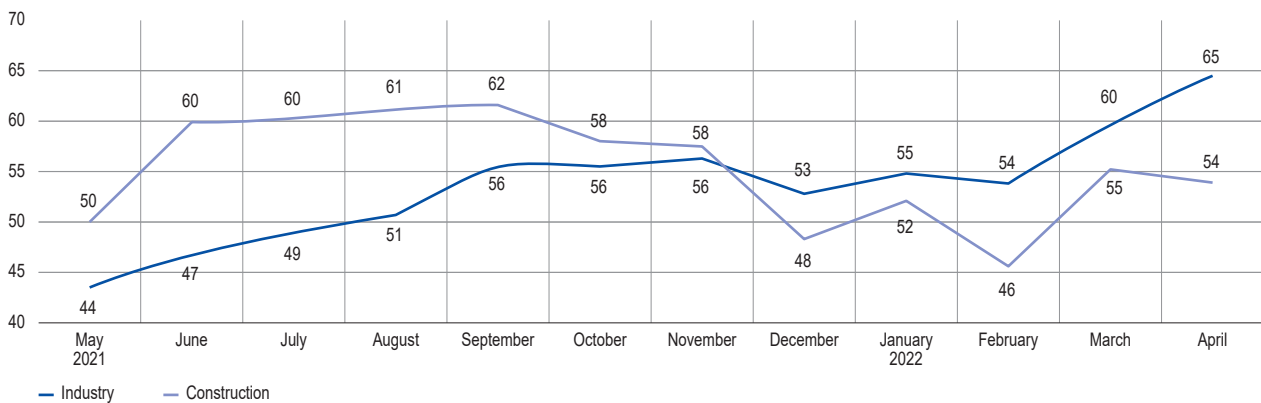


3. Supply difficulties continue to increase sharply in industry and are accompanied by price rises

The consequences of the war in Ukraine and lockdown measures in China, which this month included shutting down the port of Shanghai, caused **supply difficulties** to increase again. The share of business leaders who said that supply difficulties were putting pressure on their activity rose in industry to 65%, or the highest since the question was first introduced in May 2021, after 60% last month. In construction, the percentage edged down from 55% to 54%.

Share of businesses reporting supply difficulties

(in%, unadjusted data)

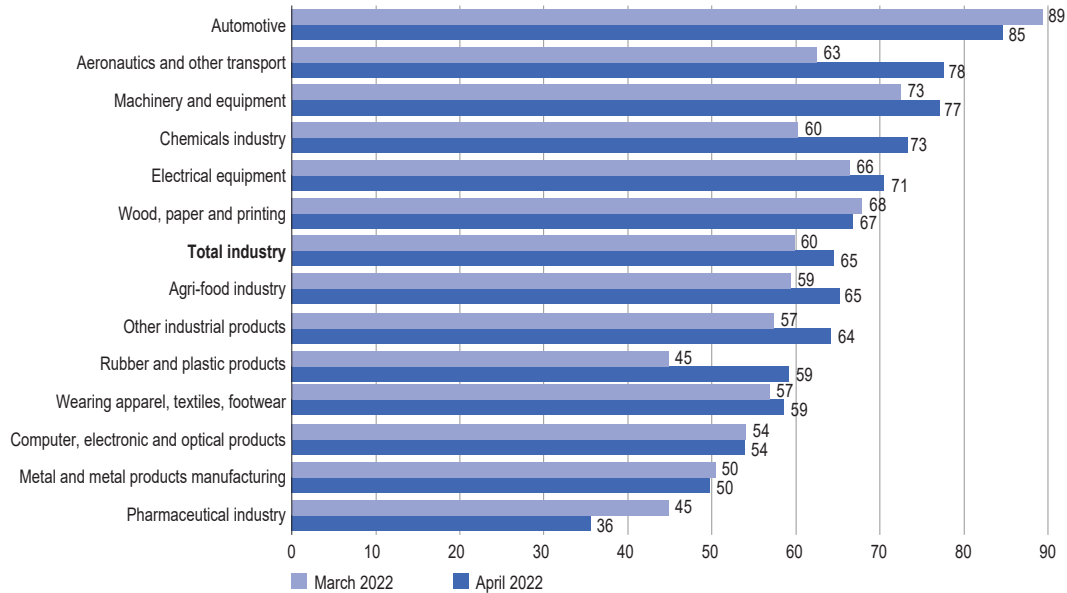


The latest increase in difficulties in April particularly concerned aeronautics and other transport (+15 percentage points), rubber and plastic products (+14 percentage points) and chemicals (+13 percentage points).

Furthermore, finished product inventories are estimated to be extremely low in the agri-food and automotive sectors, reflecting persistent supply difficulties.

Share of businesses reporting supply difficulties – Industry, April 2022

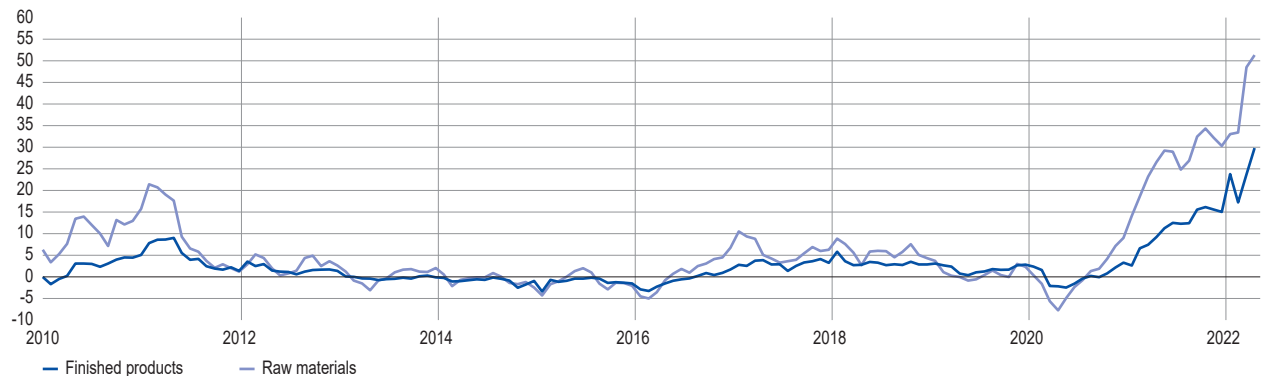
(in%, unadjusted data)



According to the business leaders surveyed, the rise in supply difficulties was accompanied by an increase in the prices of raw materials and, especially this month, a lagged increase in the prices of finished products.

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

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

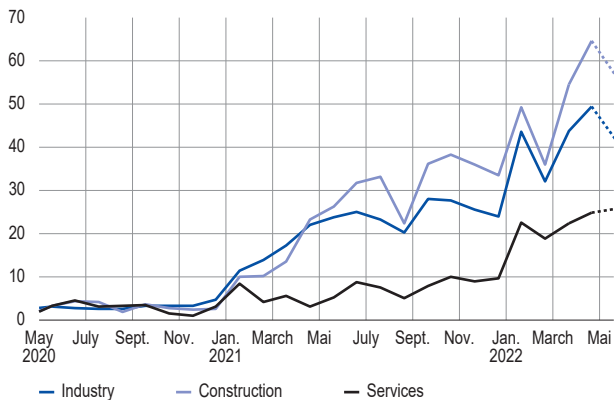


A full 49% of business leaders in industry said that they put up their selling prices in April. As in previous months, the share of business leaders reporting substantial price increases was significant in chemicals, electrical equipment manufacturing and in the wood, paper and printing sector. In the last two months, the agri-food sector has also been affected, since it has been hit by rising grain and fertiliser prices and recent bird flu outbreaks. The share stands at 65% of construction companies and 25% in market services.

The outlook for May points to further price increases in construction (57% of business leaders think they will raise their selling prices next month), industry (42%) and services to a lesser extent (26%).

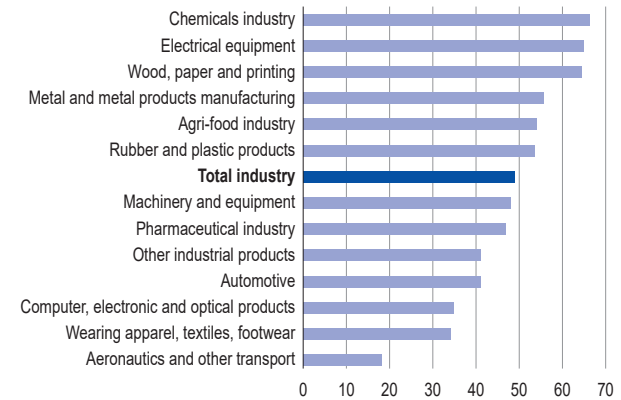
Share of business leaders that increased their selling prices, by major sector

(in %, unadjusted data; forecast for May)



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

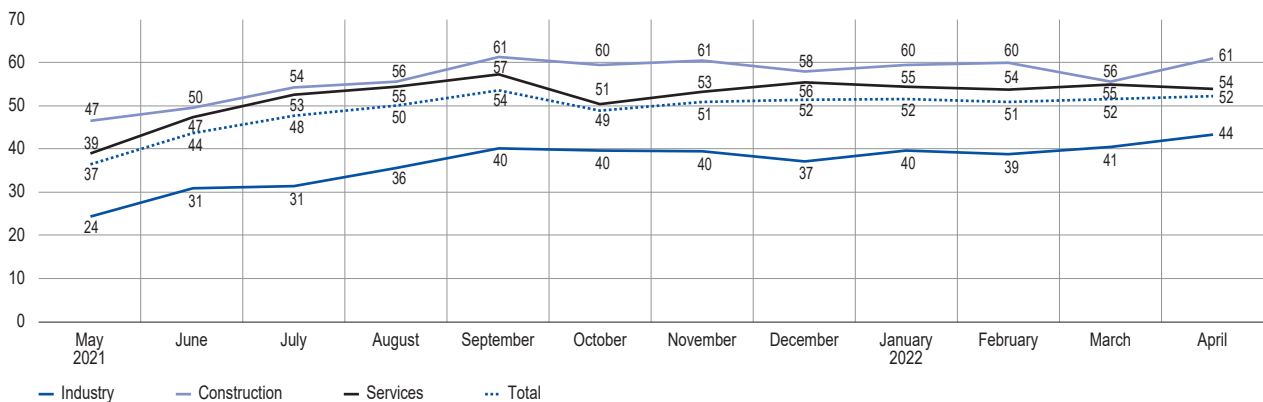
(in %)



Business leaders were also asked about their recruitment difficulties. For all sectors combined, they were stable overall and concerned about half of all companies, i.e. 52% in April. There were increases for industry and construction and a small decrease for services.

Share of businesses reporting recruitment difficulties

(in %, unadjusted data)



4. The estimates primarily derived from the survey, supplemented by other indicators, suggest that after falling in March, GDP rebounded in April and should pick up moderately in May

In our previous business update, published on 12 April 2022, we estimated that activity would increase in the first quarter by around ¼ of a percentage point. The quarterly accounts published by INSEE in late April show that activity was stable. This result, which fell short of our expectations, was chiefly due to the unforeseen decline in activity in market services, with substantial drops in retail, accommodation and food services and household services, in particular. Negative momentum in the energy, water and waste sector also played a part.

For the month of April, using granular survey data and other available data, we estimate that GDP increased slightly and was 1 percentage point above its pre-crisis level.

This estimate also uses high-frequency data that we monitor additionally for sectors not covered by the survey (in particular retail and transport), and to confirm our assessment regarding industry and the services covered. In particular, credit card spending suggests that purchases were steady in April relative to March. Road traffic data, meanwhile, show that activity in the transport sector stabilised in April.

Business expectations for May in the survey suggest a slight increase in GDP, which is expected to be 1¼ percentage points above the pre-crisis level. Industry and market services are both expected to show a small increase.

Value added by sector

(percentage deviation from the pre-crisis level)

Activity sector	VA share	February	March	April
Agriculture and industry	15	-1	-2	-2
Agriculture and agri-food	4	2	2	2
Energy, water, waste, coking and refining	3	6	5	4
Manufacturing industry excluding food, coking and refining	9	-5	-5	-5
Construction	6	-4	-5	-5
Market services	57	2	1	2
Wholesale and retail trade, transport, accommodation and food services	18	-3	-5	-4
Financial and real estate services	17	3	3	3
Other market services	22	5	5	5
Non-market services	22	2	2	2
Total	100	1	¾	1

Guide: Activity in April was 1% above the pre-crisis level recorded in the fourth quarter of 2019.

Subject to developments in June, and with conditions still highly uncertain, GDP growth for the second quarter of 2022 is expected to be around 0.2% compared with the previous quarter. This moderate growth over the quarter relative to the beginning of the year will be driven primarily by a rebound in certain market services that were hard hit in early 2022 by the effects of the Omicron wave.