

## **Update on business conditions in France at the start of September 2022**

In an economic environment that remains very challenging and uncertain (energy crisis, supply bottlenecks and recruitment difficulties), activity continued to be resilient overall. Indeed, according to the business leaders participating in our survey conducted between 29 August and 5 September (approximately 8,500 companies or establishments surveyed), activity in August picked up slightly in industry and more significantly in the market services covered by the survey, while it was almost stable in construction.

For the fourth month in a row, supply difficulties eased, this time more markedly but they remained elevated in industry (51% in August, after 57% in July) and construction (43%, after 48%). The rise in prices of finished products decelerated. Recruitment difficulties remained high (57%, after 58%).

For September, our uncertainty indicator started to rise again; business leaders expressed concerns about the energy situation (prices and availability) and household consumption behaviour associated with inflation. The deterioration in order books in the construction sector and in certain cash positions also call for vigilance in the coming months. Against this backdrop, business leaders nevertheless expect a slight improvement in activity in September.

After the first quarter of 2022 marked by the Omicron wave and the start of the war in Ukraine, growth was more vigorous than expected in the second quarter, i.e. 0.5% higher than the previous quarter. GDP was stable in July and is expected to increase in August and September. In a still very uncertain environment, we estimate at this stage that GDP growth for the third quarter of 2022, compared to the previous quarter, should be around 0.3%.

### **1. In August, activity strengthened slightly in industry, more significantly in market services and was almost stable in construction**

In August, while business leaders had anticipated a contraction last month, activity increased slightly in **industry**. However, developments varied across sectors.

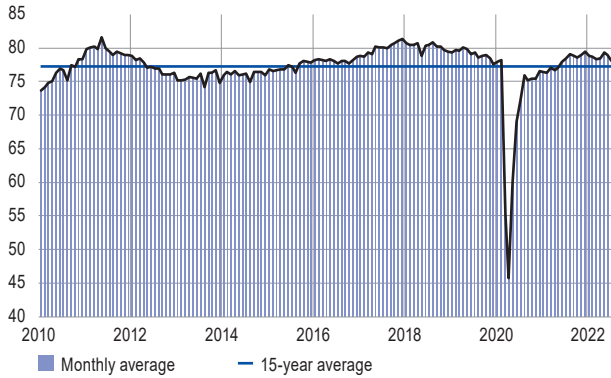
The August production balances reflect an increase in activity in computer, electronic and optical products, wearing apparel, textiles, footwear and other industrial products. Conversely, in the chemicals, pharmaceuticals and wood, paper and printing industries, activity fell sharply compared with the previous month. In the agri-food sector, where activity increased slightly, business leaders did not report at this stage any significant impact associated with the adverse weather conditions (e.g. drought) on production in August.

In industry as a whole, the capacity utilisation rate rose slightly to 80% in August. In most sectors, it was above its historical average, except notably in aeronautics and other transport, where it was 4 percentage points below. It was above its long-term average in August in the automotive sector, thanks to the rebound in activity linked to semi-conductor supply.

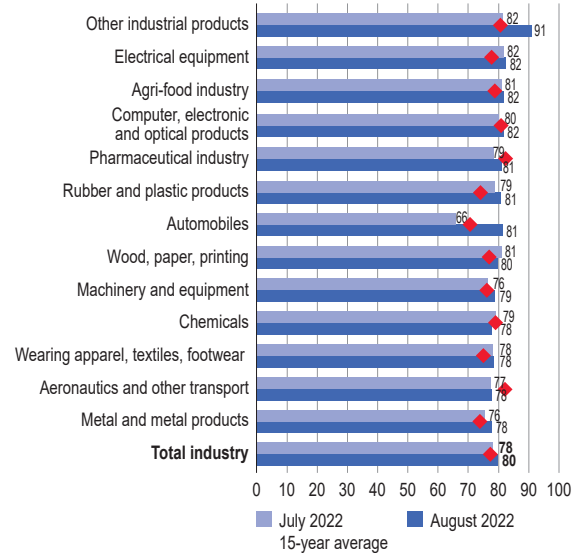
## Capacity utilisation rate

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

### a) In industry



### b) By sub-sector



In **market services**, activity increased again in August, at a faster pace than that anticipated by business leaders last month. This upward trend concerned most personal services (especially food services and recreation activities). Among business services, management consulting, legal and accounting activities, and programming and consultancy grew strongly. Rental and leasing of cars and equipment in particular contracted, due to supply problems.

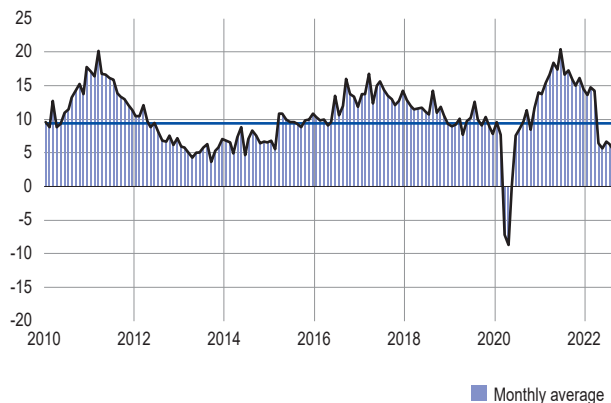
Activity in the **construction** sector was almost stable in August, whereas business leaders had expected a contraction last month.

The **cash position** worsened slightly again in industry, as well as in market services. In both cases, the indicator is below its long-term average.

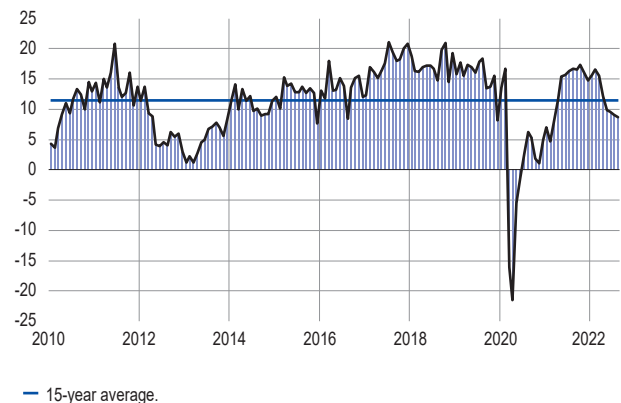
## Cash position

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

### a) In industry



### b) In market services



## 2. In September, business leaders expect activity to grow in all three major sectors.<sup>1</sup>

For September, the business leaders surveyed expect activity in **industry** to improve slightly. This increase should be seen in most sectors, with the exception of the automotive, wearing apparel, textiles, footwear, chemicals, and rubber and plastic products sectors.

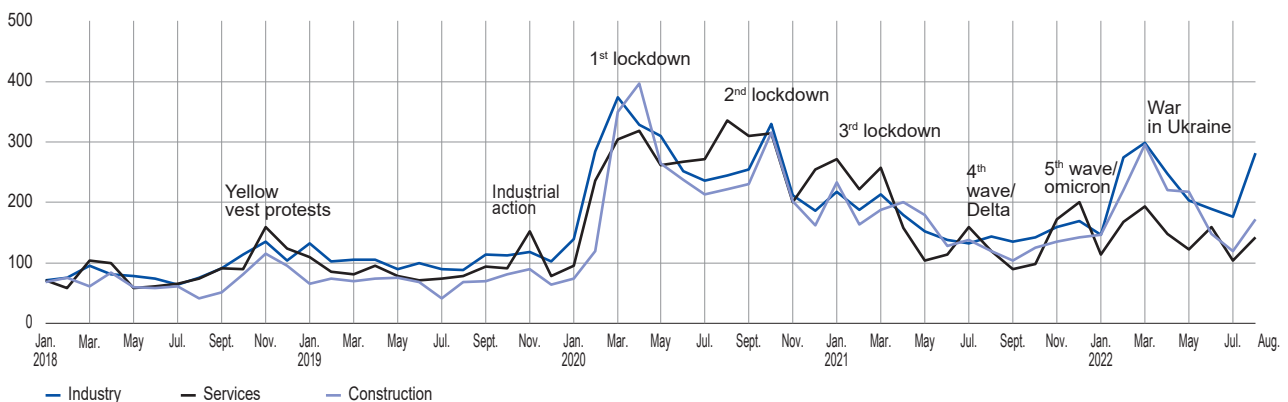
In **services**, business leaders expect activity to grow in most sectors.

Lastly, in the **construction** sector, activity is expected to firm, especially in the finishing works sector.

Our monthly uncertainty indicator, which is constructed using text mining of respondents' comments, shows a rebound in uncertainty in August in industry, market services and construction. In industry, the indicator almost returned to the level seen at the start of the war in Ukraine; business leaders mentioned three main factors: energy (rising electricity prices and possible outages or rationing), household purchasing power (and its consequences for consumption behaviour) and supply difficulties.

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

(unadjusted data)



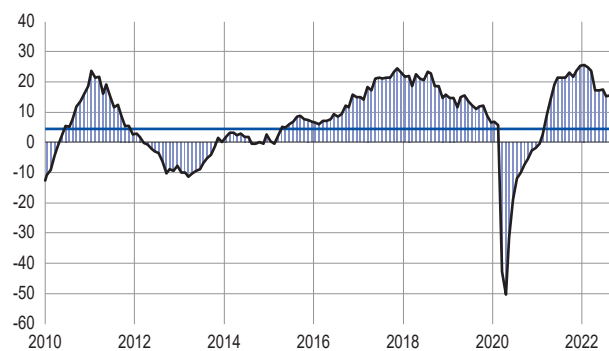
Notes: The baseline value is set at 100, which corresponds to the value around which the indicator fluctuates during normal times.

The balance of opinion on **order books** did not change much in August in industry, and deteriorated significantly in construction. However, in both cases, current levels remain above their long-term average.

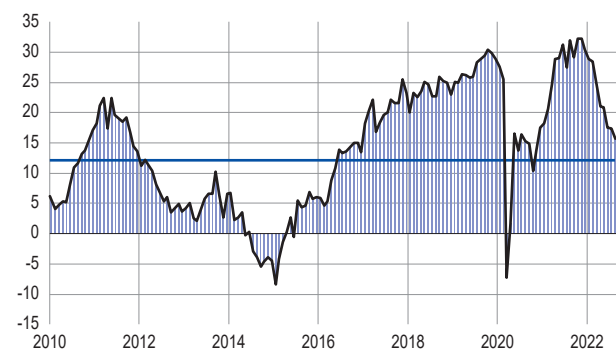
### Level of order books

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

a) In industry



b) In construction



■ Monthly average    — 15-year average.

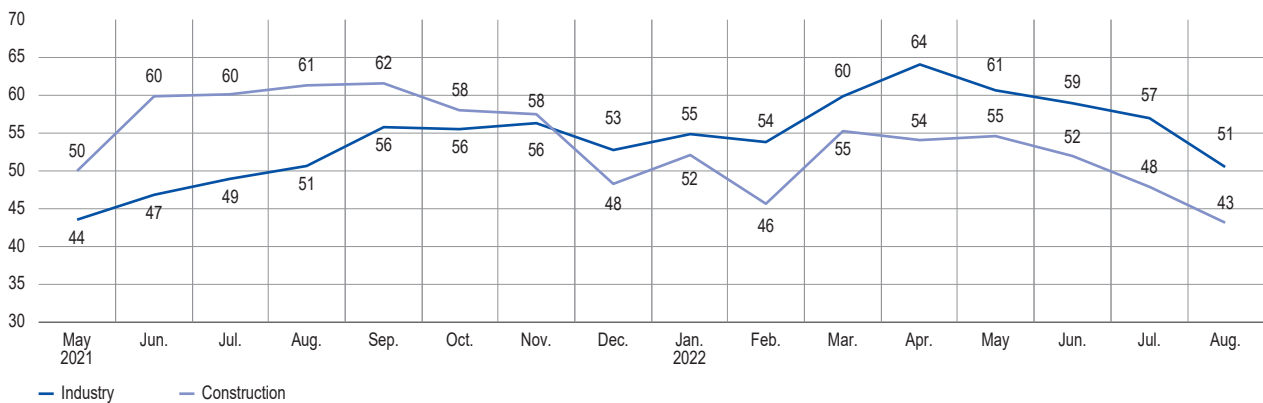
<sup>1</sup> August has a particularly strong seasonal component, with many businesses and establishments closing each year. Therefore, the outlook for growth and estimates for September should be interpreted with caution.

### 3. Ongoing easing of supply difficulties and slight slowdown in price rises; while recruitment difficulties remain elevated

**Supply difficulties** remained elevated in August but eased for the fourth consecutive month. The share of business leaders reporting that these difficulties affected their activity decreased in industry (51%, after 57% in July) and in construction (43%, after 48%).

#### Share of businesses reporting supply difficulties

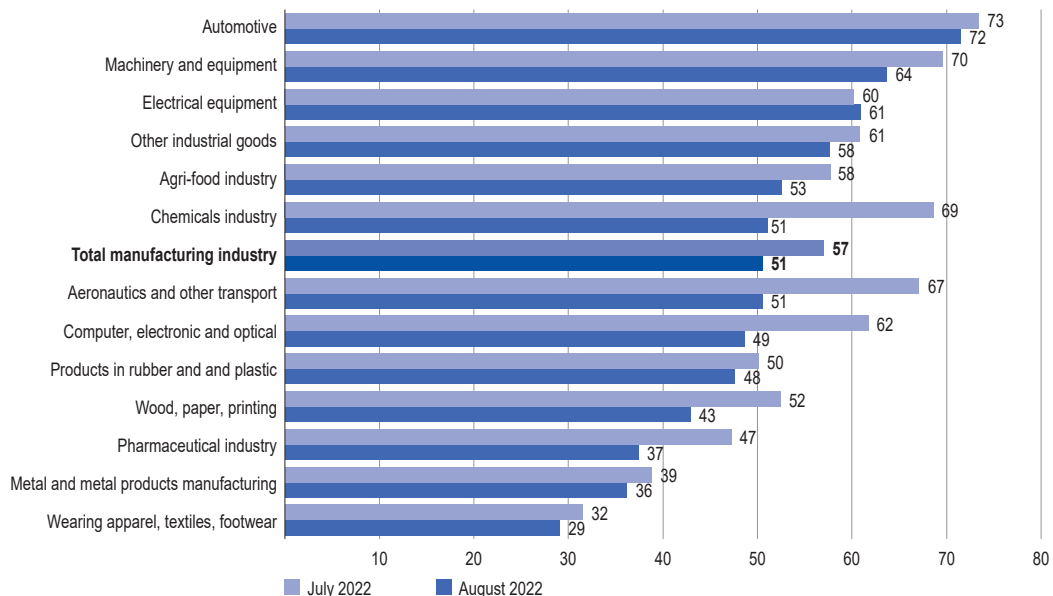
(%, unadjusted data)



This decrease in supply bottlenecks benefited most sectors, including aeronautics, chemicals, and computer and electronic products. However, these difficulties continued to be very significant in the automotive sector.

#### Share of businesses reporting supply difficulties – Industry, August 2022

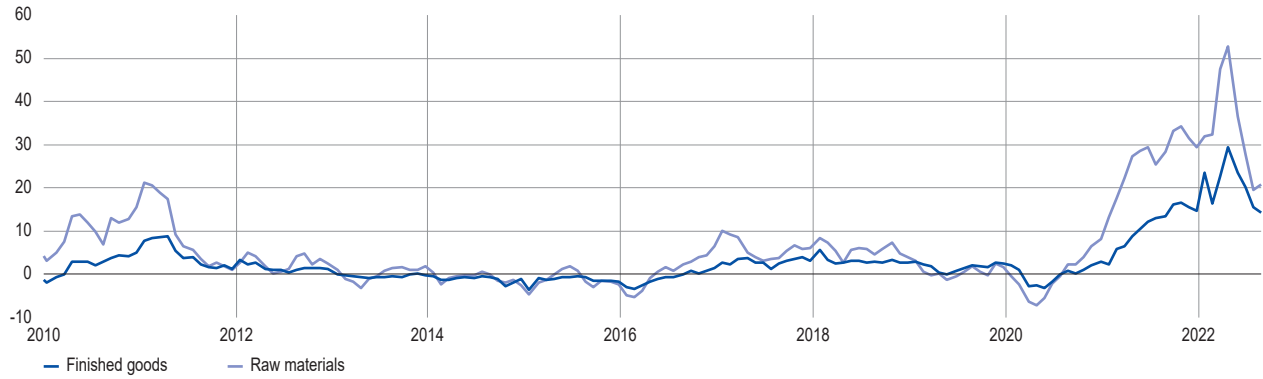
(%, unadjusted data)



According to the business leaders surveyed, the easing of supply difficulties was accompanied by a further deceleration in the increase in finished goods prices, although they remained at a high level.

### Opinion on price developments compared with the previous month – Manufacturing industry

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

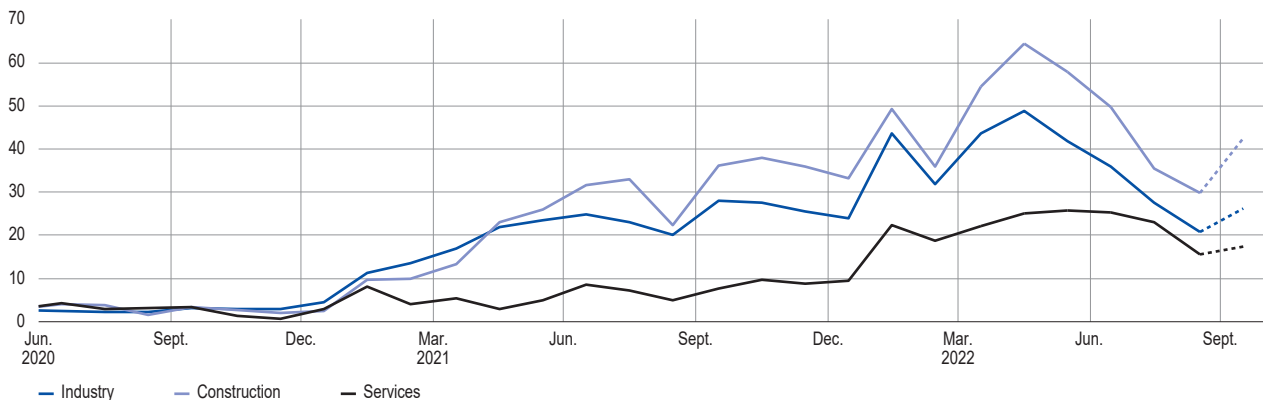


Business leaders expected their finished goods prices to continue to rise in August, albeit at a slower pace for the fourth month in a row. Their opinion on raw material price developments was almost unchanged compared to July, and remained at a high level.

21% of business leaders in the manufacturing industry reported they had raised their selling prices in August. This share is particularly high in the agri-food, chemicals and pharmaceutical industries. It stood at 30% for construction companies, and 15% for market services. The outlook for September suggests a rebound in the share of price increases in industry (26%) and services (17%), and especially in construction (43%). This increase in September may partly reflect a seasonal effect, as there are generally fewer price increases in August.

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

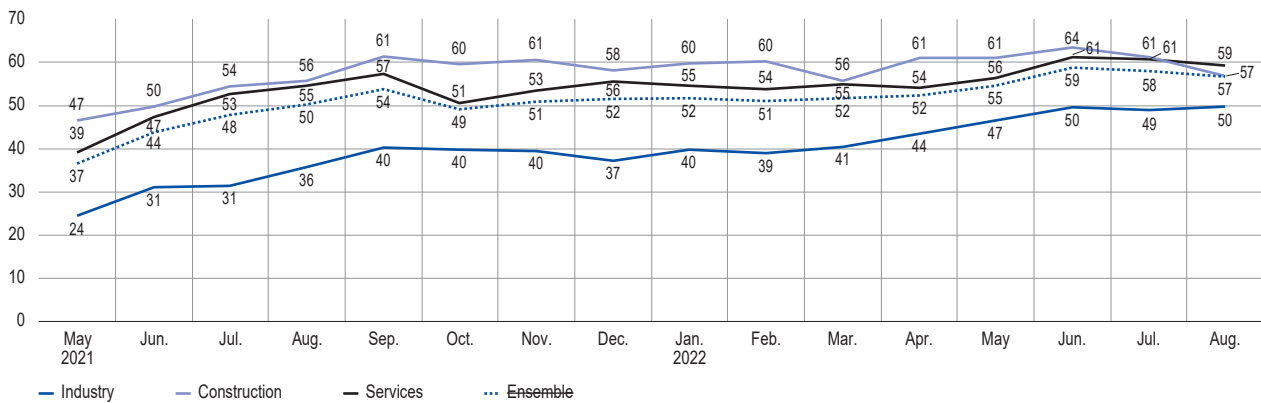
(%, unadjusted data; for September: forecast)



Business leaders were also asked about their **recruitment difficulties**. The latter decreased slightly last month to 57% across all sectors. These difficulties worsened again slightly in industry, to 50%, while they eased in construction (57%, after 61%).

### Share of businesses reporting recruitment difficulties

(%, unadjusted data)



#### 4. Estimates derived mainly from the survey, supplemented by other indicators, suggest that the level of GDP in August was higher than that of July, and that it would continue to rise in September

For August, using granular survey data and other available data, we estimate that GDP should increase quite significantly compared to July. This can be explained by positive trends in both industry and, even more so, in services. Conversely, the construction sector showed a further decline in August, after those observed in June and July.

This assessment is also based on the high-frequency data that we monitor in parallel for sectors not covered, or partially, by the survey (notably construction, trade and transportation), and to confirm our analysis of those industries and services that are covered. In particular, road traffic data combined with credit card data provide information on the transport sector, which remained buoyant in August. Credit card spending provides an indication for the retail sector, which also showed an upturn in August compared to July.

## French GDP monthly level

(percentage deviation from fourth quarter of 2021)

Activity sector	VA share	June	July	August
<b>Agriculture and industry</b>	<b>15</b>	<b>0.5</b>	<b>0.0</b>	<b>0.4</b>
Agriculture and agri-food industry	4	-0.2	0.3	0.3
Energy, water, waste, coking and refining	3	-7.3	-7.0	-5.8
Manufacturing industry excluding food, coking and refining	9	3.1	2.0	2.2
<b>Construction</b>	<b>6</b>	<b>-2.4</b>	<b>-3.1</b>	<b>-3.3</b>
<b>Market services</b>	<b>57</b>	<b>1.1</b>	<b>1.2</b>	<b>1.6</b>
Wholesale and retail trade, transportation, accommodation and food services	18	1.8	1.9	2.5
Financial and real-estate services	17	0.6	0.6	0.6
Other market services	22	0.9	1.2	1.6
<b>Non-market services</b>	<b>22</b>	<b>-0.4</b>	<b>-0.7</b>	<b>-0.7</b>
<b>Total</b>	<b>100</b>	<b>0.5</b>	<b>0.4</b>	<b>0.6</b>

In September, business leaders expect activity to improve somewhat compared with August, albeit to differing degrees across sectors.

In a still highly uncertain environment, marked by the impact of the war in Ukraine, GDP growth for the third quarter of 2022 is expected to be up by around 0.3% on the previous quarter.