

## Update on business conditions in France at end-February 2021

February was marked by the continuation of the curfew, set at 6 pm, and by the implementation from 26 February of additional measures in the Alpes-Maritimes department and in the agglomeration of Dunkerque. In this context, activity improved slightly in industry, services, in particular business services, and construction, according to our Monthly Business Survey (MBS), which was conducted between 24 February and 3 March among 8,500 companies or establishments. Overall, we estimate the loss of GDP compared with pre-crisis levels at 5% in February.

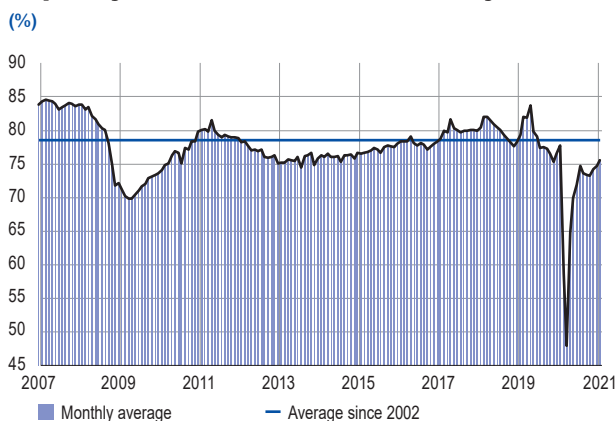
For March, business leaders expect activity to increase slightly in industry and construction and to remain stable in services. The loss of GDP compared with pre-crisis levels should remain close to 5%. For the first quarter as a whole, we expect a slightly positive GDP growth compared with the previous quarter. The annual carry-over for 2021 at the end of the first quarter should be close to 4%.

### 1. In February, activity increased slightly in industry, business services and construction

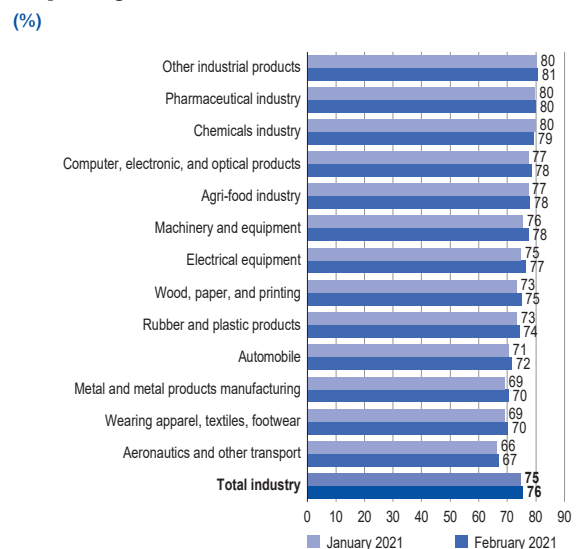
In **industry**, activity increased slightly in February. The capacity utilisation rate rose by more than one percentage point to an average of 76% in February (it was 79% before the crisis). Most sectors showed a slight increase in the capacity utilisation rate. The machinery and equipment sector recorded a marked rise (from 76% to 78%), as did the electrical equipment sector (from 75% to 77%). The capacity utilisation rate remained particularly low in the aeronautics and other transport sector (67%).

The automobile sector, and especially the aeronautics and other transport sectors, continued to record activity levels well below those of the pre-crisis period, while some sectors, such as the chemicals industry or other industrial products, were operating close to normal on average.

#### Capacity utilisation rate in industry



#### Capacity utilisation rate



For the second month in a row, business leaders in industry point to rising commodity prices, especially in capital goods and other industrial products, and indicate a slight increase in final goods prices in February.

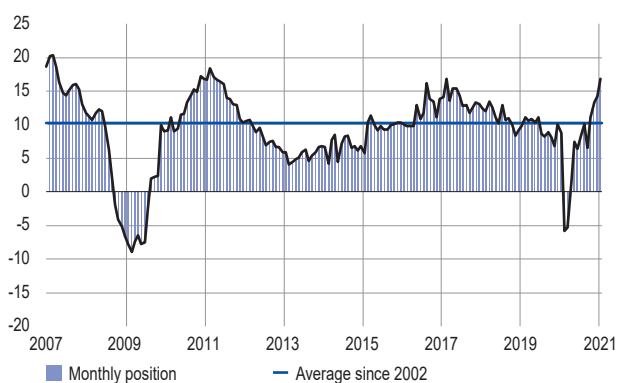
The **services sector showed a very slight improvement overall, while business leaders were expecting a decrease last month. There remains considerable disparities across sectors**: while activity remained at a low level in accommodation and food services, it returned to normal or close to it in publishing and business services, such as legal and accounting activities and management consultancy. Temporary employment also fared well. Equipment and car rental recorded a decline, while personal services activity (in particular hairdressing salons) fell for the second month in a row, on account of the health restrictions.

In **construction**, activity picked up slightly in February and was close to its pre-crisis level.

In industry, the balance of opinion on **cash positions** continued to improve in February and was clearly above its long-term average. In services, it remained well below its pre-crisis level.

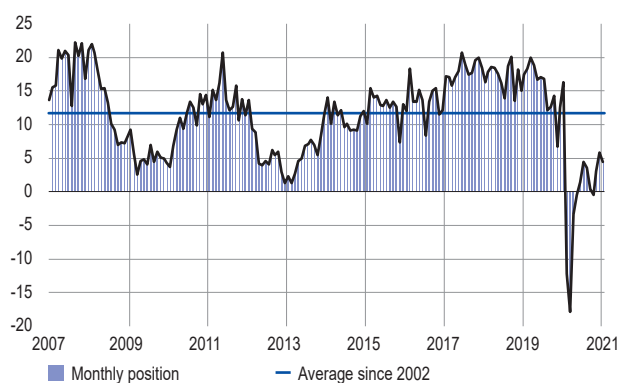
### Cash position in industry

(balance of opinion)



### Cash position in market services

(balance of opinion)



## 2. In March, business leaders expect activity to improve slightly in industry and construction and to remain stable in services

In March, in a context marked by strong uncertainty surrounding the evolution of the health measures, activity should improve slightly in **industry**. The chemicals industry, electrical equipment and rubber and plastic products should fare the best.

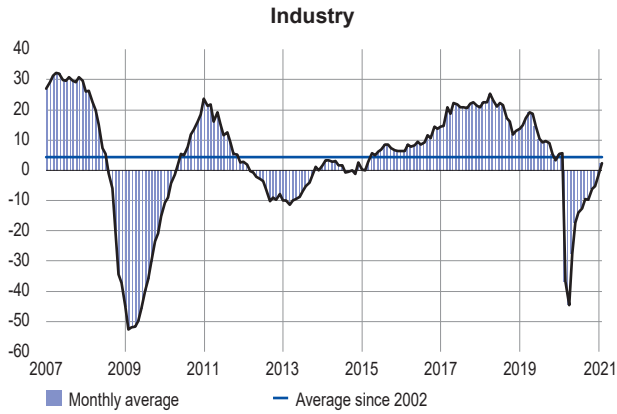
In **services**, business leaders expect activity to remain relatively stable in most sectors, with accommodation and food services remaining at very low levels.

Business leaders in the **construction** sector expect their activity to pick up slightly.

The balance of opinion on order books improved in industry in February and turned positive again, for the first time since the beginning of the crisis, while at the same time inventories were considered normal. The balance of opinion on order books also improved in construction, to a level that is admittedly lower than before the crisis but slightly above its long-term average.

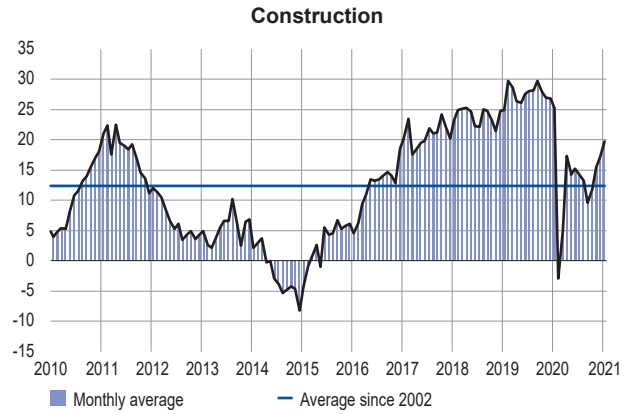
### Level of order books

(balance of opinion)



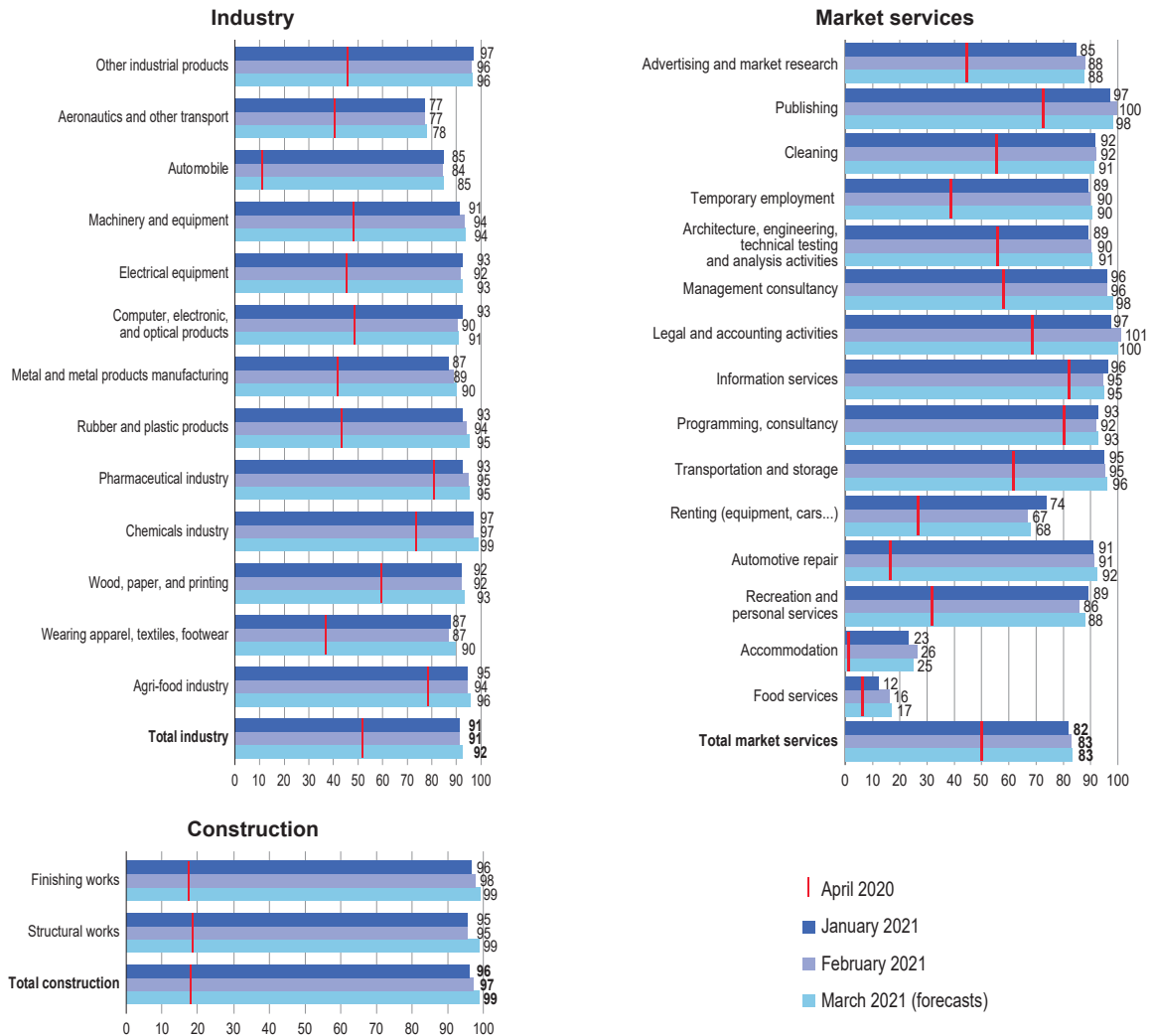
### Level of order books

(balance of opinion)



### Business leaders' opinion regarding their level of activity and forecasts for March

(as a % of the level deemed "normal")



## An indicator of uncertainty

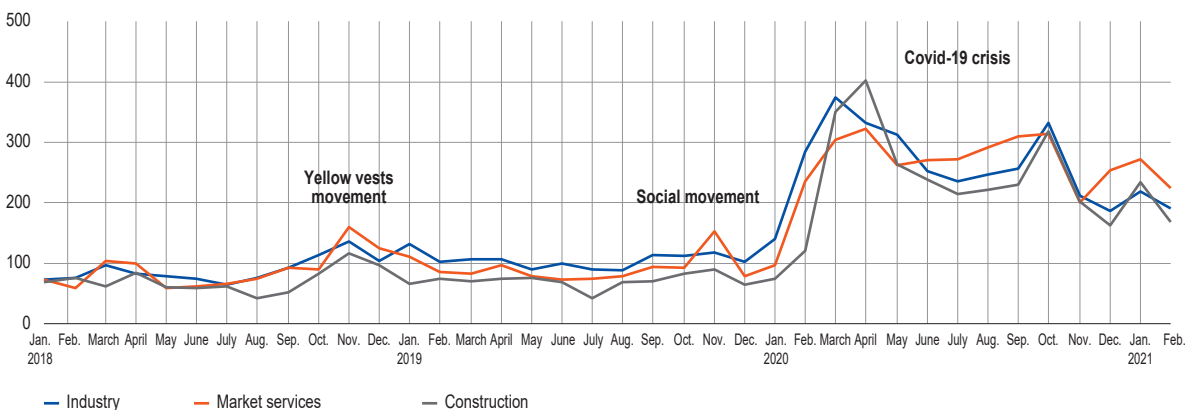
In the monthly business survey, in addition to the answers to the questions asked, the business leaders surveyed have the opportunity of making comments on their activity and that of their sector. By conducting a textual analysis of terms/expressions related to uncertainty (e.g. uncertain, concerned, undecided, etc.), it is possible to construct a metric that evolves over time.

This indicator is used to compare events that may have affected the sentiment of business leaders (yellow vests movement, social movement against pension reform, pandemic). Its benchmark value is set at 100 and corresponds to the value around which uncertainty fluctuates in normal periods, i.e. without any major events affecting the economic situation.

Three observations can be drawn from the analysis of the indicator over the past three years:

- the Covid-19 crisis corresponds to an exceptional situation, both in terms of its scale (with an indicator almost 3 times higher than what was measured at the start of the 2018 yellow vests movement), and its duration;
- the uncertainty felt by business leaders is clearly correlated with the episodes of lockdown;
- After the peak measured during the first lockdown, uncertainty followed a rather downward trend with variations linked to announced and/or expected restrictions (for example, fear of a third lockdown in January). However, uncertainty was higher in market services than in industry and construction.

## Comments-based indicator of uncertainty



### 3. Estimates from the survey results by sector point to a slight GDP growth in the first quarter compared to the previous quarter, with a loss of GDP at around 5%

In our last update on business conditions published on 9 February, we estimated the loss of GDP at around 5% for January and February.

#### The use of the survey results by sector confirms the estimated loss of GDP at around 5% for February

February was characterised by the continuation of the national curfew at 6pm, the closure of non-food shops of more than 20,000m<sup>2</sup> and the closure of the external borders to Europe. In addition, health measures were locally reinforced at the very end of the month in areas affected by the resurgence of the pandemic.

Despite this slight tightening of health restrictions, firms' assessment of their activity level for February points to a quasi-stability compared to January, at a level still below normal. The balances of opinion provide a useful complement to this assessment, with developments that are occasionally more positive in industry and more contrasted in services.

The use of survey results at the finest possible level of disaggregation leads us to confirm the estimated loss of GDP at 5% for February, which is relatively unchanged compared to January. Activity in those sectors not directly exposed to the health restrictions was close to normal and stable overall (industry except transport equipment, information-communication, business services for example). Conversely, the sectors more directly affected, such as transport equipment, transport services, accommodation and food services, and household services, continued to record a high level of loss or even a slight deterioration in their activity.

This assessment is corroborated by the high-frequency data that we monitor for additional information. Indeed, the Google Mobility indicators (mobility to and from the place of residence, shopping and recreation) and bank card transactions remained stable overall in January and February, while the indicators for road traffic, electricity consumption and noise in the Île-de-France region seemed to show a slight improvement.

#### Impact of the Covid-19 crisis on value added by sector

(%)

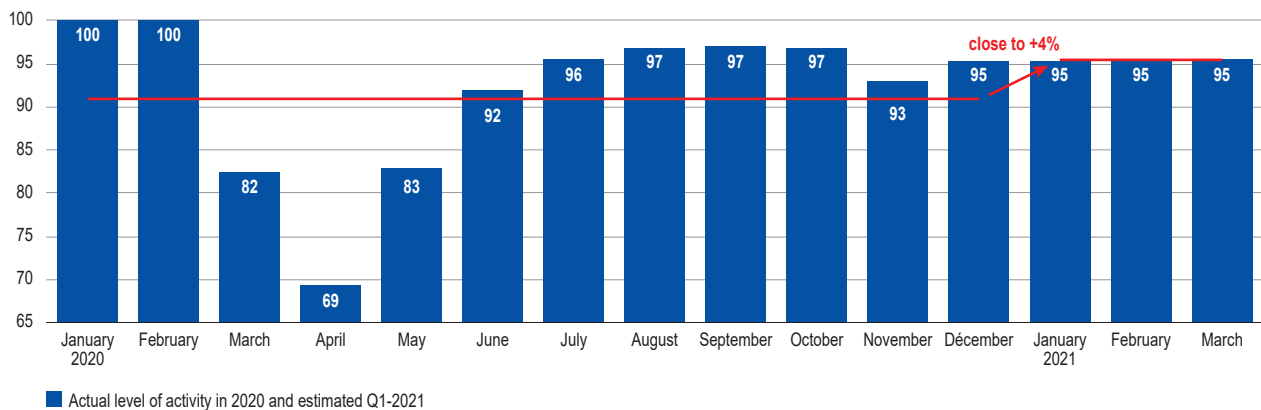
Activity sector	VA share	January	February
<b>Agriculture and industry</b>	<b>15</b>	<b>-4</b>	<b>-4</b>
Agriculture and agri-food industry	4	-3	-3
Energy, water, waste, coking and refining	3	-3	-2
Manufacturing industry excluding food, coking and refining	9	-5	-5
<b>Construction</b>	<b>6</b>	<b>-8</b>	<b>-8</b>
<b>Market services</b>	<b>57</b>	<b>-6</b>	<b>-7</b>
Wholesale and retail trade, transport, accommodation and food services	18	-13	-14
Financial and real estate services	17	0	0
Other market services	22	-6	-6
<b>Non-market services</b>	<b>22</b>	<b>1</b>	<b>1</b>
<b>Total</b>	<b>100</b>	<b>-5</b>	<b>-5</b>

**The forecast for activity in March remains surrounded by a large degree of uncertainty due to the evolution of the health situation** (deployment of the vaccination campaign, progression of variants). Indeed, some departments are under close watch, with the possibility of reinforcing local health measures.

Firms' expectations reflect a wait-and-see attitude in the face of this high degree of uncertainty, showing for the time being a very slight improvement in prospects in March. Based on this information, together with assumptions on those sectors not covered by the survey, we estimate that the loss of GDP in March should remain close to 5%. According to these estimates, we expect a slightly positive GDP growth in the first quarter compared to the previous quarter. The annual carry-over at the end of the first quarter (i.e. growth in 2021 compared to 2020 assuming that the level of GDP remains unchanged in the other three quarters of 2021) should be close to 4%.

### Level of activity

(as a % of the level deemed "normal")



Note: The first red line is the average level of GDP in 2020 (2019 = 100).