The French economy returned to its pre-crisis level in the third quarter, which was much earlier than expected. According to the Banque de France’s business survey, conducted between 27 October and 4 November among 8,500 companies or establishments, activity was stable overall in industry and construction, and continued to improve in market services. In November, business leaders expect activity to strengthen in industry, services and construction.

According to our estimate, GDP should exceed its pre-crisis level by about half a percentage point in October and by ¾ of a percentage point in November. Quarter-on-quarter GDP growth is expected to be around 0.75% in Q4 2021. Growth should be driven by the market services sector, whose value added has exceeded its pre-crisis level since September. On the other hand, activity in the manufacturing industry would remain below its pre-crisis level, mainly due to the automotive sector, penalised by supply difficulties, and to a lesser extent to the aeronautical industry. Within services, food services continued to recover strongly, and accommodation, automotive repair, leisure activities and business services also improved.

After worsening steadily in previous months, recruitment difficulties eased somewhat in October, particularly in services, but still affect almost half of all businesses (49%, after 54% in September). Supply difficulties were slightly less severe than in the previous month in construction (58% of firms, after 62% in September) but continued to be stable in industry (56% of firms, as in September). However, they had the greatest impact on the automotive sector, while activity in the other industrial sectors and the construction sector remained strong.

These supply difficulties, together with the rise in raw material prices, contributed to an increase in sales prices in industry and construction, while service companies did not report any significant upward price adjustments. Recruitment difficulties do not seem to have an impact on price setting (see box).
1. In October, activity was almost stable in industry and construction but increased in services

In **industry**, the overall capacity utilisation rate stood at 76% in October, after 77% in September; but remained close to its pre-crisis level of 78% in February 2020. This rate fell slightly in the automotive industry, after the sharp drop recorded the previous month (54% in October, after 56% in September and 70% in August). There was little change in other industrial sectors.

The change in the balances of opinion on production confirmed this further deterioration in the automotive industry, but indicated a stability of activity in industry as a whole.

Activity returned to its pre-crisis level in several industrial sectors (wood, paper and printing, agri-food, chemical and pharmaceutical industries, in particular) but remained weak in the transport sectors (71% and 83% respectively of the pre-crisis level in the automotive sector and in the aeronautics and other transport sector).

In **market services**, activity continued to strengthen almost across the board in October. The improvement was significant in food services and accommodation, business services, automotive repair, and leisure activities, the arts and entertainment. In contrast, activity in other personal services (hairdressers, home services, etc.) contracted after improving greatly the previous month.

In the **construction** sector, there was little change in activity in October in both the structural and finishing work sectors.

Opinion balances on the **cash position** remain high in both industry and services. In the food service sector, the recovery was very substantial and the balance of opinion returned to normal.
2. In November, activity picked up in industry, services and construction

In **industry**, the outlook for activity is tilted to the upside in all sectors. The chemical, pharmaceutical and electrical equipment industries are expected to see the strongest growth. Activity in the automotive industry is expected to recover after two months of sharp decline.

In **services**, activity should also improve in November across the board. Food services should continue to grow strongly. The improvement is expected to be very significant in the temporary work sector as well.

In the **construction** sector, activity is expected to increase slightly in the structural work sector and more substantially in the finishing work sector.

The opinion on the order books weakened somewhat in industry but strengthened slightly in construction. In both cases, it is well above its long-term average.
Supply and recruitment difficulties and price developments

Like in previous months, business leaders were asked about their supply difficulties. In October, the share of business leaders who consider that these difficulties have affected their activity was 56% for industry and 58% for construction (after 56% and 62% respectively in September).

Share of businesses reporting supply difficulties
(%, unadjusted data)

In industry, the automotive, machinery and equipment and electrical equipment sectors continued to be the worst affected by these difficulties. Supply difficulties eased in some sectors, notably in the chemicals sector and in the wood, paper and printing industry.

Share of firms reporting supply difficulties – Industry, October 2021
(%, unadjusted data)
Like last month, the impact of supply difficulties on activity appears to vary from one sector to another. Thus, the automotive sector showed a further deterioration in its activity, while activity in other industries and the construction sector held up better.

In this context, raw material inventories, and to a lesser extent finished goods inventories, remained at very low levels. In the automotive industry, the contrast persisted between manufacturers who considered their finished goods inventories to be at very low levels and suppliers who considered them to be close to normal (orders to suppliers from manufacturers were disrupted by shortages of certain electronic components).

**Balance of opinion on the level of inventories compared to normal – Manufacturing industry**

(Balance of opinions adjusted for seasonal and working-day variations)

According to business leaders, these supply difficulties were compounded by further increases in the prices of raw materials and finished goods. However, like in previous months, the balance of opinion shows a smaller increase in selling prices than in raw material prices. The latter are not the only determinant of companies’ selling prices, which depend on their overall cost structure (inputs excluding raw materials, wages, rents, taxes, etc.) and margin behaviour: in some sectors, companies have been able to lower their margins in order to cushion the rise in selling prices, but this effect could diminish as supply difficulties continue.

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

(Balance of opinions adjusted for seasonal and working-day variations)
Business leaders were also asked about their recruitment difficulties. They eased in October, but still affected almost half of the companies (49%, after 54% in September). These difficulties decreased in services, and to a lesser extent in construction, but persisted in industry.

**Share of businesses reporting recruitment difficulties**

(\%, unadjusted data)

![Chart showing share of businesses reporting recruitment difficulties by sector and month.]

Supply difficulties and higher raw material prices are contributing to the recovery of selling prices in the sectors most affected by these difficulties.

As part of the monthly business survey, business leaders are asked whether their selling prices have increased or decreased over the past month and what they expect to see in the coming month. In addition to the aggregate trends, it is possible, based on the individual responses, to measure at the detailed sectoral level the share of firms that reported a rise or fall in prices, and to link these trends to the difficulties reported by the firms in this survey with regard to their supplies or the rising cost of their raw materials.

Since the beginning of 2021, selling price increases have been more frequent than usual at the aggregate level according to the business leaders surveyed. In October 2021, almost 25% of business leaders reported that they had increased their selling prices, compared with just 5% in September 2019; at the same time, the share of firms that had cut their prices has fallen since the beginning of the year and is now below 3%. Moreover, since the beginning of the year, the share of business leaders reporting an increase in their prices was almost invariably higher than they had expected a month earlier, which in their view points to upward surprises in selling prices.
Price increases were more frequent in industry and construction than in services. In these two major sectors, the share of business leaders who raised their prices stood at almost 35% in October 2021, compared to an average of less than 10% between 2019 and 2020. In services, the increase in the frequency of price increases was less pronounced, although price increases have been more frequent since May 2021, compared with 2019 or 2020 during the pandemic.

Note: Unweighted, unadjusted data.
In industry, these more frequent price increases can be explained at least in part by higher raw material costs. The industry sub-sectors where the frequency of raw material price increases was higher were also those where the share of firms reporting price increases was greater. In the industry sub-sectors in which almost all firms reported an increase in the price of their raw materials, 40% of them expected an increase in their selling price; in contrast, less than 10% of firms in the sub-sectors in which firms more rarely reported an increase in the price of raw materials expected an increase their selling price.

**Share of business leaders expecting an increase in their selling prices and share of business leaders reporting an increase in the price of raw materials, at the detailed sector level**

(%, x-axis: share of firms reporting an increase in raw material prices; y-axis: share of firms expecting an increase in their selling prices)

Supply difficulties are another factor correlated with a higher frequency of selling price increases since the beginning of the year. At the detailed sector level, the sectors where supply difficulties were the greatest were also those where price rises were the most frequent. This was particularly the case in the manufacture of electrical equipment, machinery and equipment, computer, electronic and optical products, automotive equipment and in construction. In these sectors, the share of companies reporting supply difficulties was over 60%, while the share of companies expecting a price increase was over 25%. This correlation between the frequency of price increases and supply difficulties was particularly marked for SMEs and VSEs, and was much weaker in services. The link between the frequency of price increases and firms’ recruitment difficulties was much more tenuous.
Share of business leaders expecting an increase in their selling prices and share of business leaders reporting supply difficulties, at the detailed sector level. 

(%, x-axis: share of firms reporting supply difficulties; y-axis: share of firms expecting an increase in their selling prices)

Source: Monthly Business Survey (MBS), May 2021 - October 2021.
Note: Unweighted figures, unadjusted data, all sectors (industry, services, construction), shares calculated at the detailed sector level (level 4 of the French classification of activities) and by month between May 2021 and October 2021. Each point in the chart corresponds to a group of detailed sectors that are close in terms of the share of firms reporting supply difficulties on a given date.

Share of business leaders expecting an increase in their selling prices and share of business leaders reporting recruitment difficulties, at the detailed sector level. 

(%, x-axis: share of firms reporting recruitment difficulties; y-axis: share of firms expecting an increase in their selling prices)

Source: Monthly Business Survey (MBS), May 2021 - October 2021.
Note: Unweighted figures, unadjusted data, all sectors (industry, services, construction), shares calculated at the detailed sector level (level 4 of the French classification of activities) and by month between May 2021 and October 2021. Each point in the chart corresponds to a group of detailed sectors that are close in terms of the share of firms reporting recruitment difficulties on a given date.
3. The survey results by sector suggest that GDP is above the pre-crisis level and will continue to grow by around \( \frac{1}{4} \) percentage point in October and again in November, with a quarterly growth rate of GDP in Q4 estimated at around 0.75%.

In our previous business update published on 11 October 2021, we estimated **quarterly GDP growth in Q3 2021** at around 2.3%. It stood at 3% according to the preliminary estimate of the quarterly national accounts published by INSEE on 29 October 2021. This implied a slightly upward revision of our estimate of monthly GDP levels for Q3 with, in particular, a now positive difference of almost \( \frac{1}{4} \) of a percentage point compared to the pre-crisis level as of September.

**For October, by incorporating quarterly accounts and using granular survey data as well as other available data, we estimate the GDP level at half a percentage point above its pre-crisis level.** Although activity in industry and construction declined slightly this month and remained significantly below its pre-crisis levels, activity in services continued to grow and is now about 1 percentage point above its pre-crisis level.

**This assessment uses the high-frequency data that we also monitor additionally for sectors not covered by the survey, and to confirm our assessment on industry and retail trade.** In particular, credit card spending provides useful insights for the retail sector, which grew strongly in October. More general data from Google Mobility and on road traffic provide information on the transport sector, which firmed slightly in October.

### Value added by sector
*(percentage deviation from the pre-crisis level)*

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture and industry</td>
<td>15.3</td>
<td>-2</td>
<td>-2</td>
<td>-3</td>
<td>-3</td>
</tr>
<tr>
<td>Agriculture and agri-food industry</td>
<td>3.8</td>
<td>1</td>
<td>-1</td>
<td>-1</td>
<td>0</td>
</tr>
<tr>
<td>Energy, water, waste, coking and refining</td>
<td>2.6</td>
<td>6</td>
<td>8</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>Manufacturing industry excluding food, coking and refining</td>
<td>8.9</td>
<td>-6</td>
<td>-4</td>
<td>-6</td>
<td>-7</td>
</tr>
<tr>
<td>Construction</td>
<td>5.8</td>
<td>-2</td>
<td>-4</td>
<td>-2</td>
<td>-2</td>
</tr>
<tr>
<td>Market services</td>
<td>57.0</td>
<td>-1</td>
<td>0</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Wholesale and retail trade, transport, accommodation and food services</td>
<td>17.7</td>
<td>-6</td>
<td>-5</td>
<td>-5</td>
<td>-3</td>
</tr>
<tr>
<td>Financial and real-estate services</td>
<td>16.9</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Other market services</td>
<td>22.4</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Non-market services</td>
<td>21.9</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
<td>-½</td>
<td>0</td>
<td>¼</td>
<td>½</td>
</tr>
</tbody>
</table>

**Business leaders expect activity to continue to improve in November.** Based on the information from the survey, combined with assumptions regarding the sectors partially or not covered by the survey, we estimate that GDP in November should be about **three-quarters of a percentage point above its pre-crisis level**, with an improvement expected in most sectors.

**GDP growth for the fourth quarter of 2021 as at end-November is expected to be around 0.75%.**