

## Update on business conditions in France at the start of December 2021

The Banque de France business survey was conducted among 8,500 companies or establishments between 26 November and 3 December, i.e. after the emergence of a fifth wave of the pandemic in France and the first cases of the Omicron variant in Europe. According to the companies surveyed, activity increased in November in industry and the market services covered by the survey, and to a lesser extent in construction. In industry, production was up in most sectors. Within services, a considerable improvement was seen in temporary work, accommodation-food services and car and equipment rentals.

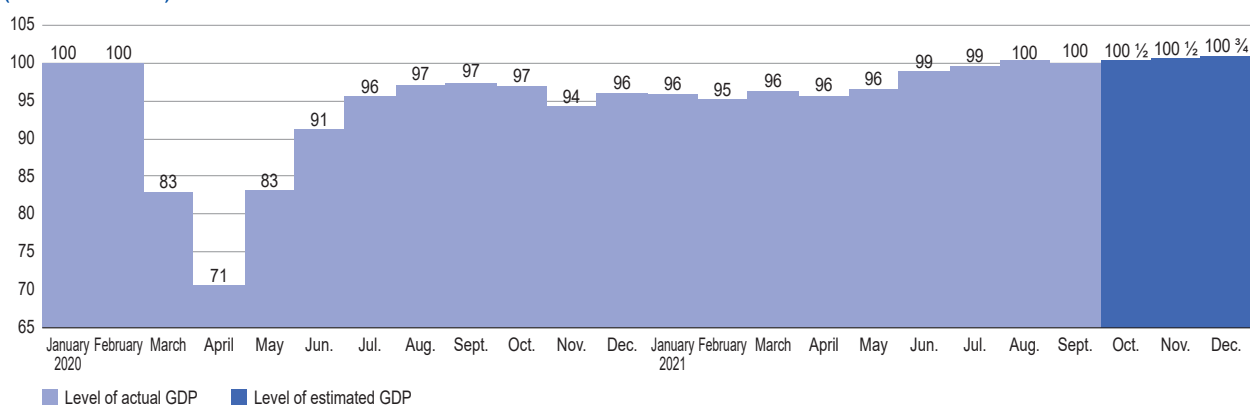
Recruitment difficulties increased slightly in November, after falling in October, and concerned about half of companies (51%, after 49% in October and 54% in September). Supply problems remained at a high level in industry (57% of companies, after 56% in October) and construction (56% of companies, after 58% in October). These difficulties continued to put upward pressure on production prices in these two sectors. That said, their impact on activity was still mostly felt in the automotive sector.

For December, despite the health situation, the companies surveyed expect further activity growth in industry and services and virtually no change in construction. However, they said it was difficult to make short-term predictions due to uncertainties around the evolution of the epidemic, particularly in the aeronautics sector, accommodation-food services, and leisure and personal services.

After returning to its pre-crisis level during the third quarter, we estimate that GDP will exceed this level by half a percentage point in November and by three-quarters of a percentage point in December. GDP growth is expected slightly below +3/4% in the fourth quarter of 2021 compared to the previous quarter.

### Level of GDP

(% of normal level)



## 1. In November, activity increased in industry and services and more moderately in construction

As anticipated by business leaders last month, activity improved on the whole in November.

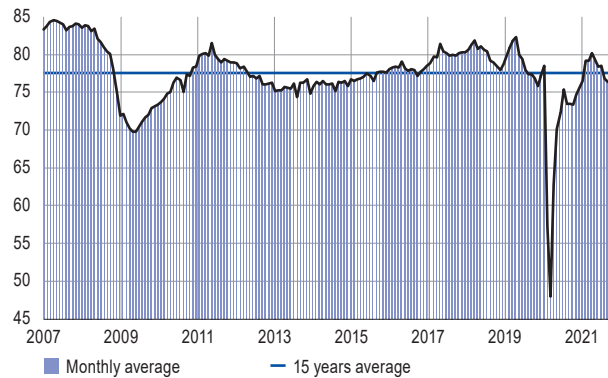
Across **industry**, the capacity utilisation rate was 77% in November, after 76% in October, and remains close to its pre-crisis level (78% in February 2020). The rate is down in the electrical equipment sector (76% in November, after 78% in October), but showed an improvement in the automotive sector, although still at a very low level (59%, after 56%). Car manufacturers reported a slight improvement in semiconductor supplies in November.

For most sectors, capacity utilisation rates are now slightly higher than their long-term average (in particular the chemicals industry at +3 points, the agri-food industry at +2 points, and wood, paper and printing at +4 points). Only the aeronautics and other transport sector and the automotive sector still show very low rates (-12 points each compared to their historical average).

The balances of opinion on production indicate an increase in activity in most sectors of industry.

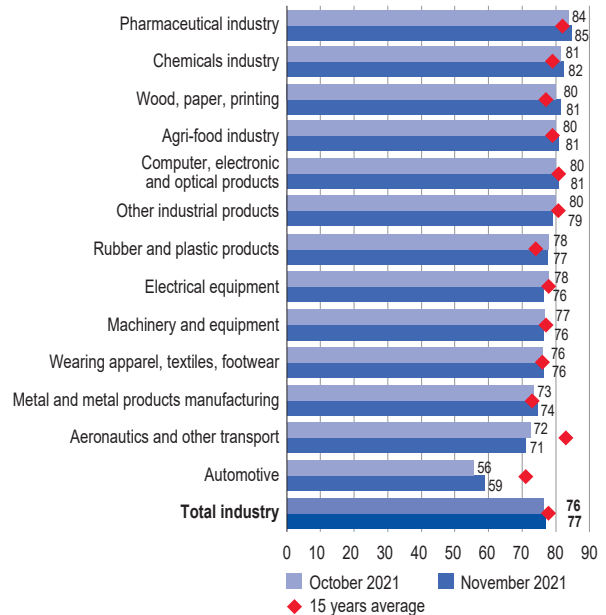
### Capacity utilisation rate in industry

(%, data adjusted for seasonal and working-day variations)



### Capacity utilisation rate by sub-sector

(%, data adjusted for seasonal and working-day variations)



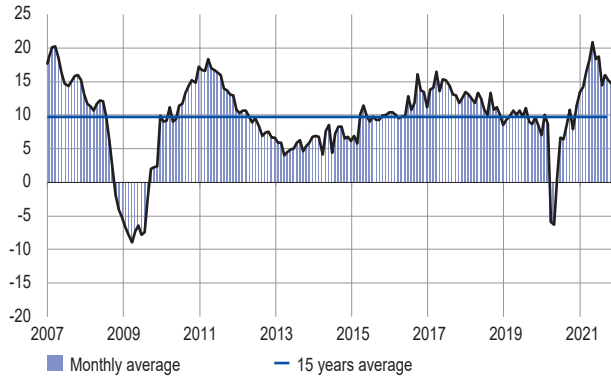
In **market services**, activity grew again in November, in most sectors. Activity continued to recover in accommodation and food services. There was also a significant improvement in the temporary work and car and equipment rental sectors.

In the **construction** sector, activity increased slightly, both in structural and finishing works.

The balances of opinion on the **cash** position are above their long-term average and show an improvement in November concerning industry.

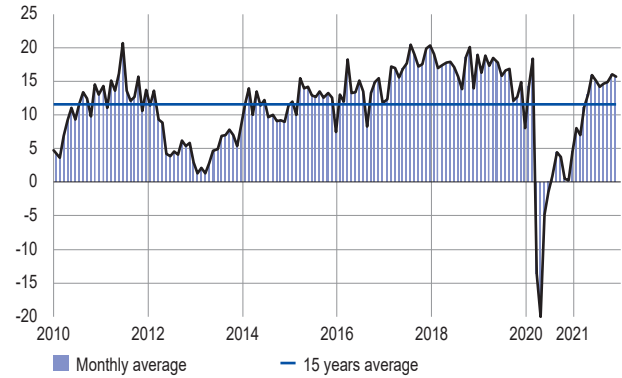
## Cash position in industry

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



## Cash position in market services

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



## 2. In December, activity growth is likely to continue, but will be dependent on changes in the health situation

In **industry**, production is expected to increase in most sectors, notably the chemicals and pharmaceutical industries, the manufacturing of rubber and plastic products, and electrical equipment. In particular, activity in the automotive industry, which had fallen sharply in recent months, is expected to recover significantly.

In **services**, activity is expected to remain on an upward trend overall. There was also a significant improvement in the temporary work and car and equipment rental sectors. However, the recovery in accommodation and food services should come to a halt.

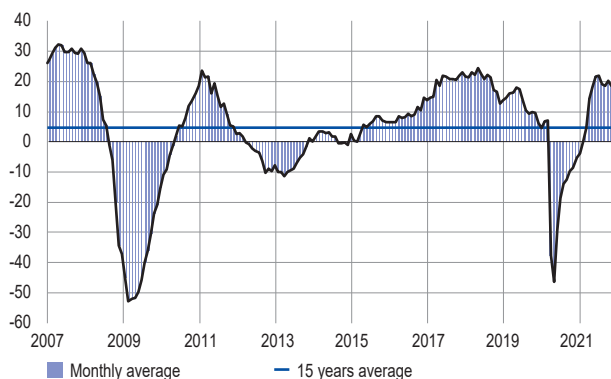
In the **construction** sector, activity increased slightly, both in structural and finishing works.

However, during the telephone interviews conducted with business leaders throughout the country, they indicated it was difficult to make short-term predictions due to the health situation and fears related to the fifth wave, particularly in sectors that were most affected during the previous waves (aeronautics, accommodation, food services, leisure and personal services).

The opinion on **order books** remains at a high level in industry and construction.

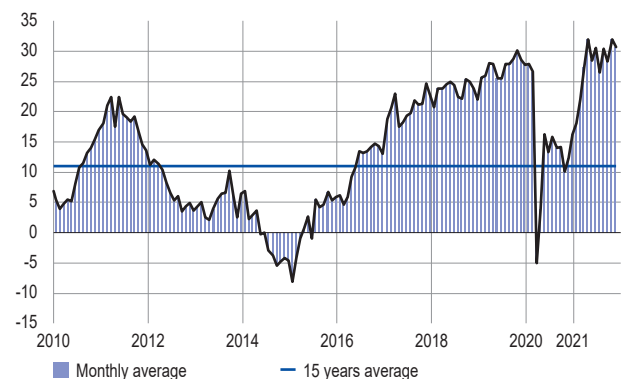
## Level of order books in industry

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



## Level of order books in construction

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

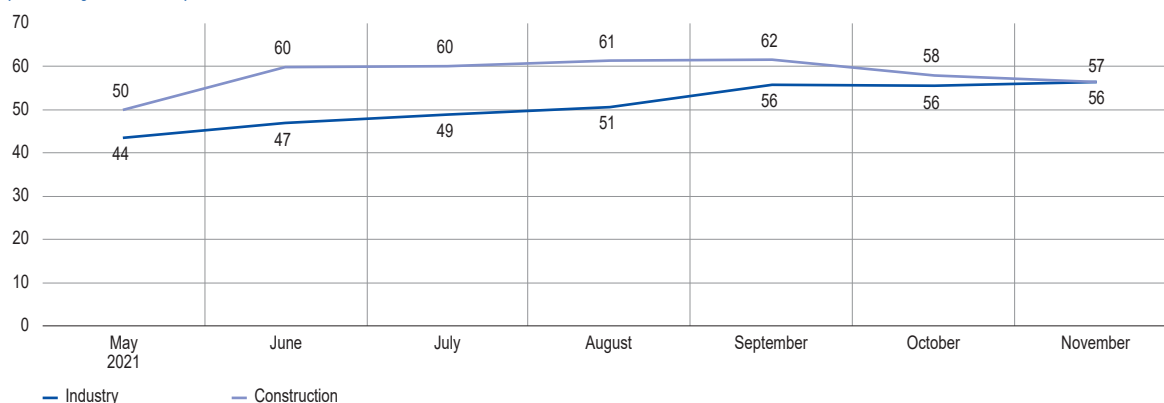


## Supply and recruitment difficulties and price developments

As in previous months, business leaders were asked about their **supply difficulties**. In November, the share of business leaders reporting difficulties that have had an impact on activity remained high in industry (57%, after 56% in October) and fell somewhat in construction (56%, after 58% in October).

### Share of businesses reporting supply difficulties

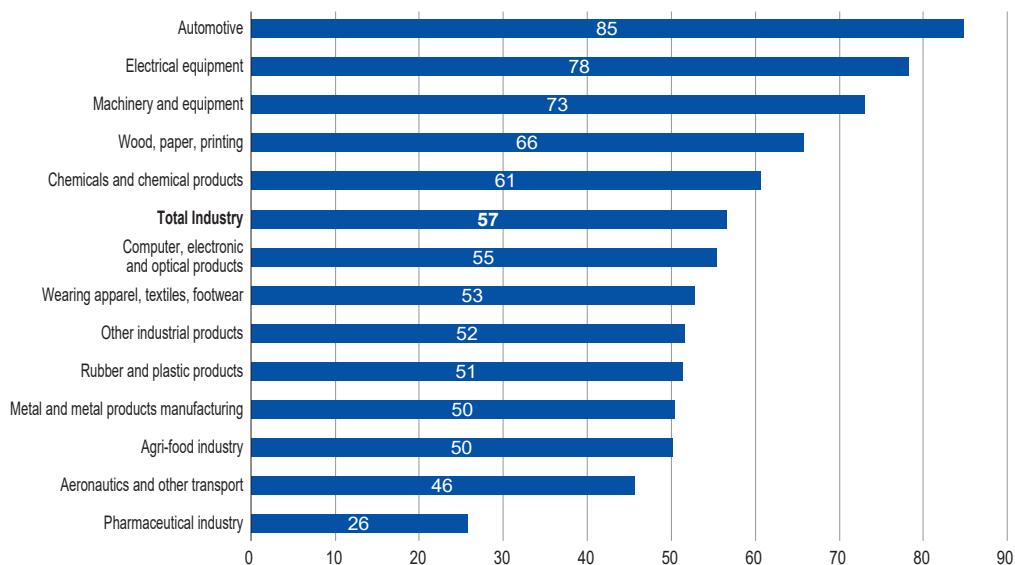
(%, unadjusted data)



In industry, as before, the sectors most affected were automotive, electrical equipment manufacturing, machinery and equipment manufacturing, and the wood, paper and printing sector. The difficulties eased in the aeronautics sector (46%, after 50% in October), but increased in the agri-food industry (50%, after 44% in October) and in the wood, paper and printing industry (66%, after 59% in October).

### Share of firms reporting supply difficulties – Industry, November 2021

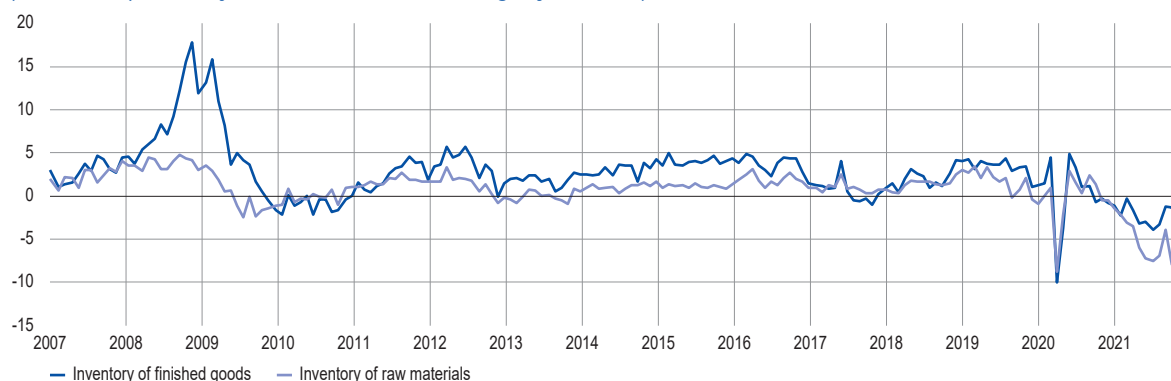
(%, unadjusted data)



In this context, inventories of raw materials, and to a lesser extent inventories of finished products, remain at low levels.

### 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 the business leaders surveyed, these supply difficulties were again accompanied by increases in raw material and finished product prices, similar to those of October. As in previous months, the balances of opinion suggest a more moderate 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 to cushion the rise in selling prices, although 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)

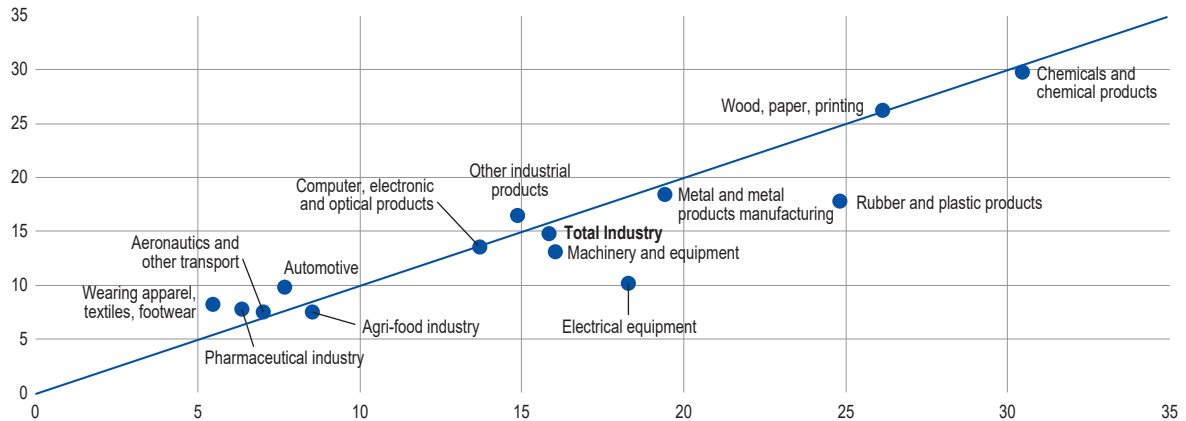


The increase in selling prices in industry indicated by business leaders over the last number of months is driven in particular by the chemicals industry and the wood, paper and printing sector; this increase is much more moderate in the wearing apparel, textiles and footwear sector, the aeronautics sector, and the agri-food and pharmaceutical industries.

The slight decline in the balance of opinion in November was mainly due to the electrical equipment and rubber and plastic products manufacturing sectors, the prices of which increased less sharply this month.

### Balance of opinion on price developments compared with the previous month (October 2021 vs November 2021) – Manufacturing industry, by sector

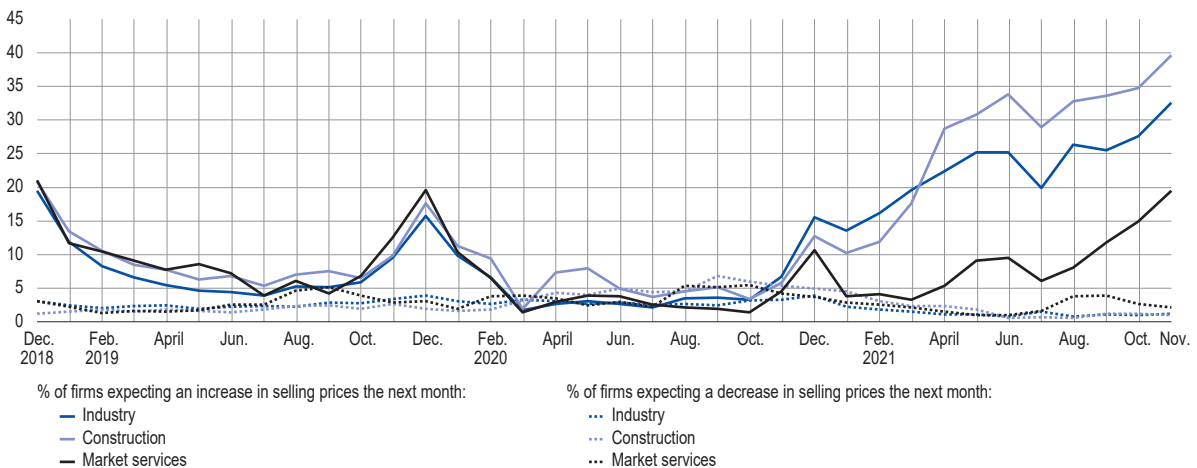
(x-axis: balance of opinions in October ; y-axis: balance of opinions in November)



In addition, in industry as well as services and construction, more business leaders anticipate a price increase in December than they did for November.

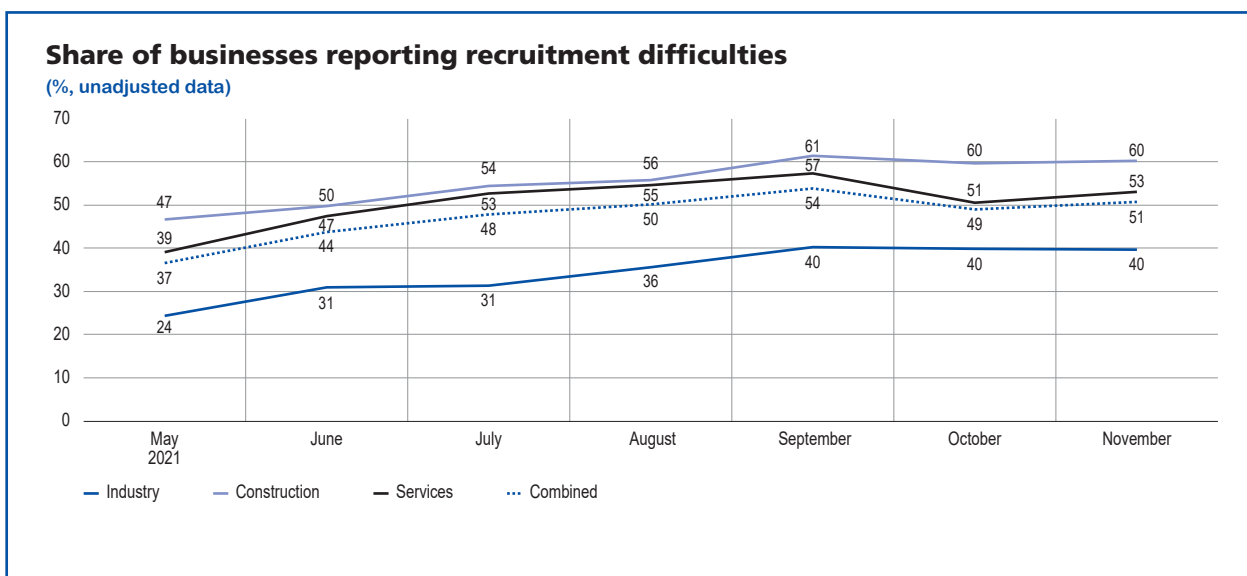
### Share of business leaders expecting an increase or a decrease in their selling prices over the next month, by broad sector

(%)



Source: Monthly Business Survey (MBS), December 2018 – November 2021.  
Note: Unweighted, unadjusted data.

Business leaders were also asked about their **recruitment difficulties**. After declining significantly last month, they picked up slightly in services; they remain unchanged in industry and construction. All sectors combined, they still affected around half of companies (51%, after 49% in October).



### 3. Estimates from the survey and other indicators suggest GDP is above the pre-crisis level by around half a percentage point in November and three-quarters of a percentage point in December

In our previous update on business conditions published on 8 November 2021, we estimated that the level of GDP in October was half a percentage point above the pre-crisis level, and that it would be three-quarters of a percentage point above the pre-crisis level in November.

**For November, based on granular survey data and other available data, we estimate GDP at half a percentage point above its pre-crisis level in November.** Market services, in particular, grew less than expected last month. This assessment also uses the high-frequency data that we monitor additionally for sectors not covered by the survey (retail and transport in particular) and to confirm our assessment regarding industry and the services covered. In particular, credit card spending provides useful insights for the retail sector, which showed a slight fall in relation to October. More general data from Google mobility and on road traffic provide information on the transport sector, for which activity also showed a slight decline compared to October.

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

Activity sector	VA share	October	November
<b>Agriculture and industry</b>	<b>15.3</b>	<b>-2</b>	<b>-2</b>
Agriculture and agri-food industry	3.8	0	0
Energy, water, waste, coking and refining	2.6	8	8
Manufacturing industry excluding food, coking and refining	8.9	-6	-5
<b>Construction</b>	<b>5.8</b>	<b>-3</b>	<b>-3</b>
<b>Market services</b>	<b>57.0</b>	<b>1</b>	<b>1</b>
Wholesale and retail trade, transport, accommodation and food services	17.7	-5	-6
Financial and real estate services	16.9	2	2
Other market services	22.4	4	5
<b>Non-market services</b>	<b>21.9</b>	<b>2</b>	<b>2</b>
<b>Total</b>	<b>100</b>	<b>½</b>	<b>½</b>

**Business leaders' expectations for December point to an improvement in activity.** Based on the information from the survey, combined with assumptions about those sectors partially or not covered by the survey, we estimate activity in December **at around three-quarters of a percentage point above its pre-crisis level**, with growth expected in industry and services, and a stabilisation in construction.

**Our advance estimate of GDP growth for the fourth quarter of 2021 is therefore slightly below + $\frac{3}{4}$ % compared to the previous quarter.**