

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

The month of December and start of this year were marked by the fifth wave of the Covid-19 virus and the accelerating spread of the Omicron variant. Our business survey, conducted between 20 December and 6 January among 8,500 companies or establishments (and for which 80% of the interviews with business leaders were held at the very start of January) shows that, at this stage, activity has held up well overall, although with some disparities between sectors.

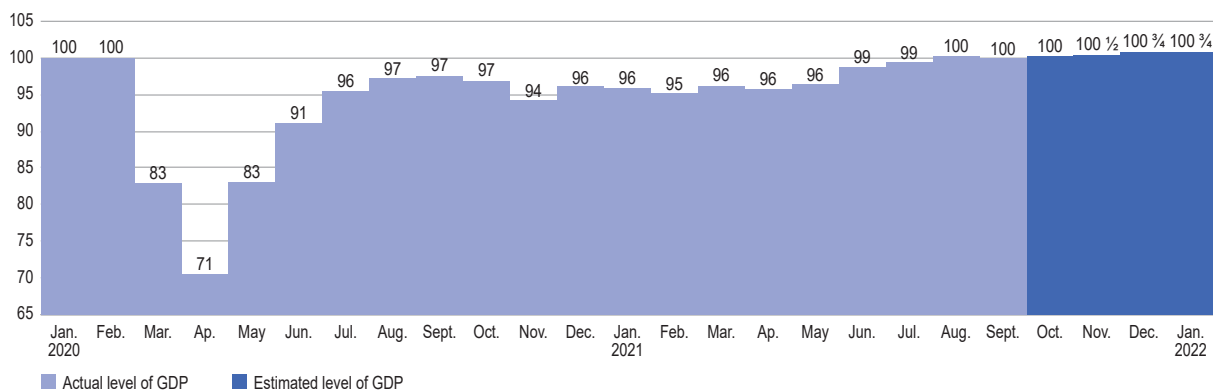
According to the business leaders questioned, activity rose in December in industry and in those market services covered by the survey, while in construction the increase was more moderate. For January, surveyed businesses expect activity to increase very slightly in industry (except in the automotive sector and in computer, electronic and optical products due to component supply difficulties), and to remain stable in construction. In market services, activity is expected to vary considerably across sectors, with some seeing a marked decline linked to the public health situation (accommodation and food service activities, events management, etc.), and business services, in contrast, remaining robust. With the resurgence of the epidemic, however, business leaders signalled that uncertainty has started to rise sharply again, meaning that their expectations should be interpreted with greater caution than usual.

Recruitment difficulties remain significant and are affecting around half of businesses (52% after 21% in November). Supply difficulties have eased to some extent in industry (53% of businesses affected, down from 56% in November), and declined more markedly in construction (48% of businesses affected after 58% in November). The slight dampening of pressures on supply chains and on raw material prices has led the balance of opinion on price developments to stabilise, albeit at a high level. For January (which is traditionally when many firms revise their prices) the share of business leaders who anticipate a rise in prices is much greater than in previous years, in line with our expectations. The price information provided by business leaders in the Monthly Business Survey (MBS) at the start of January 2022 is in line with our most recent inflation forecasts published in mid-December 2021.

After returning to its pre-crisis level over the third quarter of 2021, GDP is now expected to exceed this level by $\frac{3}{4}$ of a percentage point in December. GDP should increase by around 0.6% in the fourth quarter compared with the previous three months, confirming our forecast for annual average growth of 6.7% in 2021. Our expectation of a stabilisation of activity in January is also consistent with our baseline projection scenario for 2022.

Level of GDP

(% of pre-crisis level)



1. In December, activity rose in industry and services, and increased at a more moderate pace in construction

Despite the fifth wave of the Covid-19 epidemic and the spread of the Omicron variant, activity improved in nearly all the main industrial sectors in December.

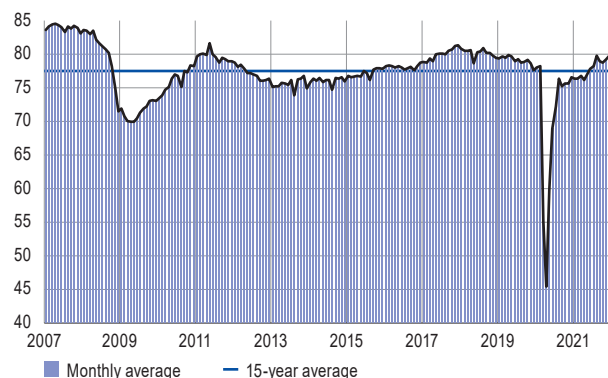
In **industry** as a whole, the capacity utilisation rate stood at 80% in December (up from 79% in November), which is higher than the pre-crisis level of 78% in February 2020. The rate increased marginally in all sectors but, for the second month in a row, it rose more sharply in the automotive industry (where it is still relatively weak, however, at 69% in December after 64% in November).

In aeronautics and other transport, the capacity utilisation rate remained very low (7 percentage points below its long-term average).

The balances of opinion on production indicate that activity improved in all sectors, except in agri-food. The pharmaceutical and automotive industries reported strong increases in production in December (linked to the improved availability of semiconductors at certain sites in the automotive industry). Production also increased in electrical equipment and in rubber and plastic products, albeit to a more modest extent.

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 December. The biggest rises were in business services: temporary work, management consultancy, advertising, etc. After the recovery seen in accommodation and food service activities in previous months, the pace of growth slowed in both these sectors.

In **construction**, activity rose very marginally: the improvement was stronger in structural works than in finishing works, where activity was almost stable, and businesses again cited the impact of recruitment difficulties.

2. In January, activity is expected to improve very slightly in industry and to remain stable in construction; in market services, it should vary considerably across sectors

In **industry**, production is expected to rise sharply in chemicals, electrical equipment and agri-food. In the automotive industry, however, activity should fall markedly in January after December's rise. Computer, electronic and optical products should also see a strong decline, linked notably to the continuing negative outlook for component availability.

In **services**, activity is expected to fall moderately at the aggregate level, but with marked variations in performances across sectors. In temporary work and most business services, activity should continue to strengthen, but in accommodation and food services as well as in events management, activity is expected to drop sharply owing to the public health situation. According to business leaders, activity should be at 64% of its pre-crisis level in accommodation (compared with 80% on average over the fourth quarter of 2021), and at 75% in food and beverage services (compared with 85% on average over the fourth quarter of 2021).

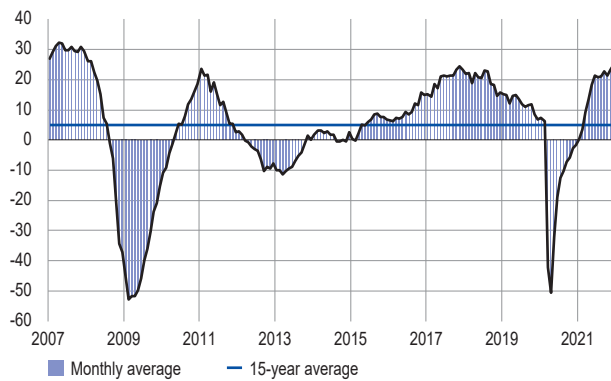
In the **construction** sector, activity is expected to be little-changed, with structural works seeing a slight decline and finishing works a slight improvement.

With the resurgence of the epidemic, however, and especially the uncertainty over staff absences in January, business forecasts should be interpreted more cautiously than usual: our analysis shows that uncertainty has increased significantly again, especially in services (see box).

The balance of opinion on **order books** weakened somewhat in construction in December but strengthened in industry. In both cases, it remains well above its long-term average.

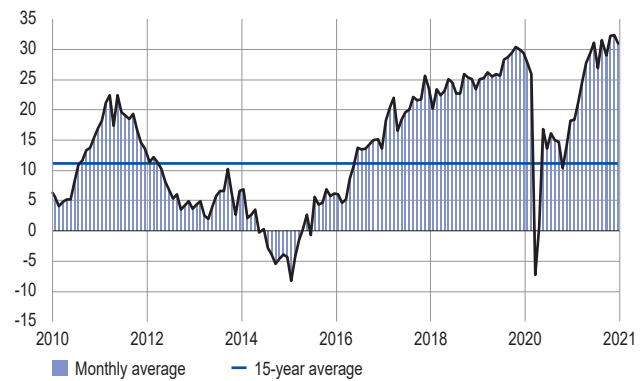
Level of order books in industry

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



Level of order books in construction

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



The uncertainty indicator has started to rise again

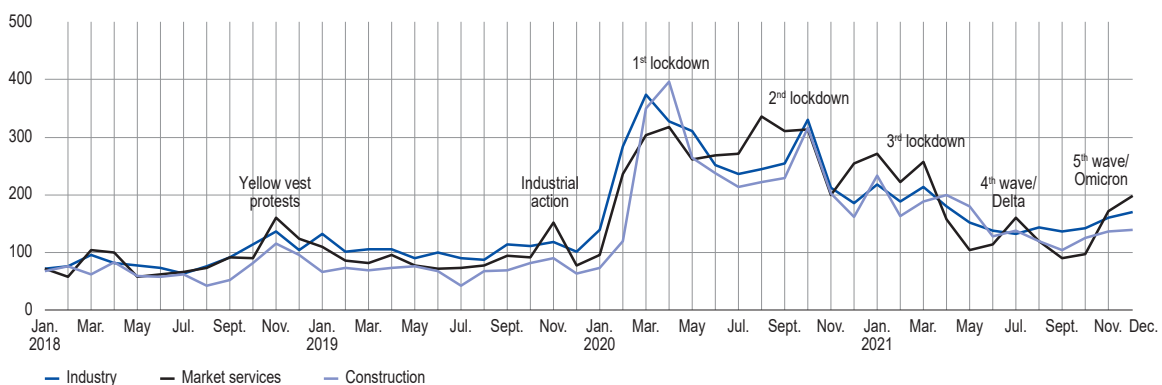
In the Monthly Business Survey (MBS), in addition to the questions, business leaders are invited to comment on activity at their firm and in their sector in general. Using a textual analysis of the terms and expressions used in these comments (e.g. uncertain, worried, undecided), it is possible to construct an uncertainty metric that evolves over time.

This indicator can be used to compare events that may have had an impact on business leader sentiment (yellow vest protests, industrial action in protest at pension reforms, the pandemic, etc.). Its baseline value is set at 100, which corresponds to the value around which the indicator fluctuates during normal times, that is in the absence of major events affecting the economic environment.

An analysis of this indicator over the past four years reveals the following:

- The Covid-19 crisis is exceptional, both in terms of the size of the impact (the indicator is nearly three times higher than at the start of the yellow vest movement in 2018) and its duration.
- After peaking during the first lockdown, uncertainty has tended to fall, but with some fluctuations linked to the announcement or expectation of public health restrictions; it reached a low last July in industry, and last September in construction and services.
- Since then the indicator has been trending upwards, especially in services where it has risen significantly in the past two months (particularly in accommodation and food services, recreation activities and personal services, transportation and, to a lesser extent, certain business services).

Indicator of uncertainty in the comments section in the monthly business survey (MBS) (%, unadjusted data)

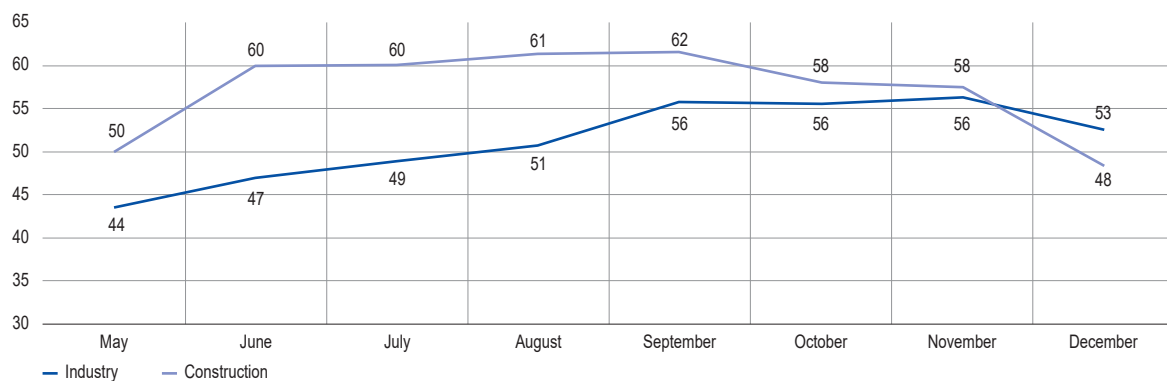


Supply and recruitment difficulties and price developments

Business leaders reported a slight easing of **supply difficulties** in December. The share of business leaders who said that these difficulties had weighed on activity fell marginally in industry, from 56% to 53%. In construction it fell more sharply, from 58% to 48%, with the decline attributable to lower demand in the off-peak season for the sector.

Share of businesses reporting supply difficulties

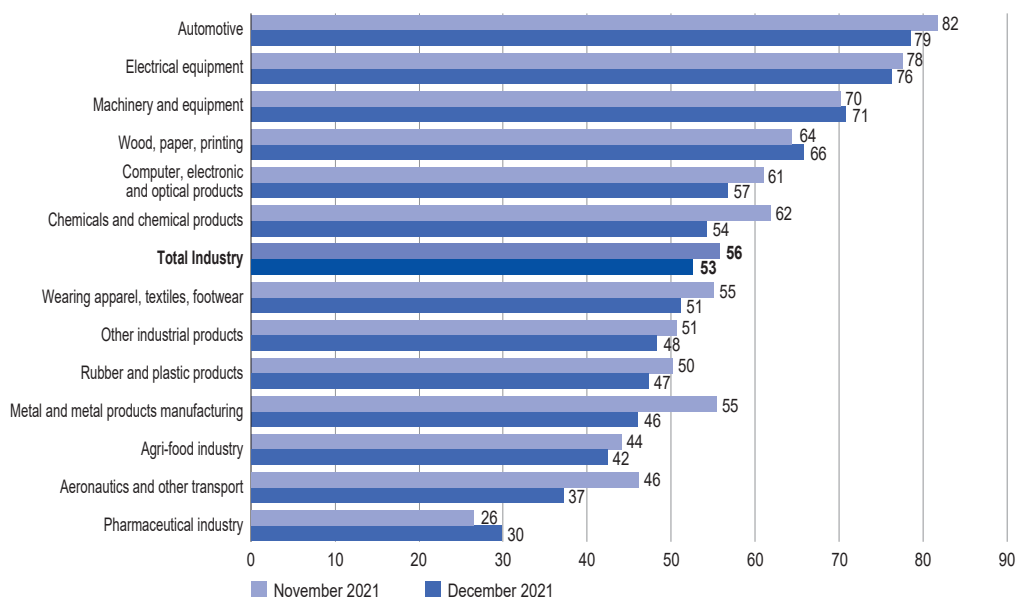
(%, unadjusted data)



In industry, however, there are significant disparities in the level of supply difficulties and in the change over time. The share of businesses citing difficulties remains highest in the automotive industry, as well as in electrical equipment, machinery and equipment, and wood, paper and printing. Moreover, there has been no significant reduction in the difficulties in these sectors since the end of the summer. Conversely, in chemicals, aeronautics, and metals and metal products manufacturing, the share of businesses citing supply difficulties has fallen. The pharmaceutical industry stands out as a special case as supply constraints remain lowest in this sector but have started to rise in recent months; the bottlenecks are affecting both raw materials and packaging materials (paper, packing boxes), and in all likelihood reflect high levels of activity in pharmaceuticals.

Share of firms reporting supply difficulties – Industry, December 2021

(%, unadjusted data)

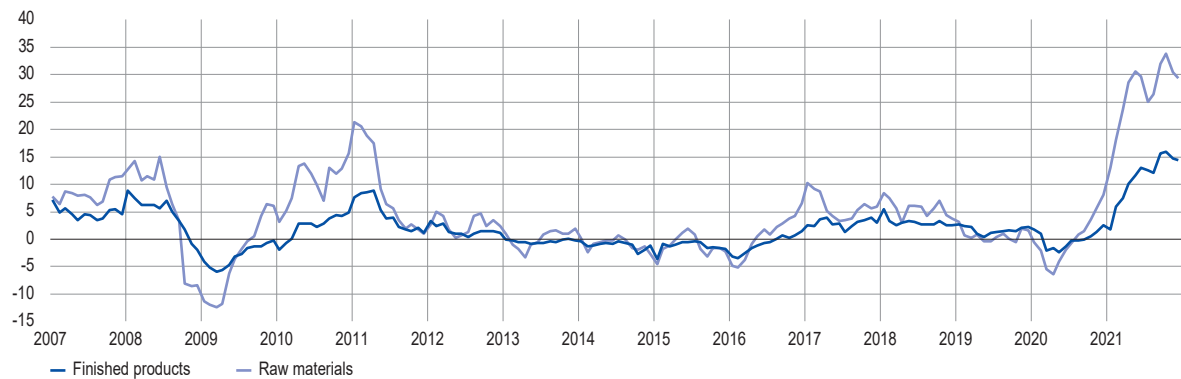


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According to business leaders, these supply difficulties were accompanied by further increases in the **prices** of raw materials and finished goods in December. As in previous months, the balances of opinion show a smaller increase in selling prices than in raw material prices. A particularly high number of business leaders reported large price increases in the chemicals industry and in wood, paper and printing.

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

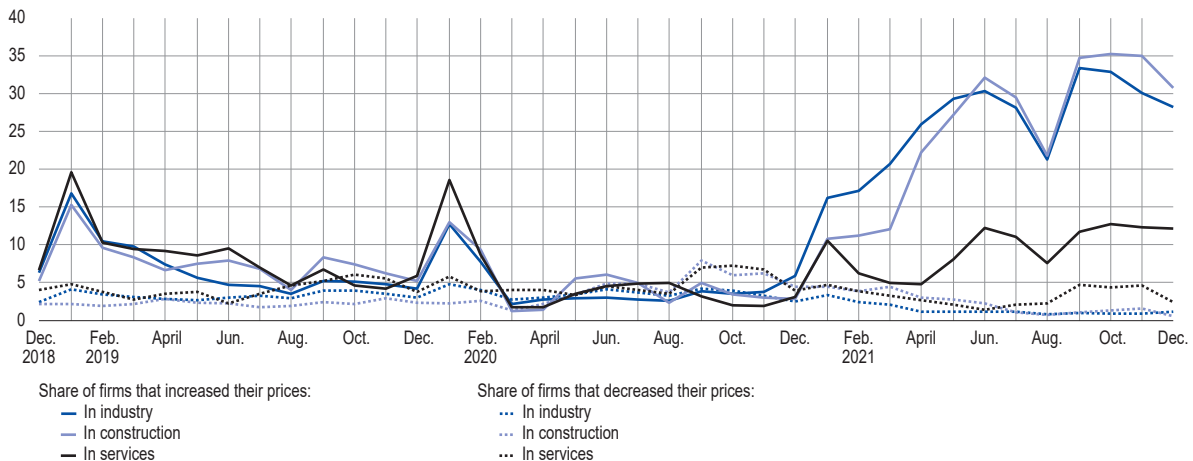
(balance of opinion, adjusted for seasonal and working-day variations)



It should be noted, however, that the share of business leaders reporting that prices had risen over the previous month declined in December. 22% of business leaders said they had raised their selling prices, which was down compared with November, but still high compared with December 2019 and December 2020 when the share barely reached 5%. The decline was observed in all three main sectors (construction, industry and services), but was more marked in industry (28% compared with 33% in November) and in construction (31% compared with 35% in November).

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

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



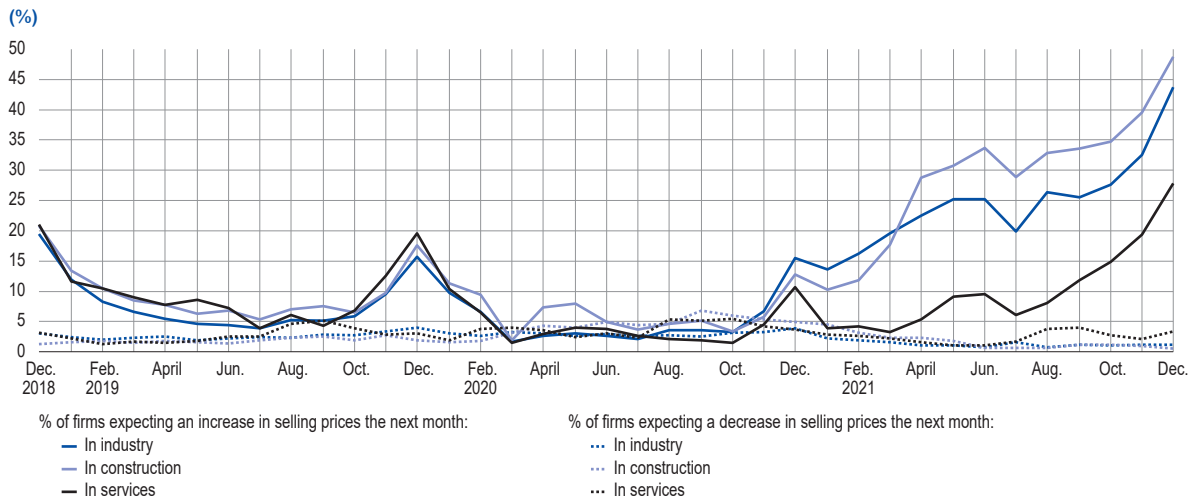
Source: Monthly Business Survey (MBS), December 2018 - December 2021.
Note: Unweighted, unadjusted data.

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In December 2021, fewer business leaders expected prices to rise over the coming month than in November. January is generally the time when businesses revise their prices, so price rises are more common in this month than over the rest of the year. That said, for January 2022, the share of business leaders who expect prices to rise is significantly higher than in the same period in previous years. Nearly 50% of businesses in construction, 43% in industry and 28% in services expect their prices to rise in January in 2022. In comparison, in December 2018 and December 2019, these proportions were close to 20%.

The price information provided by business leaders is compatible with our most recent inflation forecasts, published in mid-December 2021. It is important to note that the price changes anticipated by business leaders are partially absorbed along the production and distribution chain. For example, according to provisional data, in the French market, industrial output prices were up 17.4% year-on-year in November 2021, compared with a 1.6% rise in consumer prices (the HICP) for industrial goods excluding energy. In services, our forecast for the rate of inflation in “private services” prices (excluding rents, healthcare and communication services) is also compatible with the rise in the share of business leaders expecting prices to go up: in the first quarter of 2022, prices should be up 2.7% year-on-year, according to our mid-December forecasts, whereas in the first quarter of 2021 the inflation rate was just 1.4%.

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



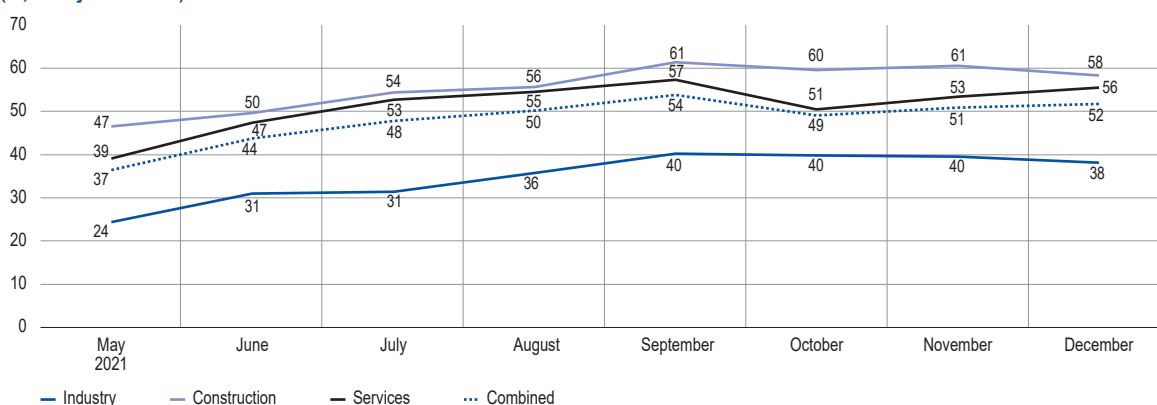
Source: Monthly Business Survey (MBS), December 2018 - December 2021.
Note: Unweighted, unadjusted data.

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Business leaders were also asked about their **recruitment difficulties**. For all sectors combined, around half of businesses are still being affected by these difficulties (52% after 51% in November). However, in industry and construction, the share fell very slightly in December, while in market services it edged up, especially in business services and transportation.

Share of businesses reporting recruitment difficulties

(%, unadjusted data)



3. Estimates derived mainly from the survey, together with other indicators, suggest that GDP was around $\frac{3}{4}$ of a percentage point above its pre-crisis level in December and should remain stable in January

In our previous update on business conditions published on 7 December 2021, we estimated that GDP surpassed its pre-crisis level by $\frac{1}{2}$ a percentage point at end-November, and would exceed it by around $\frac{3}{4}$ of a percentage point as of December.

For December, based on granular data from the survey and on other available data, we confirm this estimate: GDP is expected to have exceeded its pre-crisis level by close to $\frac{3}{4}$ of a percentage point.

This assessment is also based on the high-frequency data that we monitor in parallel for sectors not covered by the survey (notably wholesale and retail trade, and transportation), and to confirm our analysis of those industries and services that are covered. In particular, credit card transactions provide useful insights for the retail trade sector, where activity is estimated to have fallen slightly compared with November. More general data from Google Mobility and on road traffic provide information on the transportation sector, where activity is estimated to have remained stable versus November.

Value added by sector

(percentage deviation from the pre-crisis level)

Activity sector	October	November	December
Agriculture and industry	-2	-2	-1
Agriculture and agri-food industry	0	2	2
Energy, water, waste, coking and refining	8	8	8
Manufacturing industry excluding food, coking and refining	-6	-7	-5
Construction	-1	-2	-5
Market services	0	1	1
Wholesale and retail trade, transport, accommodation and food services	-5	-6	-7
Financial and real estate services	2	2	2
Other market services	3	5	7
Non-market services	2	2	2
Total	0	½	¾

In the survey, business expectations for January point to a stabilisation of activity. This estimate is subject to a high degree of uncertainty owing to the resurgence of the epidemic. However, based on the information from the survey and on assumptions about those sectors not covered or covered only partially, we estimate that activity in January will be about ¾ of a percentage point higher than its pre-crisis level.

Our preliminary estimate of GDP growth is around 0.6% in the fourth quarter of 2021 compared with the previous quarter.

This confirms our most recent forecast for GDP growth in 2021, which was for 6.7% in annual average terms. The expectation that activity will stabilise in January is also consistent with our baseline projection scenario for the start of 2022 (our alternative scenario of a severe but temporary deterioration in activity has so far failed to materialise).