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

The month of February was marked by the receding of the fifth wave of the pandemic caused by the Omicron variant and the outbreak of war in Ukraine on 24 February. Our business survey was conducted among 8,500 companies or establishments between 24 February and 3 March.

According to the business leaders surveyed, activity in industry and construction progressed more than expected in February. In the market services covered by the survey, activity continued to improve, supported by the rebound of personal services (accommodation and food services, rentals) which had suffered in January from a less favourable health context.

For March, business leaders expected that activity would continue to rise in services, a little more moderately in industry, and would decline slightly in construction. These expectations should nevertheless be interpreted with caution because of the uncertainties surrounding the war in Ukraine, which have grown further since the survey. In industry in particular, the business leaders surveyed reported being concerned about the months to come, particularly with regard to supplies. In services, the receding of the fifth wave of the pandemic is having the opposite effect and the rise in uncertainty is less marked.

Recruitment difficulties were stable at a high level and concerned about half of the companies (51% in February). Supply difficulties hardly changed in industry (54% of companies, after 55% in January), but decreased more significantly in construction (46% of companies, after 52% in January). The balance of opinion on raw material prices remained very high as a result of these persistent difficulties; the balance of opinion on the evolution of finished product prices fell slightly from its January level, but remained very high.

After returning to its pre-crisis level during the third quarter of 2021, we estimate that GDP will exceed this level by around 1¾ points in February, after one point in January. Based on our survey and other available data, GDP growth is expected to stand at around +½% in the first quarter of 2022 compared to the previous quarter, subject to the impact of the war in Ukraine on activity in March, which could only be partially anticipated by the firms surveyed.
1. In February, activity improved in industry and in construction; activity grew strongly in services

In February, against the backdrop of the receding of the Omicron variant, activity increased in almost all industrial sectors. In industry as a whole, the capacity utilisation rate was unchanged at 79% in February. It was above its historical average in most industrial sectors, with the exception of the automotive sector (6 percentage points below), aeronautics and other transport (7 percentage points below) and, to a lesser extent, computer, electronic and optical products (3 percentage points below).

The balances of opinion on production show that activity improved in wearing apparel, textiles, footwear, wood, paper, printing, and electrical equipment. The other sectors improved more moderately, except for the automotive industry, where production declined slightly due to supply problems in semi-conductors.

In market services, activity improved significantly in February. It was once again stronger than expected by business leaders last month. The improvement was particularly marked in personal services (accommodation, food services, rentals), which had dropped in January due to the health context; business services also improved, in particular programming, consulting, and management consultancy.

In the construction sector, activity increased significantly, especially in finishing works.

The balances of opinion on the cash position stood clearly above their long-term average; they were overall stable in industry and improved somewhat in services in February.
2. In March, activity is expected to improve in services, more moderately in industry, and to decline slightly in construction

According to the industrialists surveyed, production is expected to increase slightly in most sectors and more particularly in the automotive, aeronautics, electrical equipment and wearing apparel, textile and footwear sectors.

In services, the outlook also remains positive in all sectors, and more specifically for rentals and temporary work. Activity is expected to continue improving in accommodation and food services.

In the construction sector, activity is expected to decline slightly in both structural works and finishing works.

Since the survey was conducted at the very beginning of the war in Ukraine, expectations for March should nevertheless be interpreted with caution. Our monthly indicator of uncertainty, constructed from a textual analysis of the comments made by the companies surveyed, showed a particularly marked rebound in industry (see Box), and returned to the levels observed during the second lockdown. It was also up, more moderately, in services and construction.
The balance of opinion on order-books was stable in industry (with order books remaining particularly strong in the machinery and equipment, and rubber and plastic products sectors) and in construction. In both cases, it was well above its long-term average.

**Level of order books**  
(balance of opinion, adjusted for seasonal and working day variations)

- In industry
- In construction

In February, supply and recruitment difficulties tended to stabilise, but remained high

In February, the share of business leaders who considered that supply difficulties were weighing on their activity was stable overall in industry (54%, after 55%), and decreased more significantly in construction (46%, after 52%).

**Share of businesses reporting supply difficulties**  
(%, unadjusted data)
In industry, the sectors most affected by these difficulties remained the manufacture of electrical equipment, the manufacture of machinery and equipment, the automotive industry and wood, paper and printing.

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

(%, unadjusted data)

- Pharmaceutical industry: 44
- Rubber and plastic products: 50
- Agri-food industry: 46
- Wearing apparel, textiles, footwear: 44
- Other industrial products: 53
- Metal and metal products manufacturing: 51
- Computer, electronic and optical products: 55
- Aeronautics and other transport: 55
- Total industry: 56
- Chemicals industry: 56
- Wood, paper, printing: 55
- Electrical equipment: 62
- Machinery and equipment: 70
- Automotive: 82

According to the business leaders questioned, these supply difficulties were accompanied by increases in the prices of raw materials and finished products. The balance of opinion on raw material prices remained very high but has tended to stabilise in recent months. In February, the balance of opinion on finished product prices, after having recorded a peak in January - due to a more marked seasonality than in previous years - returned to its level, still high, of the last months of 2021. The share of business leaders reporting significant price increases was high in the wearing apparel, textiles and footwear, wood, paper and printing, electrical equipment and chemicals sectors.

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

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

- Finished products
- Raw materials
More specifically, 30% of business leaders reported that they had raised their sales prices in February, a share down by 10 percentage points after the January peak linked to the annual price revision observed each year in January.

The outlook for March suggests further price increases, comparable to those in February: the share of business leaders expecting a price rise in March was just over 25%, close to the level expected the previous month. Here again, these expectations must be interpreted with caution because of the sharp price increases on certain raw materials that occurred after the survey was conducted, in the context of the war in Ukraine.
Finally, beyond the month-by-month measurement, the monitoring of individual firm-by-firm developments shows that the rise in finished product prices concerns most companies. In February 2022, almost three out of four companies (74%) in industry reported at least one price increase over the past 12 months; this share was much lower during previous inflation peaks related to energy prices (slightly above 50% in 2007-2008 and 2011, and 40% in 2018). In addition, companies made significant price increases during the year, not just at the annual review in January; in total, over 40% of companies reported having raised their prices at least three times over the past 12 months.

Business leaders were also asked about their recruitment difficulties. For all sectors combined, they affected half of all companies, i.e. 51% in February.
Impact of the war in Ukraine

The marked increase in the level of uncertainty, particularly in industry, can mainly be explained by the outbreak of war in Ukraine. The business leaders surveyed expressed concerns for the coming months regarding: i) the price and availability of certain raw materials (nickel, titanium, steel, aluminum); ii) the risk weighing on the routing – in particular by rail - of these inputs via the European continent and iii) finally, the impact on current relations with suppliers based in Ukraine and Russia and the risk of having to diversify their suppliers in the short term.

Textual analysis helps to quantify this issue, by measuring the share of companies whose comments contain key words referring to the subject. Industry is logically the most concerned by the war in Ukraine (20% of comments), with construction (7%) and services (5%) lagging behind. Aeronautics is the sector that refers to the conflict the most (33%).

Share of businesses whose comments refer to the war in Ukraine\(^a\), by sector
(\%, unadjusted data)

Moreover, the sectors most concerned (aeronautics, machinery and equipment, chemicals industry, pharmaceutical industry) are those with regular trade links with Ukraine and Russia.

\(^a\) Keywords: conflict, consequence, event, geopolitics, war, Russian, Russia, Ukraine, Ukrainian.
4. The estimates primarily derived from the survey, supplemented by other indicators, suggest that the level of GDP stood at 1¼ percentage point above its pre-crisis level in February, up from January.

In our previous business update, published on 10 February 2022, we estimated that GDP was 1 percentage point above its pre-crisis level in January and 1½ percentage point above its pre-crisis level in February. Our estimate remains unchanged for January.

For February, using granular survey data and other available data, we estimate that GDP was slightly higher than expected, i.e. 1¼ percentage point above its pre-crisis level. This improvement is in line with a receding of the Covid-19 epidemic and the easing of health constraints in France.

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. More general data from Google mobility and on road traffic provide information on the transport sector, for which activity showed a rise after a marked decline in January.

<table>
<thead>
<tr>
<th>Activity sector</th>
<th>Weight in VA</th>
<th>January</th>
<th>February</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture and industry</td>
<td>15.3</td>
<td>-1</td>
<td>0</td>
</tr>
<tr>
<td>Agriculture and agri-food industry</td>
<td>3.8</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Energy, water, waste, coking and refining</td>
<td>2.6</td>
<td>8</td>
<td>11</td>
</tr>
<tr>
<td>Manufacturing industry excluding food, coking and refining</td>
<td>8.9</td>
<td>-5</td>
<td>-5</td>
</tr>
<tr>
<td>Construction</td>
<td>5.8</td>
<td>-5</td>
<td>-5</td>
</tr>
<tr>
<td>Market services</td>
<td>57.0</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Wholesale and retail trade, transport, accommodation and food services</td>
<td>17.7</td>
<td>-5</td>
<td>-2</td>
</tr>
<tr>
<td>Financial and real estate services</td>
<td>16.9</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Other market services</td>
<td>22.4</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Non-market services</td>
<td>21.9</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>1</td>
<td>1 ¼</td>
</tr>
</tbody>
</table>

**Value added by sector**

(percentage deviation from the pre-crisis level)

Business leaders’ expectations for March point to a continued rise in activity, but the GDP estimate for this month is surrounded by a very high degree of uncertainty in the context of the war in Ukraine.

Based on our survey and other available data, GDP growth for the first quarter of 2022 is estimated at around +½% compared to the previous quarter, subject to the impact of the war in Ukraine on activity in March, which could only be very partially anticipated by the firms surveyed.