

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

The month of March was marked by the war in Ukraine, the first consequences of which are being felt on the French economy. In addition, in response to the resurgence of the Covid-19 epidemic, China reintroduced lockdown measures in certain regions, which may have increased supply difficulties.

According to the business leaders surveyed (approximately 8,500 companies and establishments surveyed between 29 March and 5 April), activity in industry showed a very slight decline and that in construction hardly changed. In the market services covered by the survey activity continued to improve, in particular in personal services (accommodation, food services, rentals) as the health crisis started to recede.

For the month of April, expectations, which are almost unchanged in industry and construction, should be interpreted with caution because of the strong uncertainties mentioned by business leaders, who have real difficulties in projecting themselves and measuring all the consequences of the war in Ukraine on their activity. Business leaders expected that activity would continue to grow in services.

The war in Ukraine and the new lockdown measures in China have exacerbated supply difficulties in industry (60% of businesses, after 54% in February) and construction (56% of businesses, after 46% in February). This increase is particularly marked in the agri-food sector. Recruitment difficulties were stable and concerned about half of the companies.

After returning to its pre-crisis level in the third quarter of 2021, earlier than the European average, GDP is expected to continue to grow in February and March, albeit more moderately, due to the international environment. GDP growth for the first quarter of 2022 is expected to stand at around +¼ percentage point compared to the previous quarter.

1. In March, activity dipped slightly in industry, down compared to the expectations of business leaders; it picked up again in services and hardly changed in construction

In March, against the backdrop of the war in Ukraine, activity registers a slight fall in industry, down compared to the forecasts of business leaders who had expected a slight increase for March last month. This month, however, developments vary across sectors.

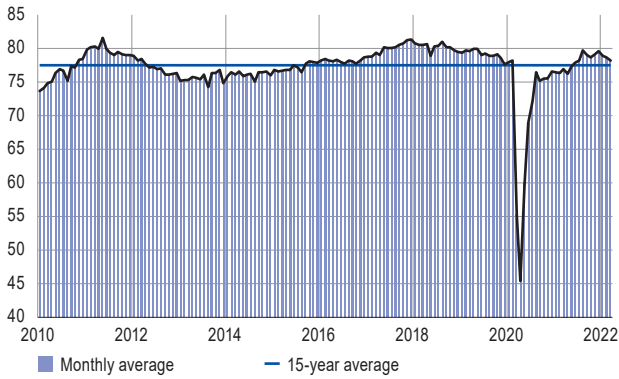
In **industry** as a whole, the capacity utilisation rate fell by one point to stand at 78% in March, driven down by computer, electronic and optical products (- 3 percentage points) and by the automotive sector (- 2 percentage points). It was nevertheless still above its historical average in most industrial sectors, with the exception of those already mentioned (9 percentage points below for the automotive sector and 7 percentage points below for computer, electronic and optical products), and aeronautics and other transport (6 percentage points below).

The balances of opinion on production also show that activity fell markedly in the automotive sector and in the manufacture of rubber and plastic products, as a result of supply difficulties. On the other hand, activity increased significantly in the wood, paper and printing sector and in the chemicals industry.

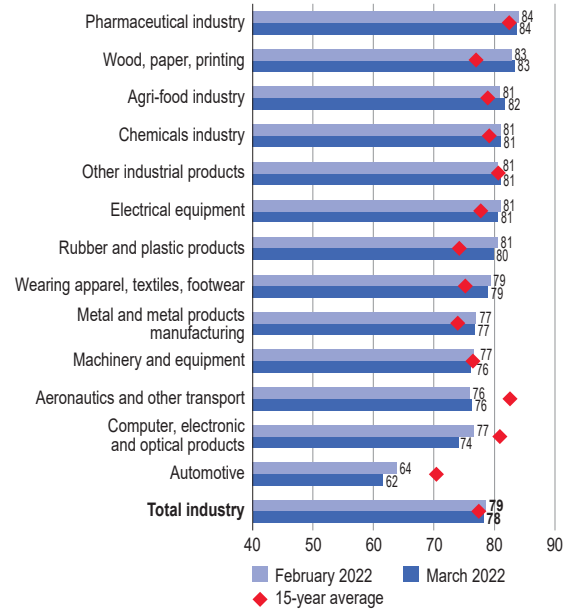
Capacity utilisation rate

(in %, adjusted for seasonal and working day variations)

a) In industry



b) By sub-sector



In **market services**, activity improved again in March as the health crisis receded and restrictions were lifted. The improvement was particularly marked in personal services (accommodation, food services, equipment and car rentals), and the dynamism of temporary work partly responded to recruitment difficulties. Business services also improved, but to a lesser extent.

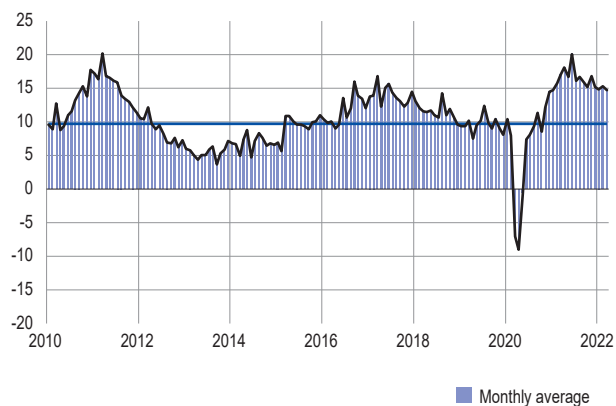
In the **construction** sector, overall activity rose very slightly: while finishing works improved further, structural works recorded a decline.

The balances of opinion on the **cash position** fell back slightly, but to levels well above their long-term average, both in industry and in market services.

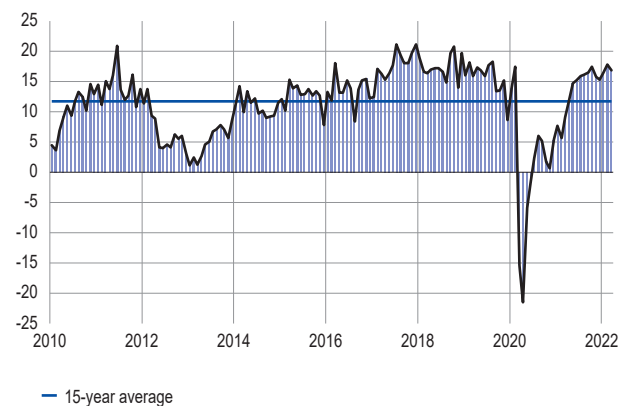
Cash position

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

a) In industry



b) In market services



2. In industry and construction, business leaders reported a high degree of uncertainty about their business prospects; at this stage, short-term expectations remain positive in services

In the very short term, for the month of April, according to the industrialists surveyed, production is expected to post a very slight increase, with an improvement in certain sectors, in particular aeronautics, chemicals and other industrial products, and a further decline in the manufacture of rubber and plastic products. However, the medium-term outlook is much more uncertain.

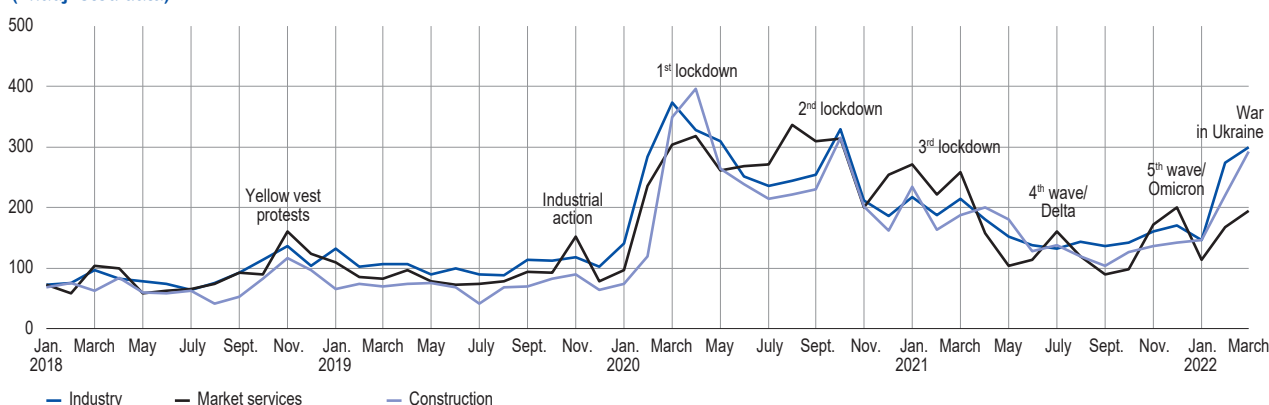
In **services**, the outlook remains positive in all sectors, and more specifically in food services, equipment and car rentals, and temporary work.

In the **construction** sector, activity is expected to decline very slightly.

Our monthly indicator of uncertainty, constructed from a textual analysis of the comments made by the companies surveyed, showed a marked increase, due to the war in Ukraine but also to the deterioration of the health context in China. The levels of uncertainty reached for industry and construction were comparable to those measured during the second lockdown. At this stage, the phenomenon was more contained for market services.

Indicator of uncertainty in the comments section of the Monthly Business Survey (MBS)

(unadjusted data)



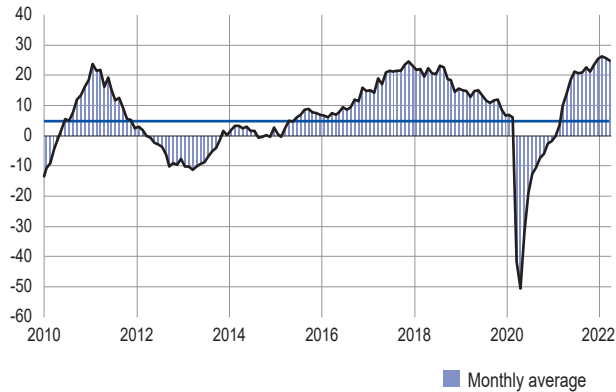
Note: The reference value is set at 100 and corresponds to the value around which the indicator fluctuates in normal periods.

The balance of opinion on **order books** was still well above its long-term average; it nevertheless declined somewhat in industry, and more significantly in construction, especially in finishing works. In industry, the decrease observed over the last two months mainly concerns the automotive and rubber and plastic products sectors, but also the wearing apparel, textiles and footwear sector (with a drop in new orders from Russia and China, due, in the case of the latter, to the new lockdown).

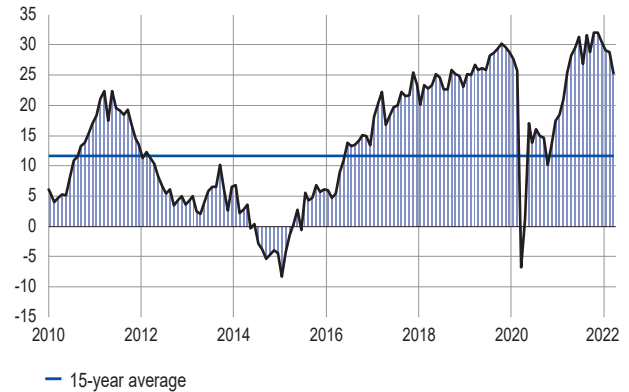
Level of order books

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

a) In industry



b) In construction

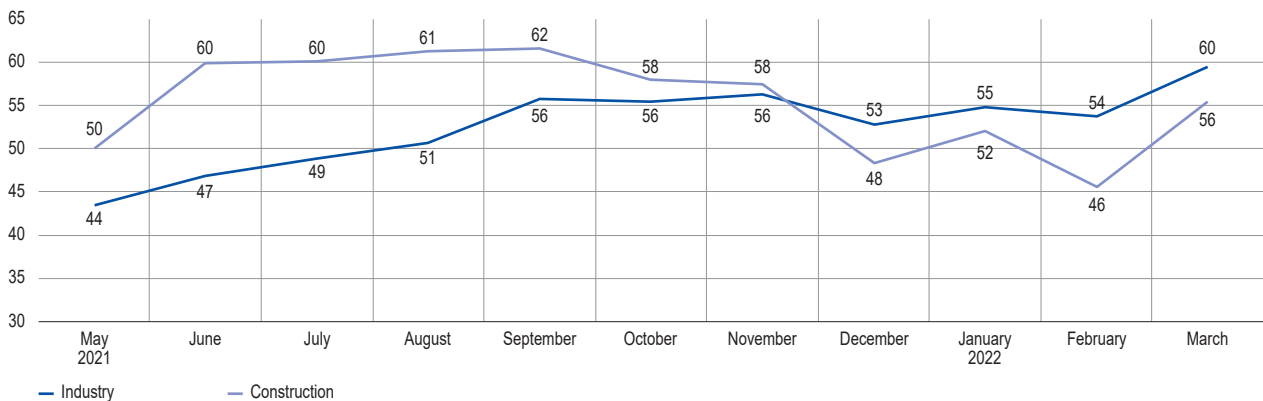


3. Supply difficulties increased significantly

The first consequences of the war in Ukraine, as well as possibly the new lockdown measures in China, were being felt with a significant increase in supply difficulties. The share of business leaders who considered that supply difficulties were weighing on their activity rose again in industry (60%, its highest level since the introduction of this question in May 2021, after 54% last month) and in construction (56%, after 46%).

Share of businesses reporting supply difficulties

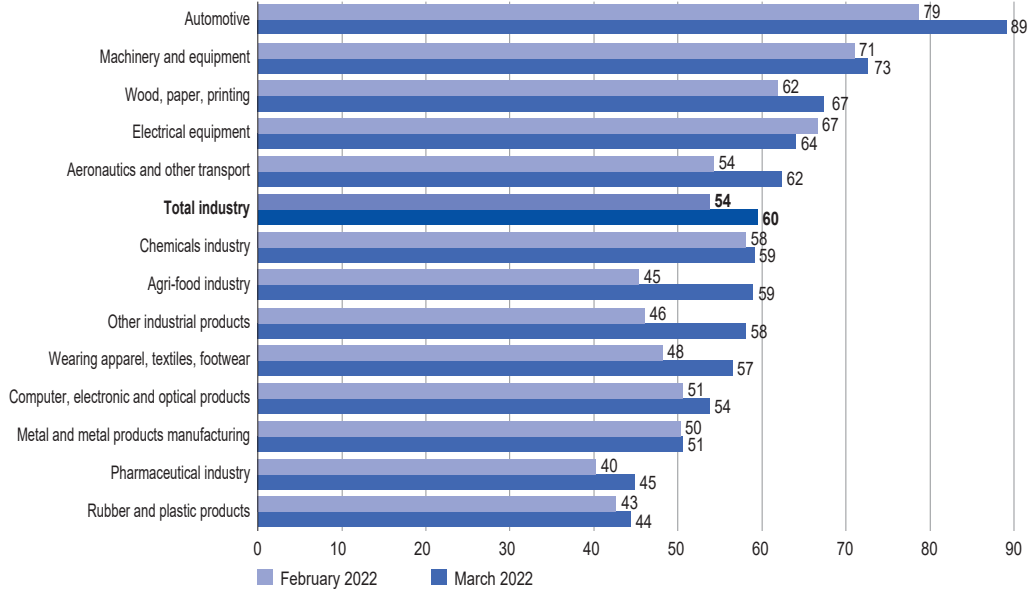
(in %, unadjusted data)



In March, this increase in supply difficulties concerned almost all sectors of industry; it was particularly strong for the agri-food industry (+14 percentage points), which is very exposed to Ukraine and Russia, other industrial products (+12 percentage points) and the automotive industry (+10 percentage points).

Share of businesses reporting supply difficulties – Industry, March 2022

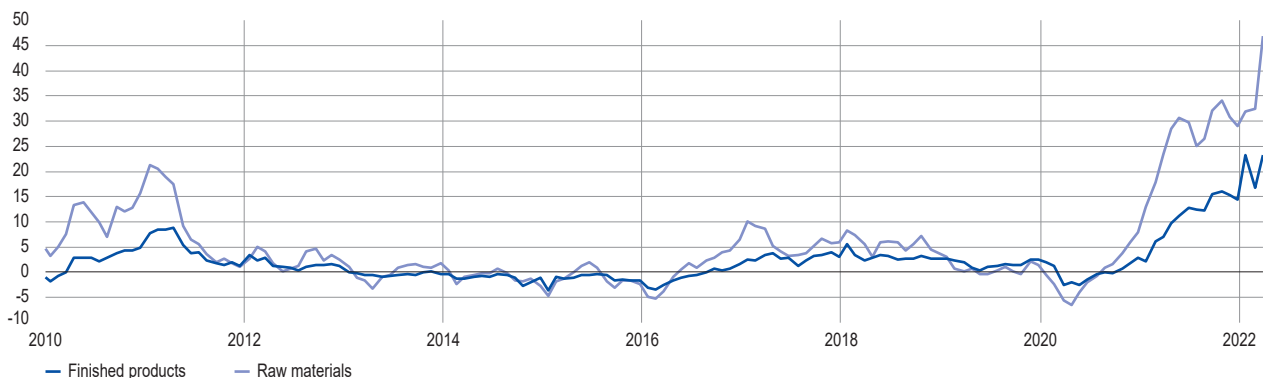
(in %, unadjusted data)



According to the business leaders surveyed, the rise in supply difficulties was accompanied by increases in the prices of raw materials and finished products. The balance of opinion on raw material prices rose sharply in March as a result of the war in Ukraine. The balance of opinion on finished product prices also increased, but to a lesser extent, except in the agri-food industry.

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

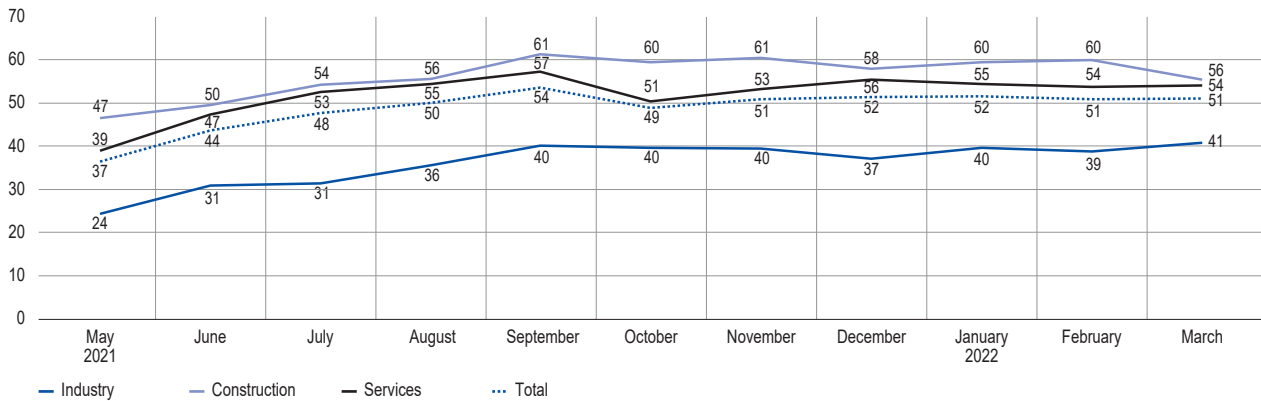
(balance of opinion, adjusted for seasonal and working day variations)



Business leaders were also asked about their **recruitment difficulties**. For all sectors combined, they were stable overall, at high levels, and concerned half of all companies, i.e. 51% in March.

Share of businesses reporting recruitment difficulties

(in %, unadjusted data)



4. The estimates primarily derived from the survey, supplemented by other indicators, suggest that the level of GDP continued to rise in the first quarter, but at a more moderate pace due to the international environment

In our previous business update, published on 13 March 2022, we estimated that GDP was 1¾ percentage points above its pre-crisis level in February and 2 percentage points above its pre-crisis level in March. The incorporation of new data for the start of the quarter (services production index for January, industrial production index for February) leads us to revise this estimate down slightly to 1 percentage point for February, but more slightly for March.

For March, using granular survey data and other available data, we estimate that GDP was 1½ percentage points above its pre-crisis level. This estimate is in line with a slight deterioration in the situation of industry from February onwards. We use high-frequency data that we monitor additionally for sectors not covered by the survey (in particular retail and transport), 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 road traffic data provide information on the transport sector, for which activity showed a further rise after a sharp decline in January.

Value added by sector

(percentage deviation from the pre-crisis level)

Activity sector	Weight in VA	January	February	March
Agriculture and industry	15	-1	-2	-2
Agriculture and agri-food industry	4	2	3	3
Energy, water, waste, coking and refining	3	8	5	6
Manufacturing industry excluding food, coking and refining 8.9 -	9	-5	-5	-6
Construction	6	-4	-3	-3
Market services	57	1	2	3
Wholesale and retail trade, transport, accommodation and food services	18	-4	-2	0
Financial and real estate services	17	3	3	3
Other market services	22	4	5	6
Non-market services	22	2	2	2
Total	100	1	1	1½

GDP growth for the first quarter of 2022 is expected to be around +¼ percentage point compared to the previous quarter.

The business outlook for April, as derived from the survey, remains relatively positive overall, but is surrounded by a greater degree of uncertainty, due to the war in Ukraine and the evolution of supply difficulties linked in particular to the epidemic in China.