

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

Activity continues to hold up well despite ongoing difficulties in the economic environment (tensions in commodity markets, supply and recruitment difficulties). According to the business leaders surveyed (approximately 8,500 companies and establishments questioned between 21 July and 3 August), activity in July was almost stable in industry, rose in the market services covered by the survey, thanks notably to strong momentum in personal services, but contracted in construction.

For the third consecutive month, supply difficulties eased slightly but were still significant in industry (57% in July, down from 59% in June) and construction (48% compared with 52%). The share of business leaders expecting to increase their selling prices declined, reflecting a perceived easing of pressures on raw material prices.

For the month of August, business leaders expect a deterioration of activity in industry and construction, but this cannot yet be interpreted as an inflection point. In market services, in contrast, activity is expected to continue to improve. Although uncertainty appears to be abating in construction and services, it remains high in industry according to our indicator. This uncertainty is essentially on the supply side, as order books remain well-stocked.

Buoyed by a strong improvement in market services, GDP growth proved stronger than expected in the second quarter, reaching 0.5% compared with the previous quarter. After increasing in May and June, GDP is expected to stabilise in July, and early signs suggest this stabilisation should continue in August.

1. In July, activity was almost stable in industry, rose in market services and contracted in construction

In July, activity was almost stable in industry, slightly exceeding business leaders' expectations last month of a decline. However, performances varied across sectors.

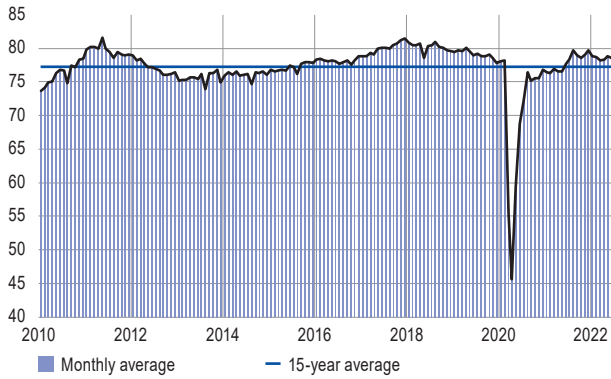
Balances of opinion on production in July indicate strong momentum in the chemicals, electrical equipment, computer products and agri-food industries. Conversely, activity declined markedly compared with the previous month in the automotive industry, rubber and plastics, and wearing apparel and textiles.

In industry as a whole, the capacity utilisation rate was little-changed at 78% in July. In most sectors it is tracking above its historical average, with the main exceptions being aeronautics and other transport (5 percentage points below), the automotive industry (6 percentage points below) and pharmaceuticals (4 percentage points below, which could result this month from exceptional closures).

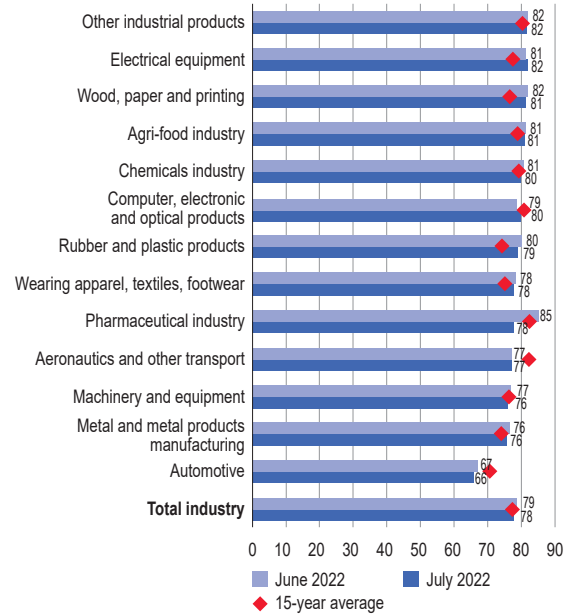
Capacity utilisation rate

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

a) In industry



b) By sub-sector



In market services, activity rose again in July, and at a higher pace than expected last month by business leaders. This pick-up in momentum was seen in the majority of personal services (repair of motor vehicles, renting of motor vehicles, accommodation). In the business services segment, activity rose sharply in publishing, management consultancy and technical services, contrasting with advertising and legal and accounting activities which all saw a decline.

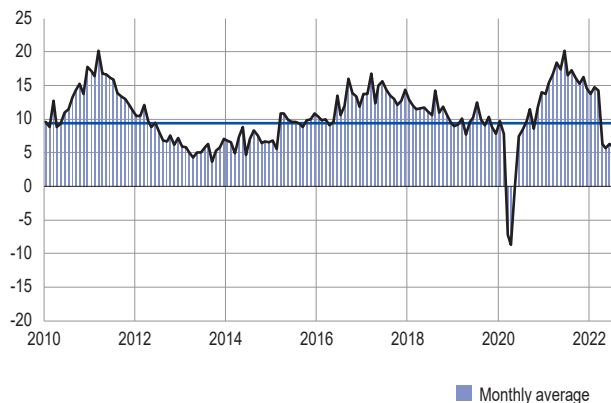
Activity contracted in July in construction, in line with business leaders' expectations last month.

The balance of opinion on cash positions was little-changed, both in industry and market services. In both cases, the indicator remained below its long-term average.

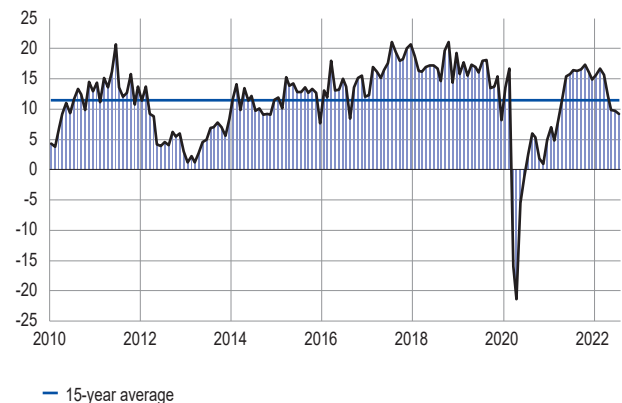
Cash position

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

a) In industry



b) In market services



2. In August, business leaders expect activity to decline in industry and construction, and to increase in market services¹

For August, the business leaders surveyed generally expect activity to decline markedly in industry. The fall should affect the majority of sectors, with the exception of the pharmaceutical industry.

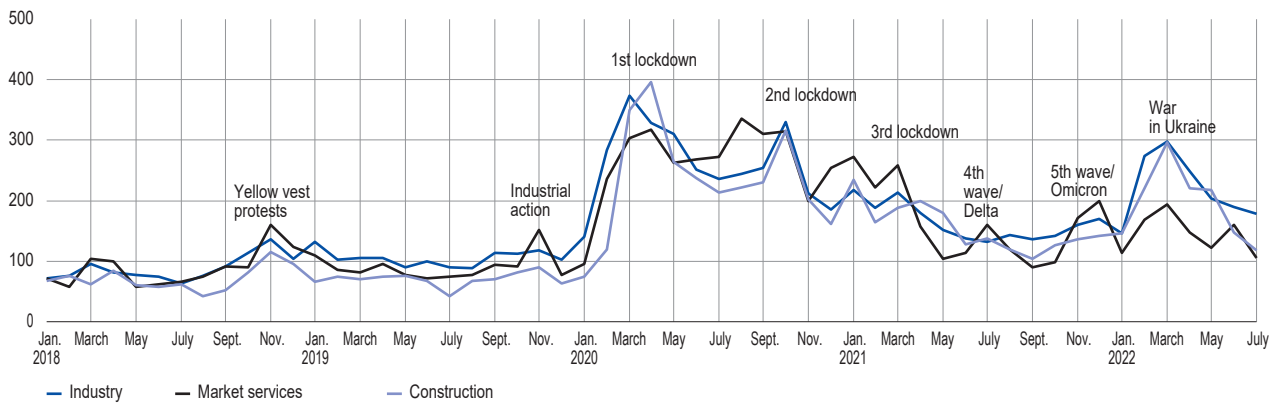
In services, however, business leaders expect activity to continue rising.

Lastly, in construction, activity is expected to contract sharply in both the structural and finishing sectors.

Our monthly uncertainty indicator, which is constructed from a textual analysis of comments by the respondent companies, shows a further easing of uncertainties in July. In market services and construction, the indicator returned to near the level observed in normal times, while in industry it remained almost twice as high as before the Covid pandemic.

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

(unadjusted data)



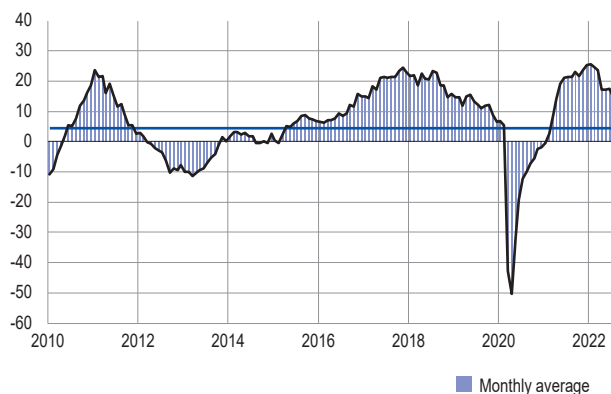
Note: The reference value is set at 100 and corresponds to the value around which the indicator fluctuates during normal periods.

The balance of opinion on order books shrank slightly in July in industry, but stabilised in the construction sector. Current levels in both cases remain well above their long-term average. The resilience of order books suggests that the uncertainty measured by our indicator is essentially on the supply side.

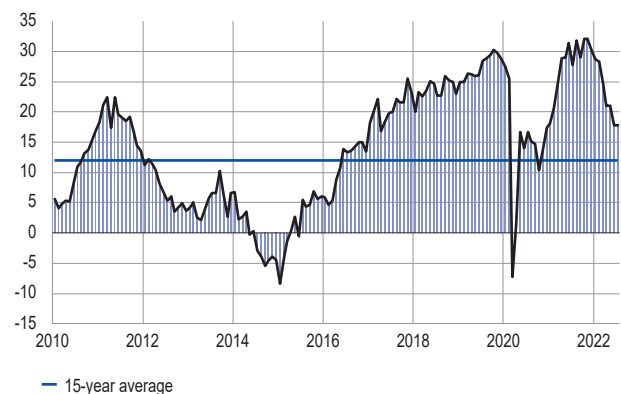
Level of order books

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

a) In industry



b) In construction



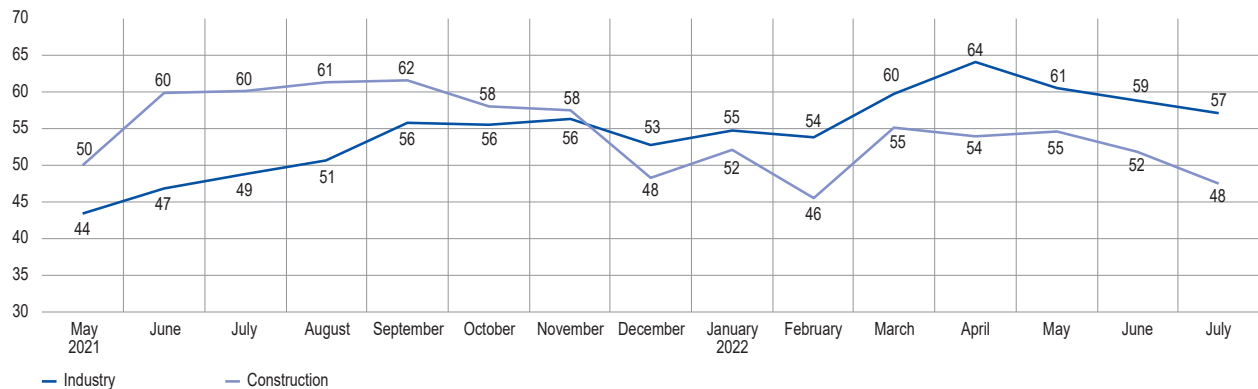
¹ There is a particularly strong seasonal effect in August due to the annual closure of many companies and establishments. As a result, activity outlooks and estimates for this month should be interpreted with caution.

3. For the third month in a row, supply difficulties eased and the rise in prices slowed, but both indicators remain high in absolute terms

Supply difficulties remained considerable in July but continued to ease. The share of business leaders who said that supply difficulties were putting pressure on their activity declined in industry to 57% in July (after 59% in June). It fell even further in the construction sector (48% in July compared with 52% in June).

(in %, unadjusted data)

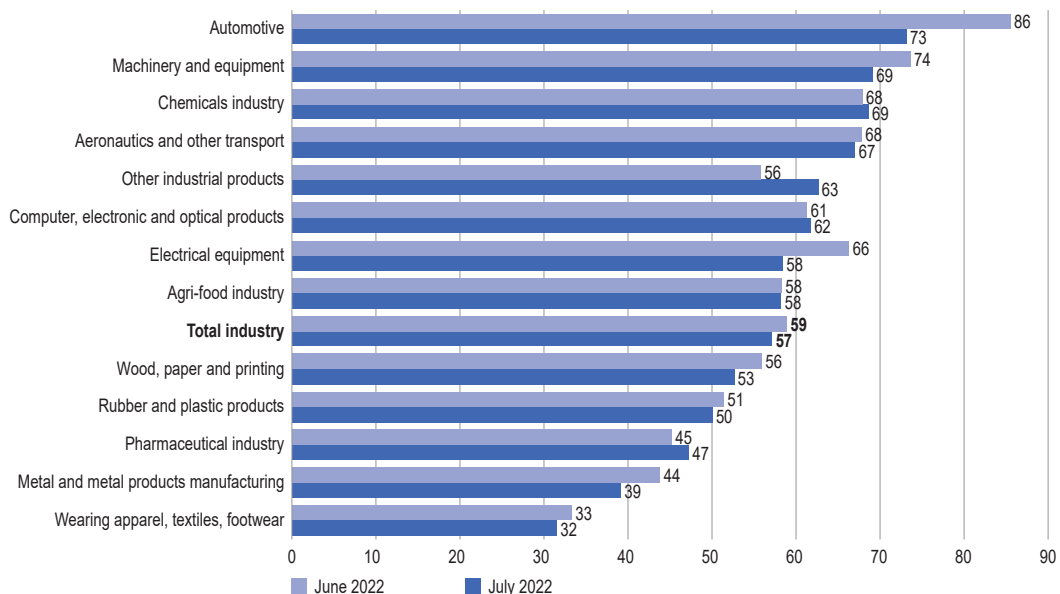
(en %, données brutes)



This overall trend disguises differences across sectors. The share of businesses reporting supply difficulties fell more markedly in the metal manufacturing, electrical equipment and automotive industries. But in pharmaceuticals and other industrial products, difficulties intensified.

Share of businesses reporting supply difficulties – Industry, July 2022

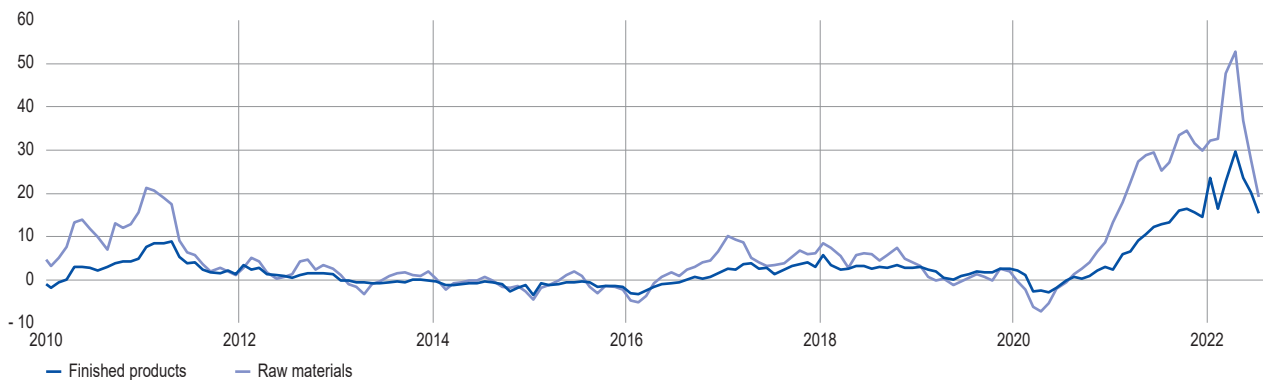
(in %, unadjusted data)



According to business leaders, the easing of supply difficulties was accompanied by a further slowdown in the rise of raw materials prices (and to a lesser extent finished goods prices), which nonetheless remain high.

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

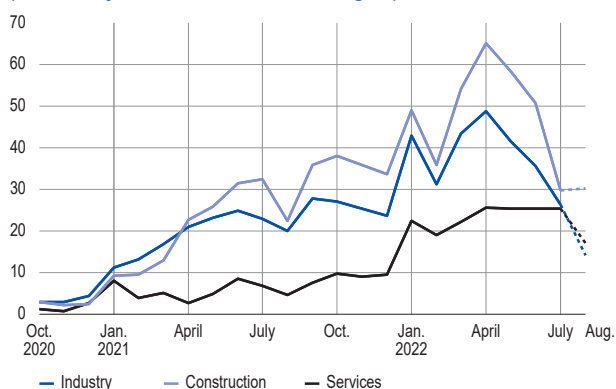
(balance of opinion, adjusted for seasonal and working day variations)



More specifically, 25% of business leaders in the manufacturing industry said they had put up their selling prices in July, which is slightly below last month's expectations (29%). The share of business leaders reporting price increases was particularly high in the agri-food, chemicals, and wood, paper and printing industries. For construction and market service companies, the share stood at 30% and 25%, respectively. The outlook for August points to a further decline in the share of businesses raising their prices in industry (14%) and services (17%), and a stabilisation in construction (30%).

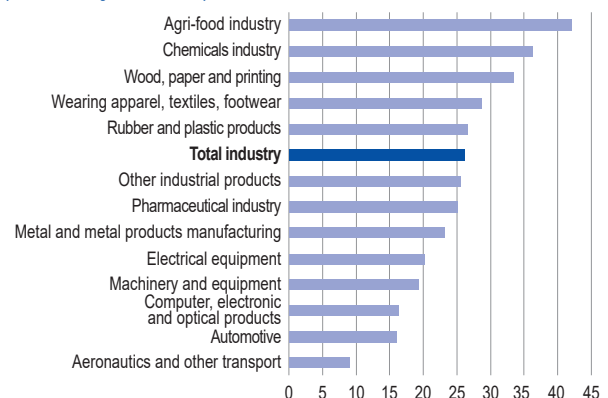
Share of business leaders that increased their selling prices, by major sector

(in %, unadjusted data; forecast for August)



Share of business leaders in industry that increased their selling prices in July, by sector

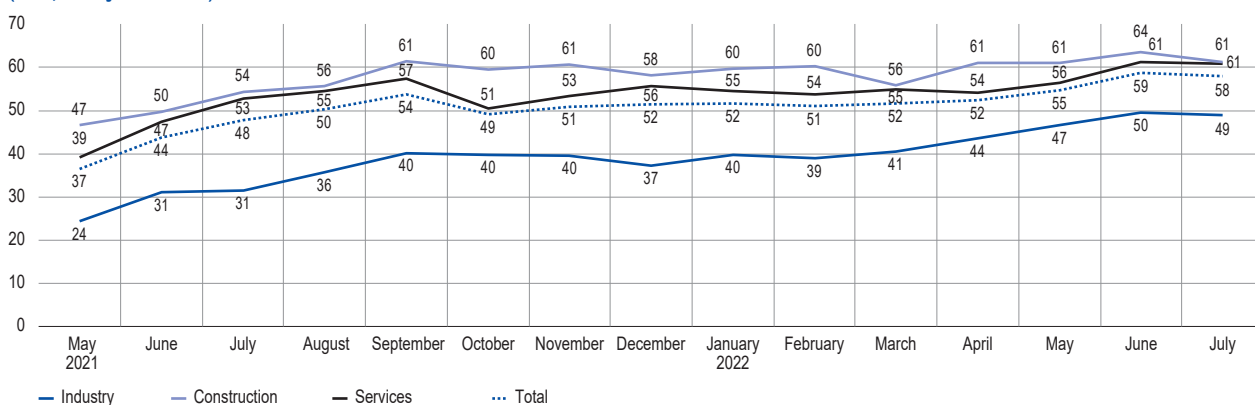
(in %, unadjusted data)



Business leaders were also asked about their recruitment difficulties. The share of businesses reporting recruitment difficulties fell slightly in July, to 58%. The decline mainly concerned construction (fall of 3 percentage points) and industry (fall of 1 percentage point).

Share of businesses reporting recruitment difficulties

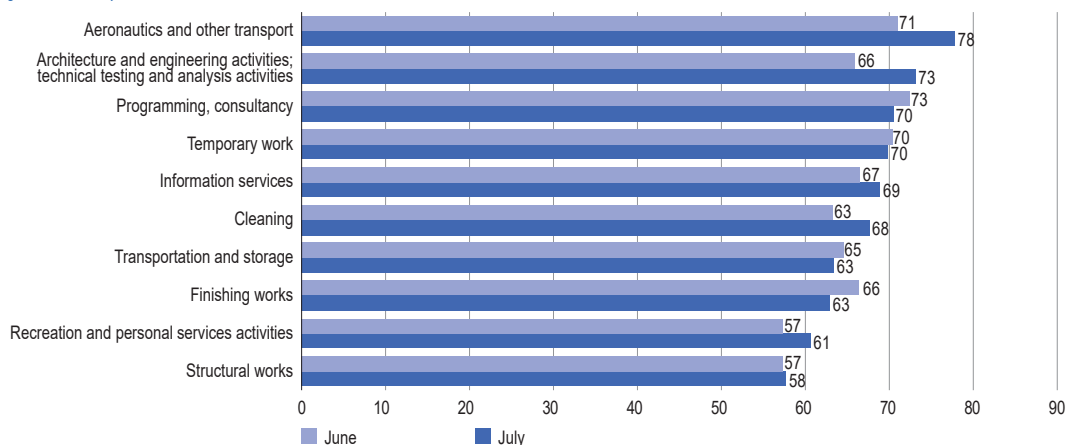
(in %, unadjusted data)



Seven of the ten sectors with the greatest recruitment difficulties in July 2022 were in the business services segment: technical services (architecture and engineering), programming, temporary work,² information services and cleaning were the worst affected. In industry, the aeronautics sector reported the greatest recruitment difficulties.

Share of businesses reporting recruitment difficulties – sectoral top 10, July 2022

(in %, unadjusted data)



4. Estimates primarily derived from the survey, and supplemented by other indicators, suggest that GDP stabilised in July compared with June and should remain stable in August

In our previous update on business conditions published on 12 July 2022, we expected an increase in GDP by about a quarter of a percentage point in the second quarter. The quarterly national accounts published by INSEE at the end of July indicated a sharper increase of 0.5%. This stronger than expected performance is mainly due to growth in activity in market services, and especially in transportation and in accommodation and food services

² However, these recruitment difficulties may stem from those being experienced by clients, whose sector of activity cannot be identified in the survey.

For the month of July, using granular survey data and other available data, we estimate that GDP remained stable compared with June. This is due to a slight decline in industry and construction, offset by a rise in market services.

This estimate is also based on high-frequency data that we monitor in parallel for sectors not covered by the survey (notably construction, trade and transportation), and that we use to confirm our assessment of industry and of the services that are covered. In particular, road traffic data combined with credit card data suggest the transportation sector remained robust in July, while credit card data point to a rise in retail trade compared with June.

French GDP – monthly level

(percentage deviation from fourth quarter of 2021)

Activity sector	VA share	May	June	July
Agriculture and industry	15	-0.4	0.6	0.4
Agriculture and agri food	4	-1.1	-0.9	-0.6
Energy, water, waste, coking and refining	3	-8.2	-6.1	-5.9
Manufacturing industry excluding food, coking and refining	9	2.2	3.2	2.8
Construction	6	0.0	-1.9	-2.3
Market services	57	0.8	0.9	1.2
Wholesale and retail trade, transportation, accommodation and food services	18	0.5	2.3	2.7
Financial and real-estate services	17	0.8	0.8	0.8
Other market services	22	1.0	0.0	0.3
Non-market services	22	-0.4	-0.4	-0.7
Total	100	0.3	0.5	0.5

Business expectations reported in the survey for August³ suggest that activity will remain stable compared with July, but with performances contrasting again across sectors.

³ The specific nature of the month of August (see footnote 1) poses a particular risk to the activity forecast for this month. The forecast should therefore be interpreted with caution.