BANQUE DE FRANCE
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Update on business conditions in France at the start of February 2022

January was marked by the fifth wave of Covid-19 with the increasingly widespread circulation of the Omicron variant. Our business survey, conducted among 8,500 companies or establishments between 27 January and 3 February, confirms that activity held up well overall, albeit with sectoral disparities.

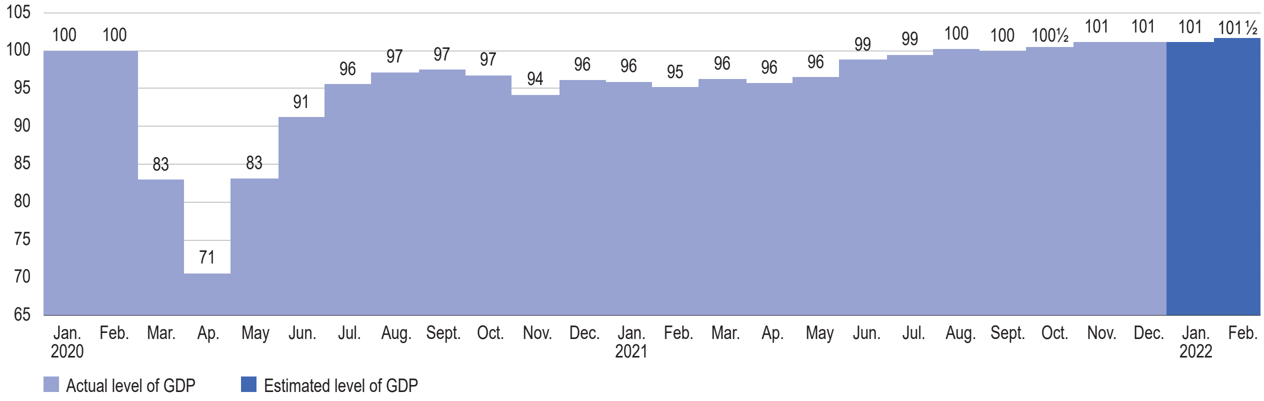
According to the business leaders surveyed, activity in industry and construction actually increased very slightly in January. The improvement continued in the market services covered by this survey, but more unevenly across sectors, with food services and especially accommodation showing a decline. For February, activity is expected to increase significantly in industry and services and to be almost stable in construction.

Recruitment difficulties remained significant and affected around half of businesses (52% in January, like in December). After easing off at the end of the year, supply difficulties rose again at the beginning of the year, both in industry (55% of businesses, after 53% in December) and in construction (52% of businesses, after 48% in December). Business leaders in industry and construction, who indicated that they were experiencing supply difficulties, were asked this month how long it would take to resolve these difficulties. Although few expect them to disappear within three months (10% in industry and 14% in construction), around three-quarters believe they will not last more than a year. These supply difficulties were accompanied by increases in the prices of raw materials and finished goods. The balance of opinion on raw material prices remained very high but tended to stabilise, while the balance of opinion on finished product prices continued to rise.

After returning to its pre-crisis level over the third quarter of 2021, GDP is now expected to exceed this level by 1 percentage point in January (like in December), then by 1½ in February. If this trend were to be confirmed in March, the quarterly change in GDP could be around ½% in the first quarter.

Level of GDP

(% of pre-crisis level)



1. In January, activity picked up very slightly in industry and in construction; in market services, the overall improvement masked significant differences across sectors

Despite the fifth wave of the epidemic and the spread of the Omicron variant, which disrupted the organisation of work through increased absenteeism (sick leave, contact cases, childcare, etc.), activity in industry grew slightly overall in January; some industrial sectors, however, recorded a decline, often due to supply difficulties.

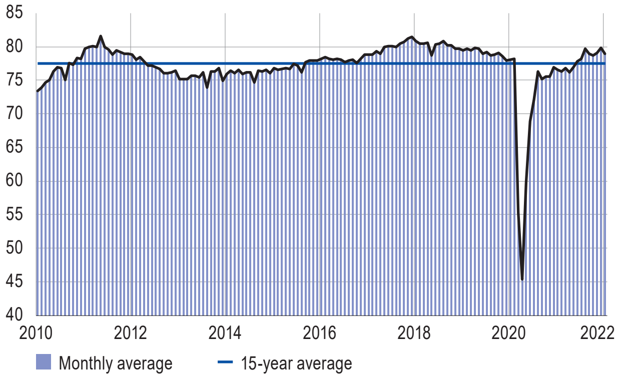
In **industry** as a whole, the capacity utilisation rate fell slightly from 80% in December to 79% in January, driven down by the automotive industry (64%, after 69% in December). It stood above its historical average in most industrial sectors, with the exception of the automotive sector (-8 percentage points) and aeronautics and other transport (-7 percentage points).

The balances of opinion on production indicate strong growth in January in the agri-food industry, the chemicals sector and the equipment sector (computer, electronic and optical products, electrical equipment, machinery and equipment) The automotive industry started to decline again, as predicted by business leaders last month, due to supply difficulties.

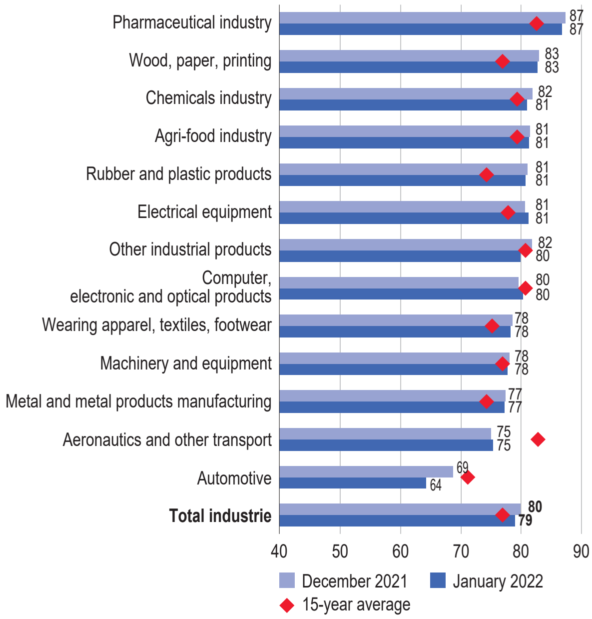
Capacity utilisation rate

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

a) In industry



b) By sub-sector

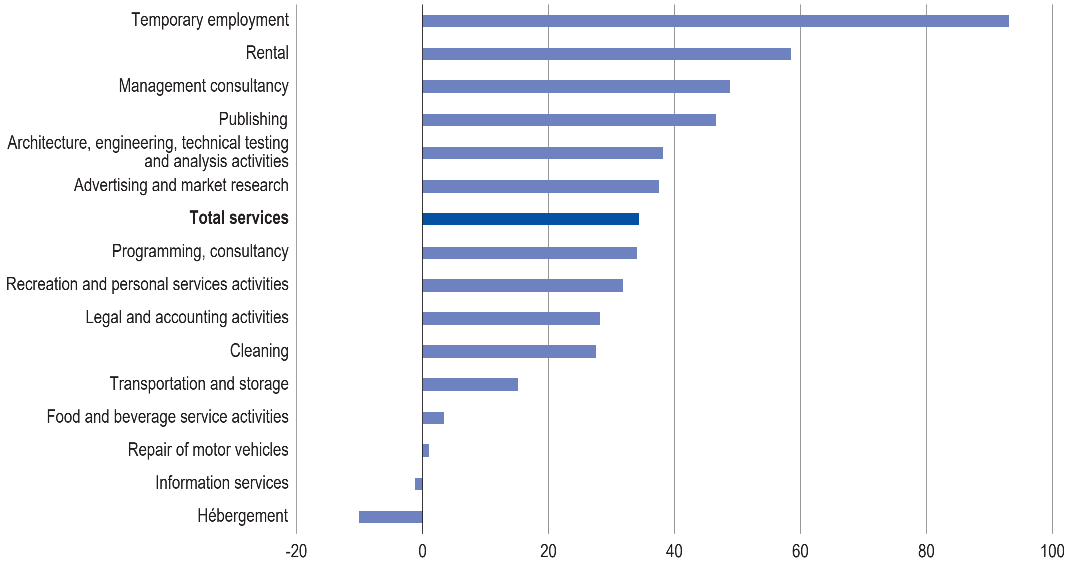


In **market services**, activity improved in January. It was stronger than expected by business leaders last month, but with significant differences across sectors: while temporary work (which is used in particular by businesses affected by absenteeism), programming, consultancy and publishing recorded strong growth, the accommodation sector saw a very sharp fall in activity due to the health situation The decline was also fairly sharp in the food services sector.

Activity in the recent period reflects the strong performance of business services (especially temporary work and management consultancy) or its stabilisation at a high level (information services), which have greatly benefited from the recovery and have been only slightly affected by the health constraints. Conversely, personal services (accommodation and food services) continued to contract.

Balance of opinion on changes in activity in the services sector, cumulatively over the last three months

(balance of opinion)



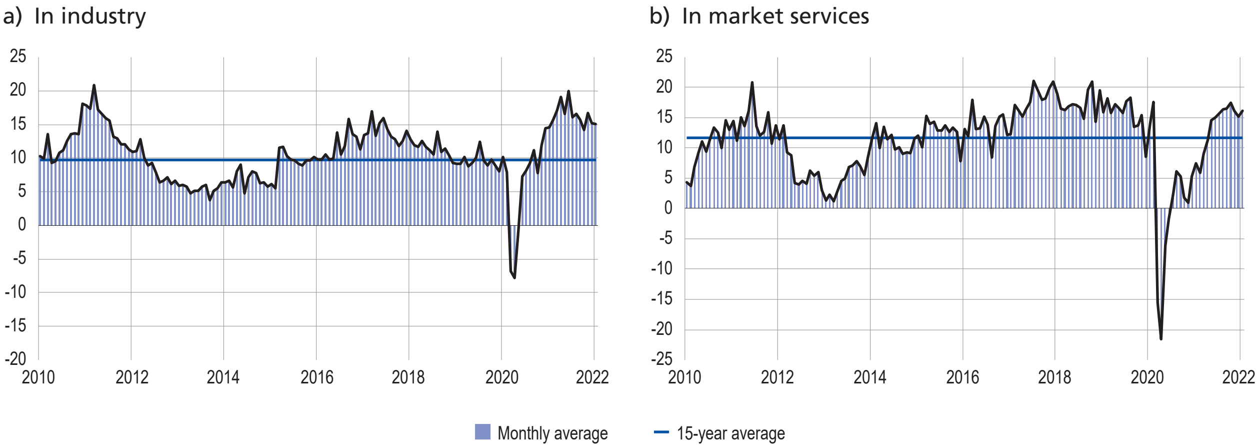
Note: As a trend, a positive (negative) balance of opinion corresponds to an increase (decrease).

In the **construction** sector, activity increased very slightly, with a more marked upturn in the structural work sector.

The balances of opinion on the **cash position** stood at above their long-term average; they were stable in industry and improved very slightly in services in January.

Cash position

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



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2. In February, business leaders expect activity to increase in industry and services, with little change in construction

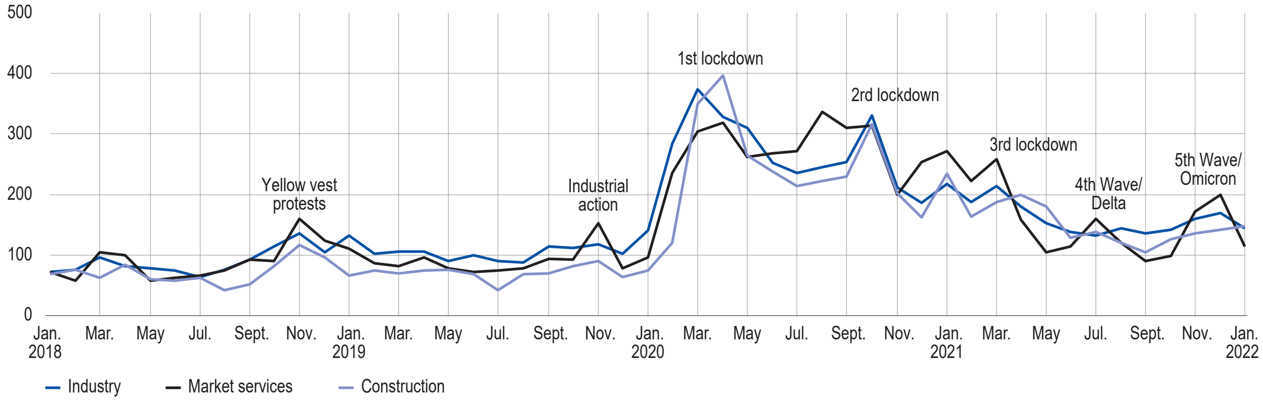
In **industry**, production is expected to strengthen in February across the board, and particularly in the manufacture of electrical equipment, the chemicals industry and wearing apparel, textiles and footwear. It should be almost stable in the automotive sector.

In **services**, the outlook is also tilted to the upside in all sectors, and most notably in business services – especially temporary work, which is expected to grow strongly again. Business leaders expect a modest recovery in the accommodation and food services sector.

In the **construction** sector, activity is expected to be almost unchanged, with a slight improvement in finishing works and a decline in structural works.

Our monthly uncertainty indicator, based on the text mining of respondents' comments, shows a clear decline in services, but a more moderate fall in industry, and a continued rise in construction. Since the beginning of the health crisis, the level of uncertainty recorded by this indicator has been strongly correlated with the emergence of the successive waves of the epidemic and the related measures; the drop observed in January probably reflects the prospects of the end to the fifth wave.

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



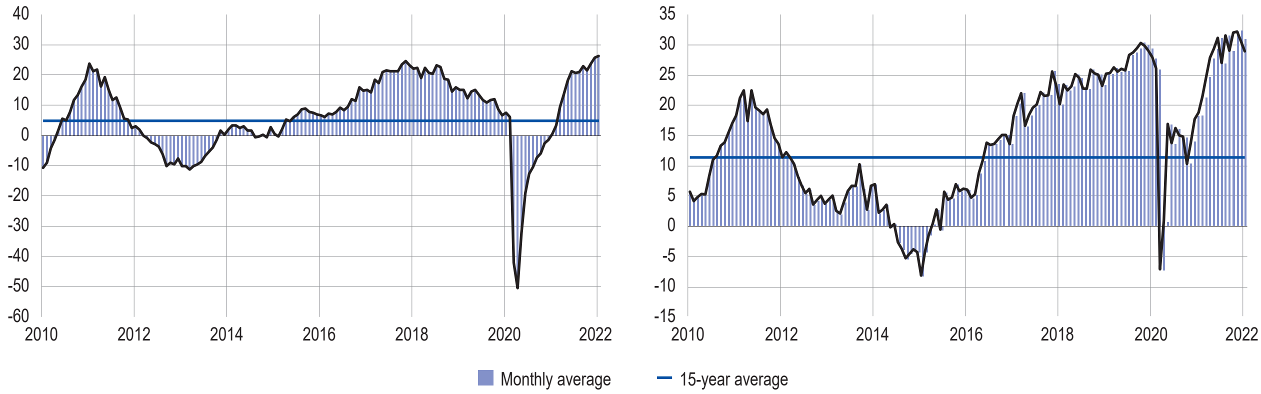
Note: the baseline value is set at 100, which corresponds to the value around which the indicator fluctuates during normal times.

The balance of opinion on **order books** was stable in industry. They remained particularly strong in the machinery and equipment, rubber and plastic products, and electrical equipment sectors, and fell slightly in the construction sector. In both cases, this balance remained well above its long-term average.

Level of order books

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

a) In industry b) In construction

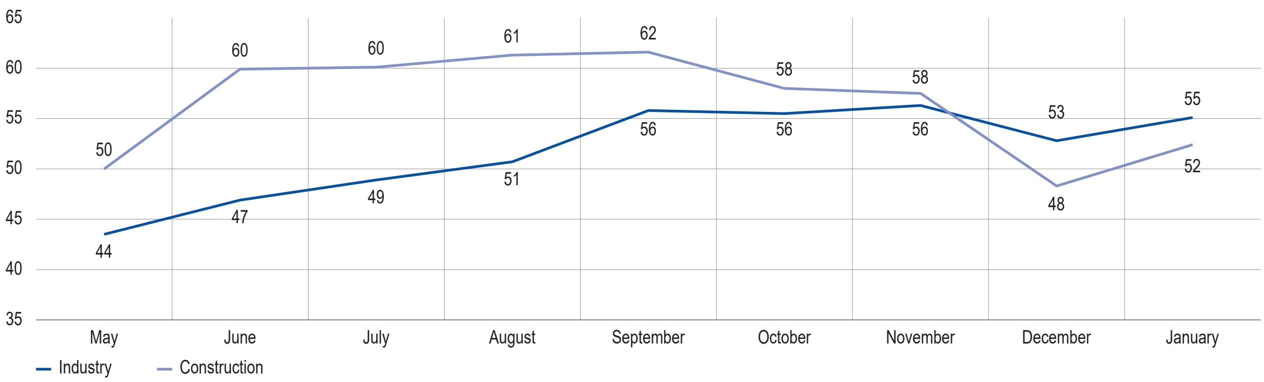


3. Against a backdrop of continuing supply and recruitment difficulties, finished goods prices rose in January

After a decline at the end of the year, the share of business leaders who consider that supply difficulties have had an impact on their activity has risen slightly in industry, from 53% to 55%, and more markedly in construction, from 48% to 52%.

Share of businesses reporting supply difficulties

(%, unadjusted data)



In industry, the worst affected sectors remained manufacturers of electrical equipment, of machinery and equipment, the automotive industry and wood, paper and printing. More recently, supply difficulties have significantly increased in the pharmaceutical industry, but, unlike other sectors, this probably reflects the strength of demand: the capacity utilisation rate is the highest in this sector (5 percentage points above its historical average).

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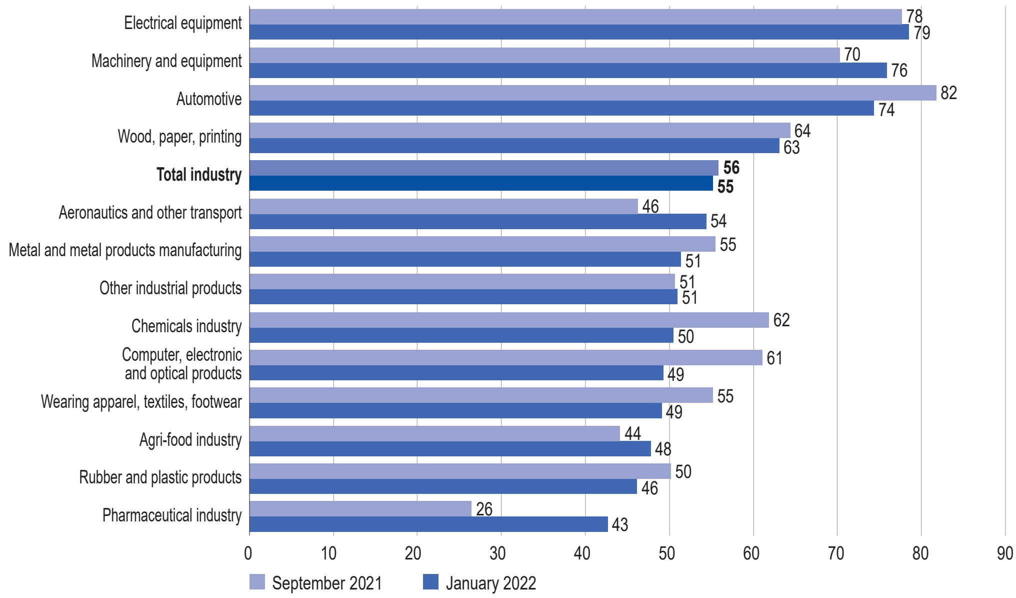
Share of firms reporting supply difficulties – Industry, January 2022

(%, unadjusted data)



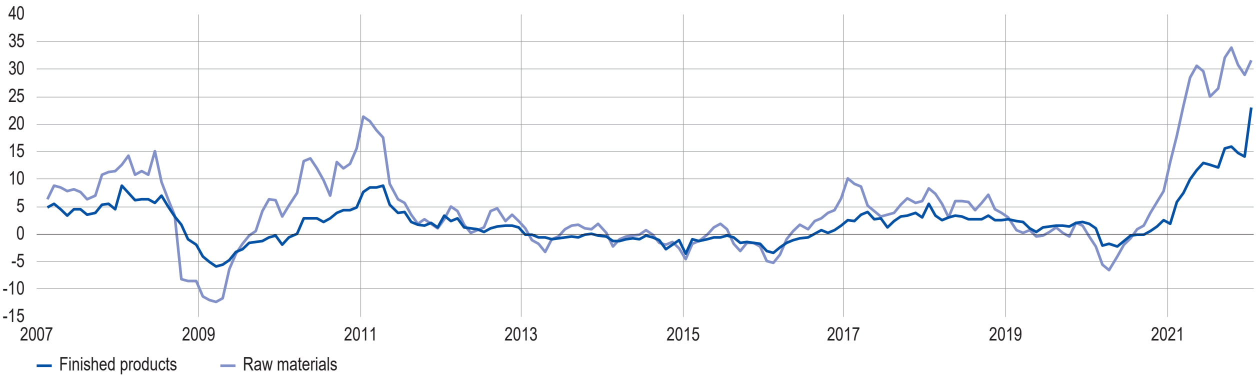
For the great majority of companies, these difficulties are likely to persist for several months (see box below).

According to business leaders, these supply difficulties were accompanied by further increases in the prices of raw materials and finished goods. The balance of opinion on raw material prices remained very high but tended to stabilise, while the balance of opinion on finished product prices continued to rise, reflecting the fact that cost increases are still being passed on.

The share of business leaders reporting significant price increases was highest in the rubber and plastic products sector and in the wood, paper and printing sector.

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

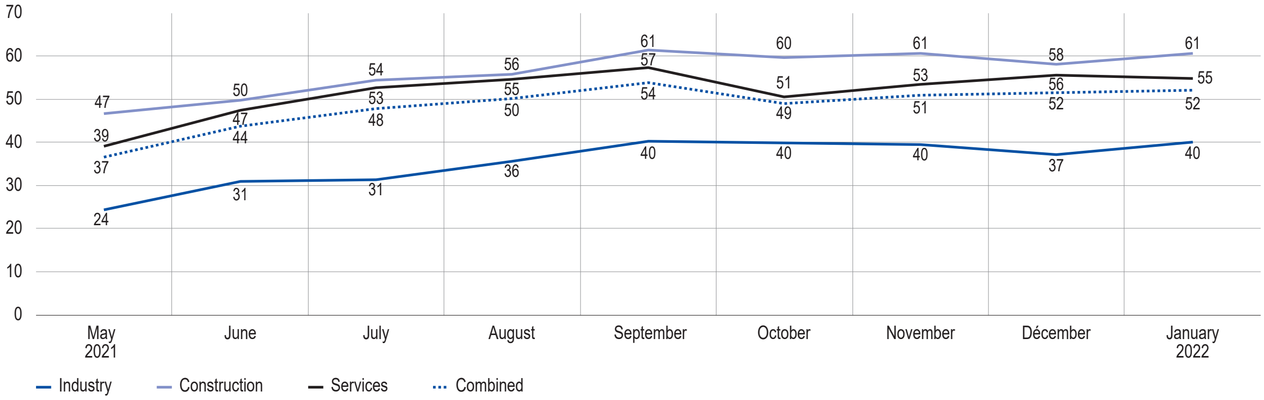
(balance of opinion, adjusted for seasonal and working-day variations)



Business leaders were also asked about their **recruitment difficulties**. For all sectors combined, they affected just over half of all companies, at 52% in January, with a slight increase in industry and construction.

Share of businesses reporting recruitment difficulties

(%, unadjusted data)

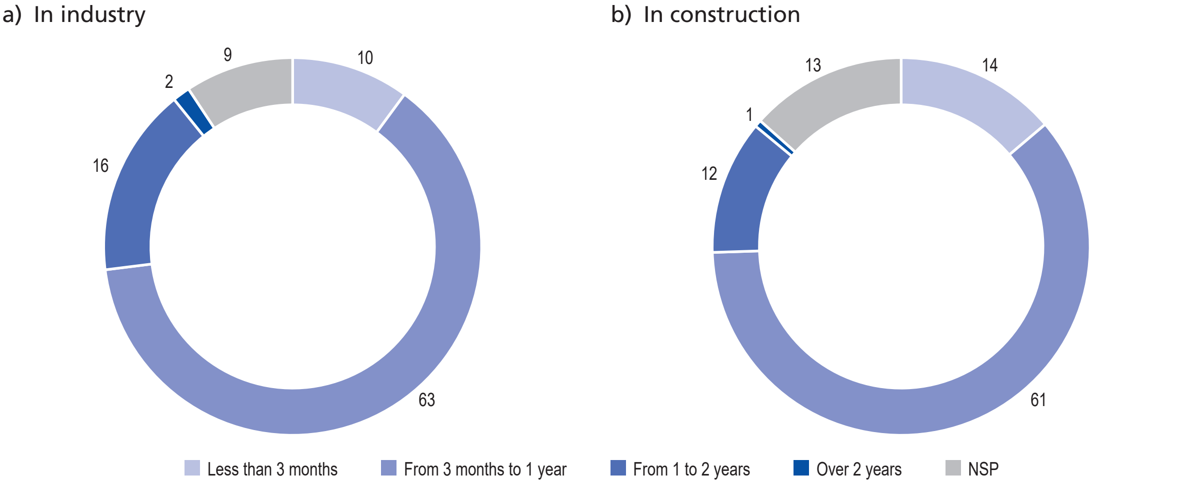


Expected duration of supply difficulties

Business leaders in industry and construction who indicated that they were experiencing supply difficulties were asked this month how long it would take to resolve these difficulties. While 73% of companies in industry believe that these difficulties will not last more than one year (75% for construction companies), only 10% expect them to be resolved within three months (14% for construction companies).

Duration of supply difficulties

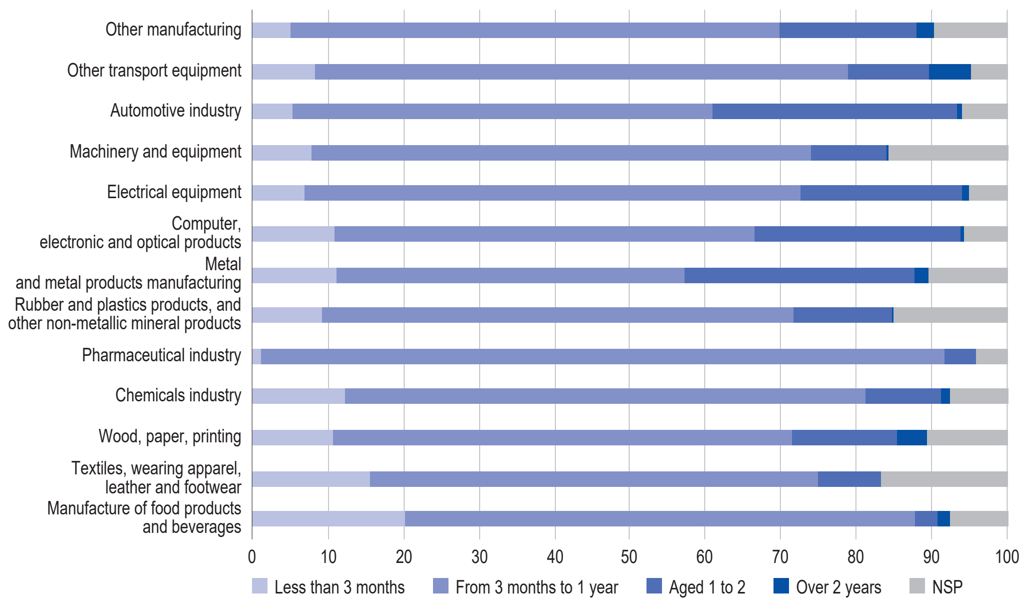
(%)



Within industry, the automotive and metal sectors were the most pessimistic about how long it would take to resolve the difficulties. For example, just over 60% of companies in the automotive sector (and just under 60% in the metal sector) believe that supply difficulties – mainly in semiconductors – will be solved by the end of 2022. Conversely, more than 80% of respondents in the agri-food, chemicals and pharmaceuticals industries believe that the difficulties will last less than a year.

Duration of supply difficulties in industry, by sector

(%)



4. The estimates primarily derived from the survey, supplemented by other indicators, suggest that the level of GDP stood at 1 percentage point above its pre-crisis level in January (as in December), and should be 1½ percentage points above in February

In our previous business update, we estimated that GDP in December was ¾ of a percentage point above its pre-crisis level. At the end of January, the quarterly accounts published by INSEE for the fourth quarter of 2021 led us to revise upwards the level of GDP, bringing it 1 percentage point above its pre-crisis level for the months of November and December. This upward revision was mainly due to the strength of market and non-market services.

For January, using granular survey data and other available data, we expect GDP to be stable compared to December, i.e. 1 percentage point above its pre-crisis level. Indeed, this assessment is also based on the high-frequency data that we monitor in parallel for sectors not covered by the survey (notably trade and transportation), and we refine if necessary our analysis of those industries and services that are covered. Yet, credit card transactions, which have increased compared with December, provide useful insights for the retail sector. More general data from Google Mobility and on road traffic provide information on the transportation sector and suggest that activity fell sharply compared to December.

Value added by sector

(percentage deviation from the pre-crisis level)

Activity sector	November	December	January
Agriculture and industry	**-2**	**-2**	**-2**
Agriculture and agri-food industry	3	2	2
Energy, water, waste, coking and refining	10	8	9
Manufacturing industry excluding food coking and refining	-7	-7	-7
Construction	**-4**	**-6**	**-6**
Market services	**2**	**3**	**3**
Wholesale and retail trade, transportation, accommodation and food services	-4	-2	-3
Financial and real-estate services	3	3	3
Other market services	7	6	7
Non-market services	**2**	**2**	**2**
Total	**1**	**1**	**1**

Business leaders expect a significant increase in activity in February, which would raise GDP to 1½ percentage points above its pre-crisis level, particularly thanks to the easing of health measures. **Subject to developments in March, the quarterly change in GDP in the first quarter should therefore come to around +½%.**