

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

Since the start of the year, the French economy has experienced a severe shock due to the war in Ukraine and the lockdown in China. While this shock continued to affect the French economy in May, our monthly business survey shows that activity is proving resilient at this stage

According to the business leaders participating in our survey (approximately 8,500 companies or establishments surveyed between 27 May and 3 June), activity in May increased in industry, the market services covered by the survey, and construction.

For June, activity is expected to improve moderately in market services, change little in industry and decline slightly in construction. However, there is still significant uncertainty surrounding this outlook, although our uncertainty indicator has fallen again in industry and services.

Meanwhile, supply difficulties remain significant in industry (61% in May, after 64% in April) and construction (55%, after 54%). Recruitment difficulties increased in May to 55%, particularly in industry and services. At the same time, the share of business leaders reporting a rise in their selling prices remains high, although it fell this month, in line with the more moderate increase in raw material prices.

After a very strong rebound in 2021, GDP fell in the first quarter of 2022, mainly due to the effects of the Omicron epidemic and the first impacts of the war in Ukraine. The results of our survey, combined with other data, suggest that, after a slight increase in the level of activity in April compared to March, GDP should increase more significantly in May, due to a rebound in industry and especially in services. Early indications suggest that activity should pick up slightly again in June. Against the backdrop of a still very uncertain environment, we currently estimate that GDP growth for the second quarter of 2022 should be around ¼% compared to the previous quarter.

1. In May, activity grew in industry, market services and construction

In May, despite an environment marked by the ongoing war in Ukraine and the lockdown in China, industrial activity picked up again and even grew more than business leaders had expected last month. However, trends differed across sectors.

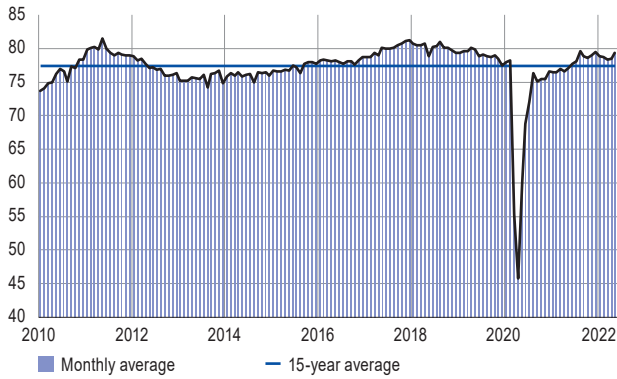
The balances of opinion on production in May suggest strong gains in the pharmaceutical industry, aeronautics – where production rates continued to increase but have not yet returned to their pre-crisis level – and the automotive industry, which, after several months of very sharp declines, recovered in May but remained at a very low level. As a result of the supply problems, the agri-food and clothing, textiles and footwear sectors fell slightly, whereas last month business leaders were expecting a rise in May for these two sectors.

In industry as a whole, the capacity utilisation rate increased by one percentage point to 79% in May; it rose slightly in most sectors, especially in the automotive sector where it climbed by six percentage points to 69%. It stood above its historical average in most sectors, with the notable exception of aeronautics and other transport (a 4-percentage-point difference).

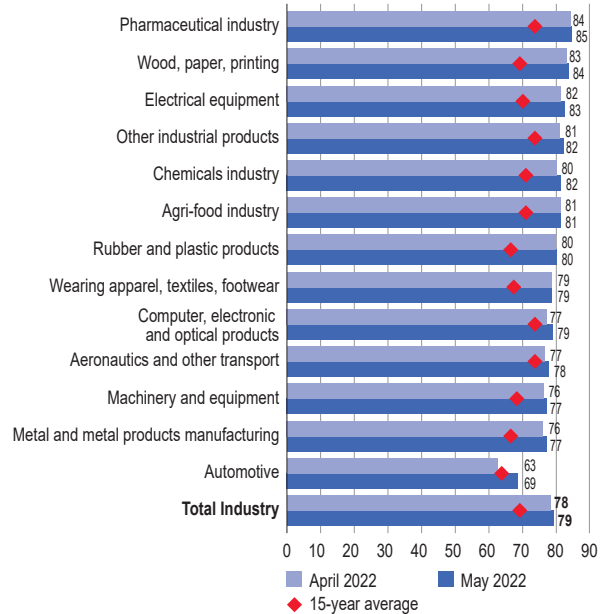
Capacity utilisation rate

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

a) In industry



b) By sub-sector



In **market services**, activity grew again in May. This increase was observed both in personal services, in particular accommodation and food services - with the return of foreign customers - and equipment and car rental, and, to a lesser extent, in business services.

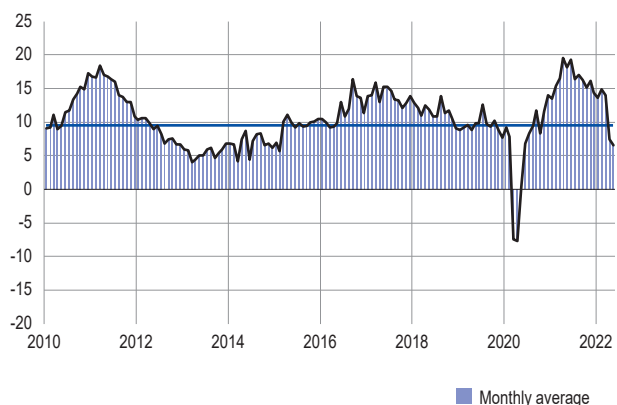
The **construction** sector grew, both in structural and finishing works.

After the decline recorded in April, the balances of opinion on the cash position dropped again and returned to slightly below their long-term average, both in industry and in services, although with some differences within these two major sectors.

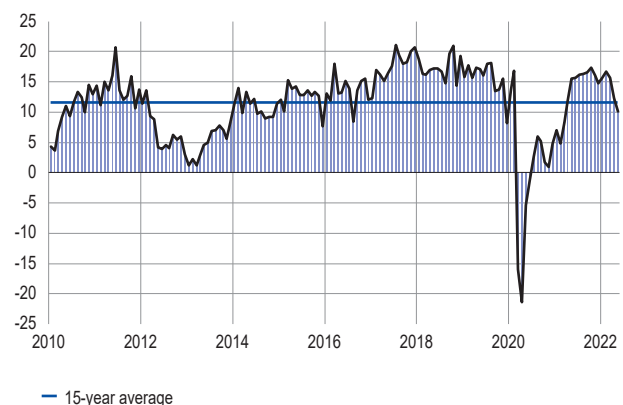
Cash position

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

a) In industry



b) In market services



2. In June, businesses expect moderate growth in services, little change in industry and a slight decline in construction.

For June, the business leaders surveyed in the **manufacturing industry** expect their activity to remain stable overall; aeronautics is expected to grow again, as is the pharmaceutical industry.

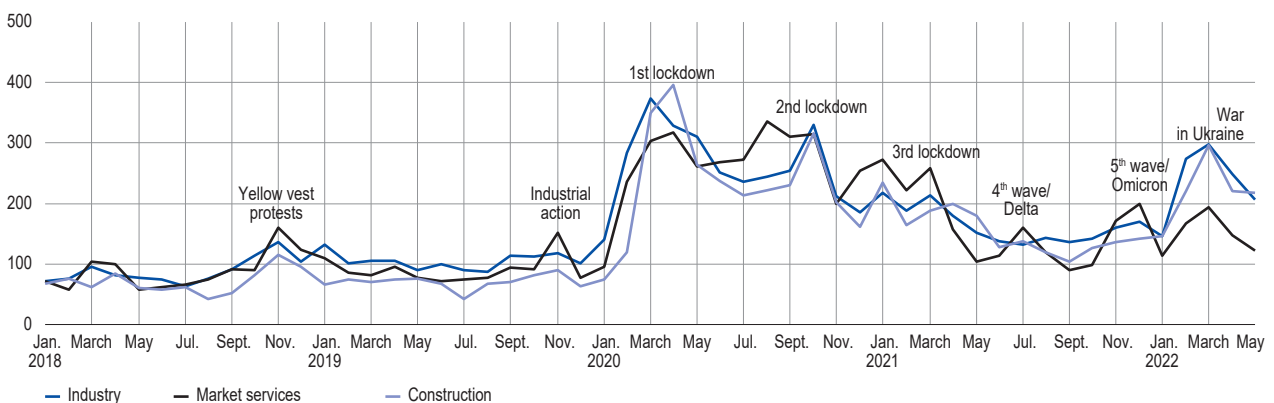
In **services**, business leaders expect an increase in activity, but less marked than in May, driven more by the business services sectors (programming, consulting, management) as well as rental activities.

In **construction**, activity fell slightly, especially in structural works,

Our monthly uncertainty indicator, constructed using text mining of comments by businesses surveyed, declined again in May in industry and services. However, it remained at a high level in industry and construction, due to the war in Ukraine and the lockdown in China, which weighed on supplies and prices.

Uncertainty Indicator in the comments section in the Monthly Business Survey (MBS)

(unadjusted data)



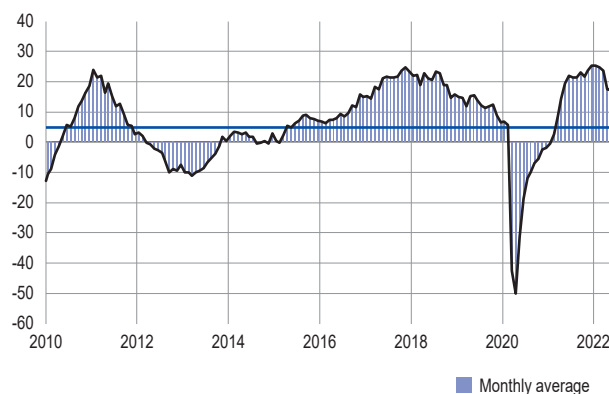
Note: The reference value is set at 100, which corresponds to the value around which the indicator fluctuates during normal times.

The balance of opinion on order books in industry and construction was stable in May, following a decline in previous months.

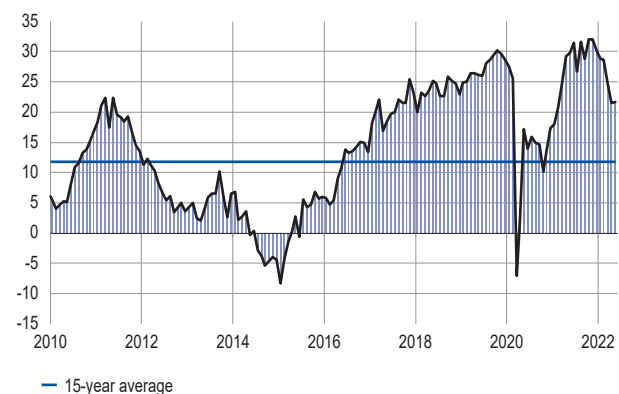
Level of order books

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

a) In industry



b) In market services

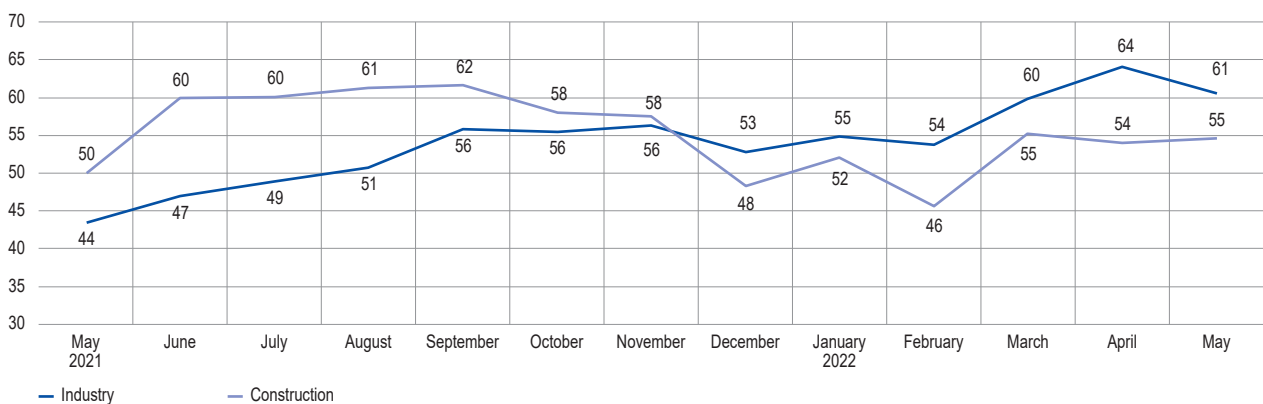


3. Supply difficulties remained elevated, but price increases were somewhat less pronounced in May

Supply difficulties remained elevated in May. The share of business leaders who deemed that supply difficulties had weighed on their activity fell in industry (61% in May, after 64% in April) and changed little in construction (55%, after 54%). Some business leaders say they overstocked raw materials in previous months to be able to cope with supply contingencies.

Share of businesses reporting supply difficulties

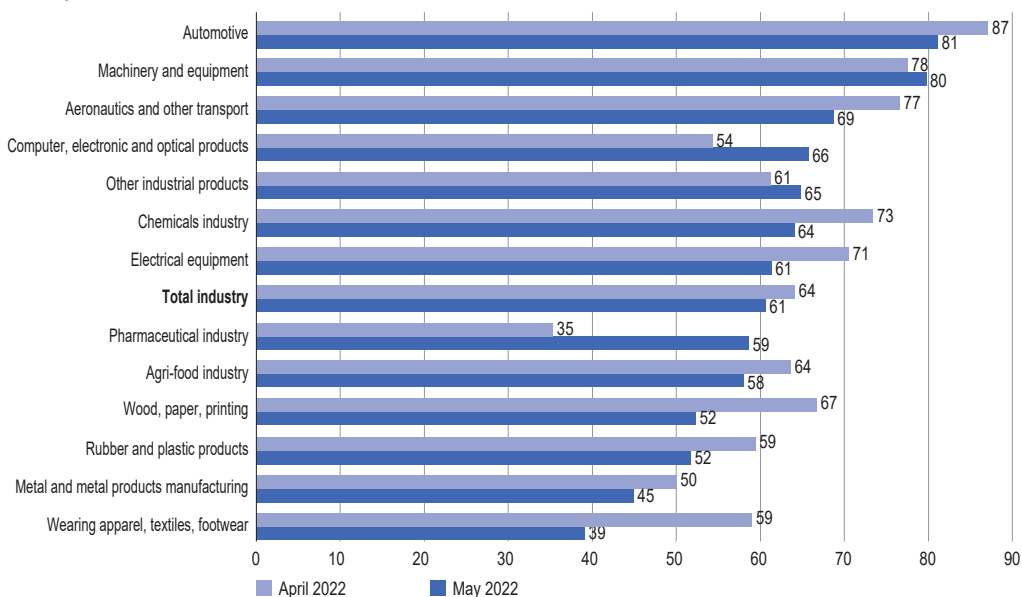
(%, unadjusted data)



This relative stability masks differences across sectors. Difficulties mounted in the pharmaceutical industry (active ingredients) and the manufacture of computer products (electronic boards and printed circuit boards), resulting in a decline in the level of finished goods inventories. Conversely, in May business leaders reported a reduction in difficulties in the wood, paper and printing industry as well as in the clothing, textile and footwear sector.

Share of firms reporting supply difficulties – Industry, May 2022

(%, unadjusted data)



According to business leaders, the easing of supply difficulties was accompanied by lower increases in the prices of raw materials and finished goods, which nevertheless remained at high levels.

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

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

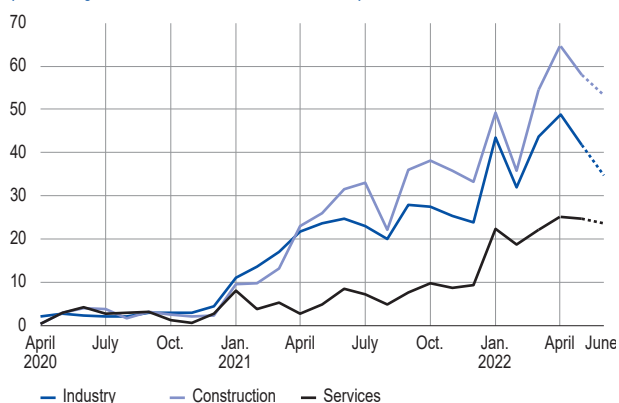


In particular, 42% of business leaders in industry report having increased their selling prices in May, in line with last month's expectations (41%). The share of business leaders reporting significant price increases is, as in previous months, significant in the chemicals, electrical equipment and wood, paper and printing industries. This share amounts to 58% for construction companies and 25% for market services.

The outlook for June suggests a further contraction in the share of price rises in construction (53% of business leaders expect to increase their selling prices next month), services (24%) and especially industry (35%).

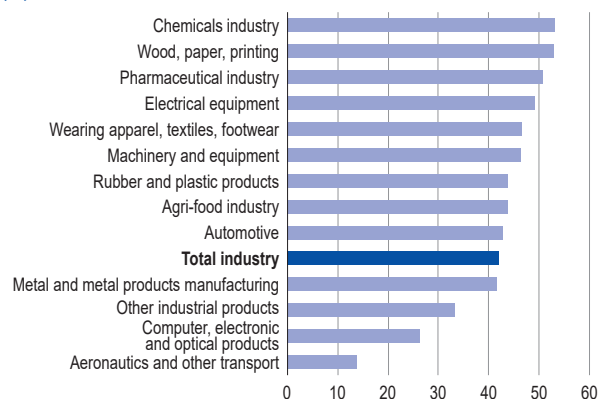
Share of business leaders who increased their selling prices, by broad sector

(%, unadjusted data; for June: forecast)



Share of business leaders who increased their selling prices in May, by sector

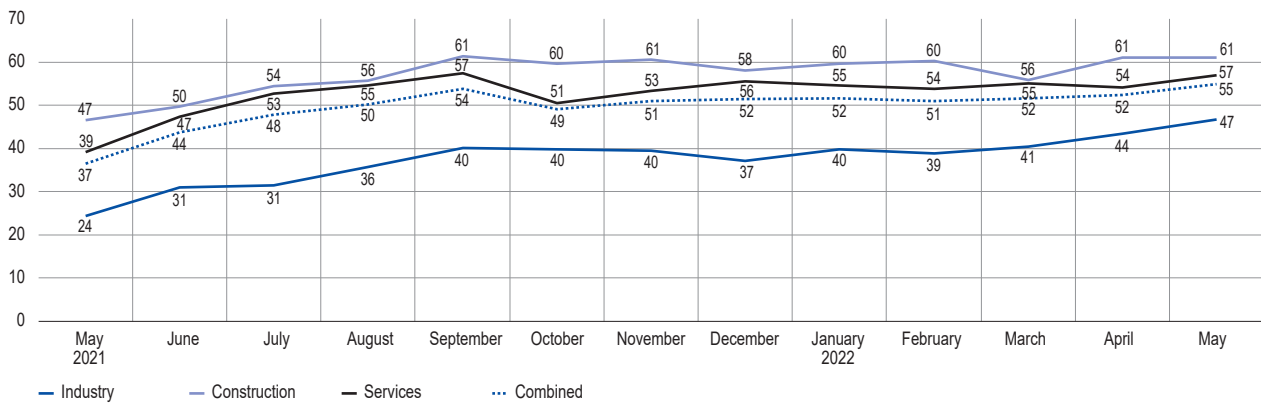
(%)



Business leaders were also asked about their **recruitment difficulties**. They increased this month by 3 percentage points to 55%, driven up by both services (3 percentage points) and manufacturing (3 percentage points in May and 10 percentage points since December).

Share of businesses reporting recruitment difficulties

(%, unadjusted data)



4. Estimates derived mainly from the survey, supplemented by other indicators, suggest that the level of GDP in May was significantly higher than in April, and that it should increase slightly again in June

For May, the use of granular survey data, together with other available data, suggests that GDP (assessed as a percentage deviation from Q4 2021) will be higher than in April, following a slight improvement in the level of activity in April compared to March. This increase is due to a rebound in industry and especially in market services, which were strongly affected at the beginning of 2022 by the impact of the Omicron wave.

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 sector, which was up in May compared with April. Road traffic data combined with credit card data provide us with information on the transport sector, which returned to its pre-Omicron level in May.

The table below estimates the level of GDP as a percentage deviation from Q4 2021.

Monthly level of French GDP

(percentage deviation from Q4 2021)

Activity sector	VA share	Mar.	Apr.	May
Agriculture and industry	15	-0.6	-0.5	-0.2
Agriculture and agri-food industry	4	-0.1	-0.5	-0.6
Energy, water, waste, coking and refining	3	-5.6	-4.2	-5.8
Manufacturing industry excluding food coking and refining	9	0.7	0.6	1.7
Construction	6	-1.6	-0.4	0.5
Market services	57	-0.2	-0.2	0.4
Wholesale and retail trade, transportation, accommodation and food services	18	-1.2	-1.6	-0.4
Financial and real-estate services	17	0.3	0.3	0.3
Other market services	22	0.1	0.5	0.9
Non-market services	22	0.0	0.1	0.1
Total	100	-0.3	-0.2	0.2

Key: Activity in May is estimated to be 0.2% above the level of activity in Q4 2021.

In the survey, business expectations for June suggest a slight increase in activity compared to May, driven mainly by market services.

Subject to developments in June, and in a still highly uncertain environment, we expect the growth rate of GDP for the second quarter of 2022 around ¼% compared to the previous quarter.