

Update on business conditions in France at the start of July 2021

June was marked by a further easing of the public health restrictions, with, as of 9 June, the pushing back of the curfew to 11 p.m., the opening of restaurants and cafés for indoor service, and an increase in the maximum capacity for shops, cinemas and museums etc., and then, on 20 June, the lifting of the curfew.

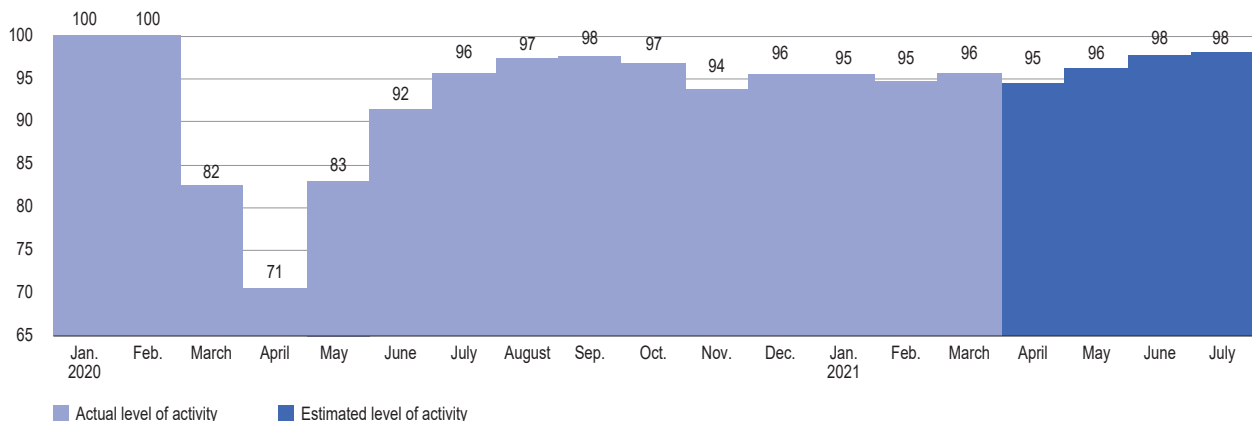
Against this backdrop, and according to our economic survey of 8,500 firms and establishments, conducted between 28 June and 5 July, the economy recovered at a slightly faster pace than predicted last month by business leaders. Activity improved in most industrial sub-sectors, and increased sharply in market services, where accommodation and food service activities experienced a very strong rebound. In construction, activity remained robust. Overall, we estimate the loss of GDP relative to pre-crisis levels at 2% in June, compared with 4% in May. GDP growth should be close to 1% for the second quarter of 2021.

This month we continue our focus on supply and recruitment difficulties: in June, the share of firms declaring supply difficulties increased slightly in industry, and rose more markedly in construction. An increasing proportion of firms declared recruitment difficulties (44% in June compared with 37% in May).

In July, business leaders expect activity to stabilise in industry and construction, while services activity should continue to rise. Under these conditions, the loss of GDP compared with pre-crisis levels should shrink slightly in July, but is expected to remain close to 2%.

Level of activity

(as a % of normal level)



1. In June, with the further easing of the public health restrictions, activity improved in industry and rose sharply in services; in construction, it remained buoyant

In industry, services and construction alike, the recovery observed by business leaders in June proved to be stronger than predicted a month ago.

In **industry**, the overall capacity utilisation rate declined slightly to 79%, which is in line with the level observed before the crisis, in February 2020. All sub-sectors reported a slight decline, with the exception of computer, electronic and optical products. The automobile industry saw a bigger drop, with the capacity utilisation rate falling from 76% to 71%. In aeronautics and other transport, the rate remained low at 73%, after 74% in May.

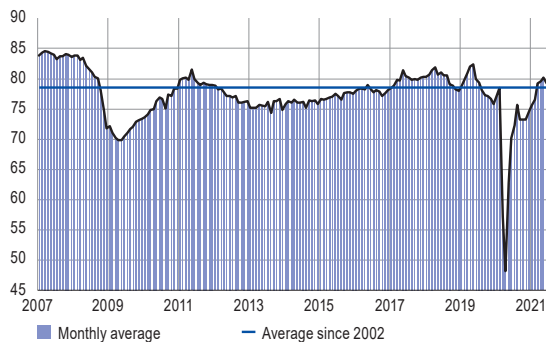
Activity levels continued to vary markedly across sub-sectors:

- In agri-food, chemicals, wood, paper and printing, and electrical equipment, activity was deemed to be above or close to normal levels.
- At the other extreme, however, activity was deemed to be at 3/4 of normal levels in the automobile and aeronautics industries.

As in May, business leaders in industry reported a sharp rise in raw materials and finished goods prices. They expect their selling prices to continue rising in July.

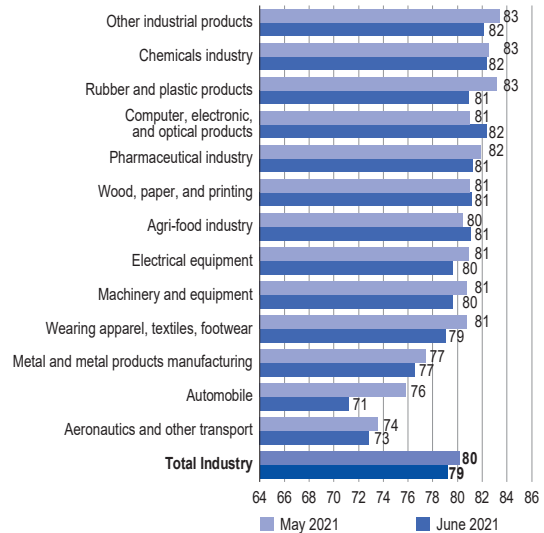
Capacity utilisation rate in industry

(%, seasonal and working-day adjusted)



Capacity utilisation rate

(%, seasonal and working-day adjusted)



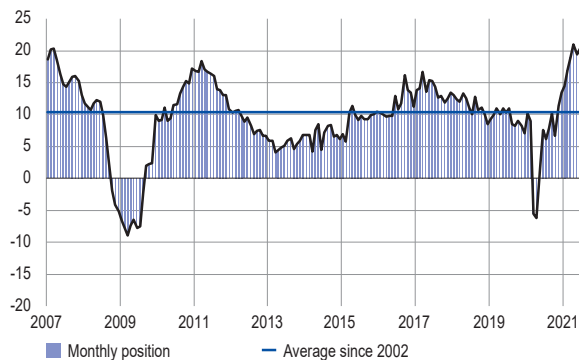
In **market services**, activity improved markedly, driven by a rebound in those local services most impacted by the easing of the lockdown measures. Accommodation and food services saw very sharp jumps in activity: in food services, activity was deemed to be at 70% of normal levels in June (compared with 25% in May); in accommodation, it reached 53% (compared with 33% in May). Equipment rental activities (cars, etc.) were also robust.

In **construction**, activity exceeded pre-crisis levels.

The balance of opinion on **cash positions** improved slightly and reached a very high level in industry. In services it declined somewhat, but remained slightly above its long-term average. In food service activities, however, it was still deemed to be well below normal levels.

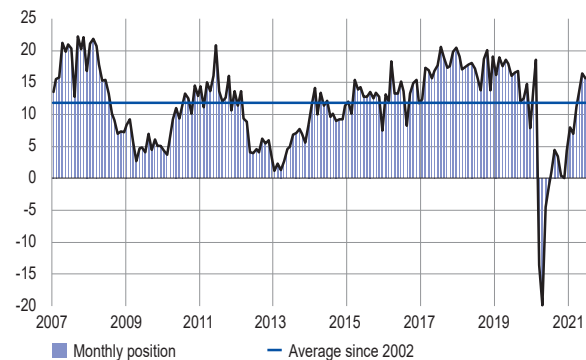
Cash position in industry

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



Cash position in market services

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



2. In July, business leaders expect activity to stabilise in industry and construction, whereas in market services it should continue to rise

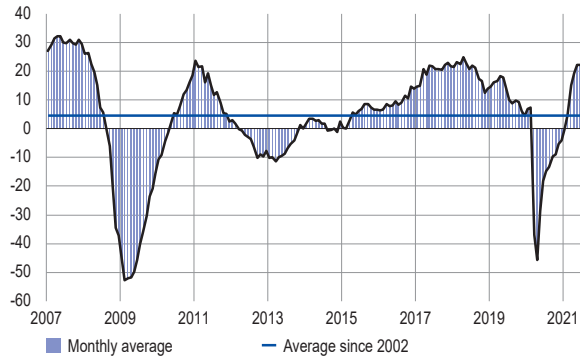
In **industry**, activity is expected to increase in pharmaceuticals, and in machinery and equipment. It should remain relatively stable in all other sub-sectors.

In **services**, activity should continue to rise in July, thanks to an ongoing improvement in accommodation and food services, as well as in equipment rental activities (cars, etc.). For the first time since the summer of 2020, therefore, services activity (as a percentage of normal levels) should reach the levels observed in industry.

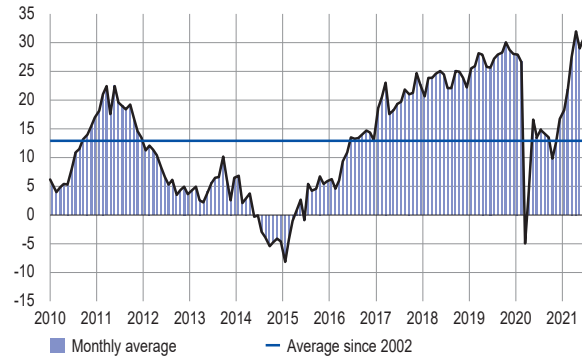
In **construction**, activity is expected to remain little-changed in July, and very close to the levels observed before the crisis.

The balance of opinion on **order books** remained strong in June in industry; in machinery and equipment and computer products, order books were particularly well stocked. In construction, they exceeded their pre-crisis level.

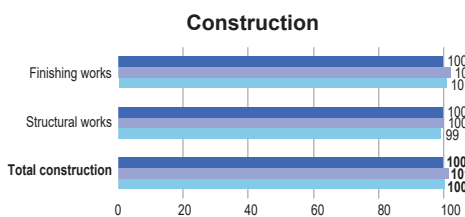
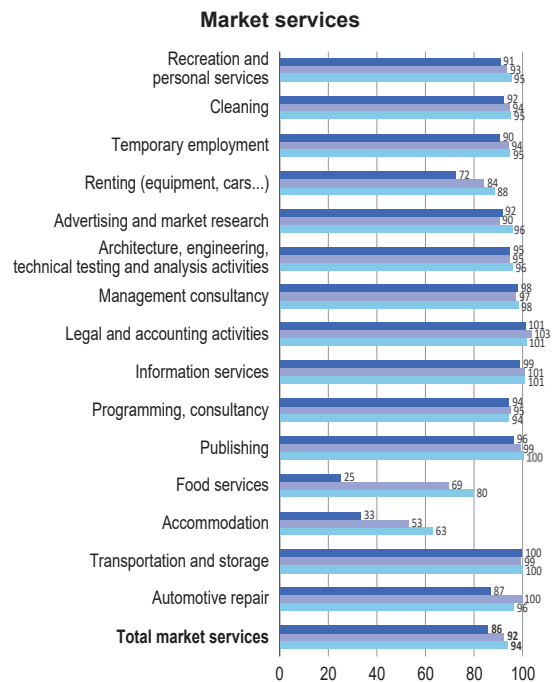
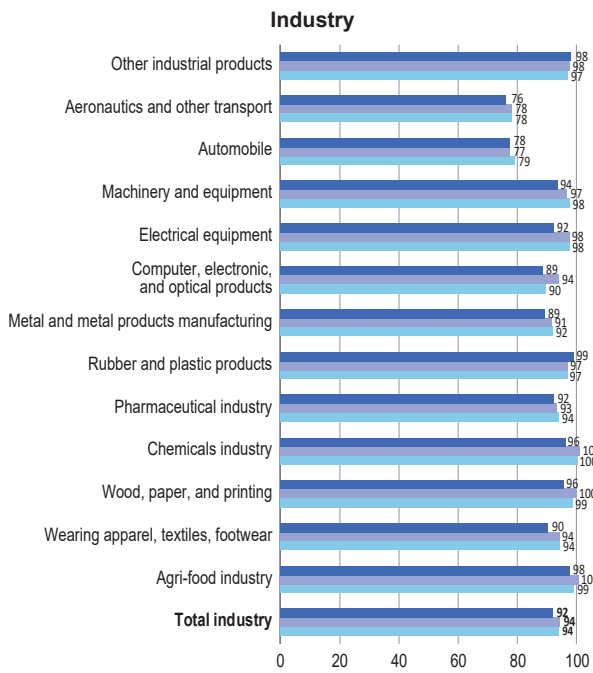
Level of order books in industry
(balance of opinion, seasonal and working-day adjusted)



Level of order books in construction
(balance of opinion, seasonal and working-day adjusted)



Business leader's assessment of their activity levels and expectations for July
(% of level deemed "normal"; unadjusted data)



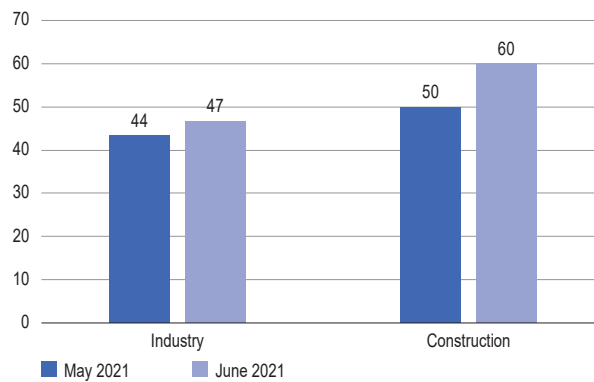
■ May 2021
■ June 2021
■ July 2021 (forecasts)

Supply and recruitment difficulties

For the second month in a row, business leaders were questioned about their **supply difficulties**. The share of leaders reporting that supply difficulties had affected production rose from 44% to 47% in industry, and from 50% to 60% in construction. In the construction sector in particular, an increased number of firms in the finishing works sub-sector cited supply difficulties as a factor that could weigh on activity.

Share of firms reporting supply difficulties

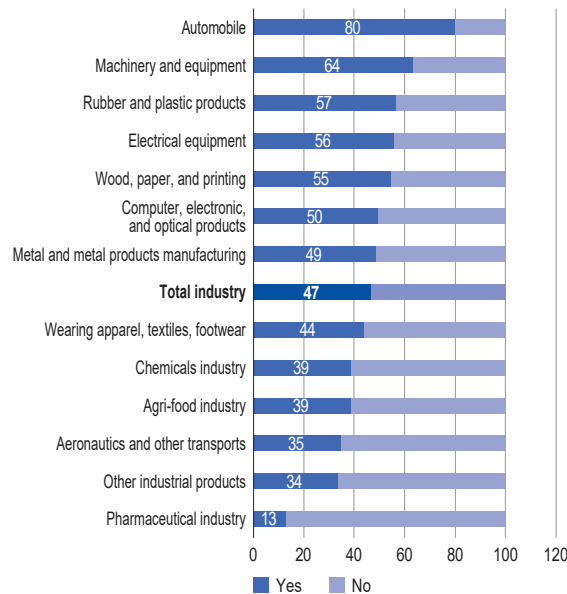
(%, unadjusted data)



In industry, the worst-affected sub-sectors were automobiles and machinery and equipment, with 80% and 64% of firms respectively (compared with 68% and 58% respectively in May) saying that supply difficulties had impacted production.

Share of firms reporting supply difficulties – Industry, June 2021

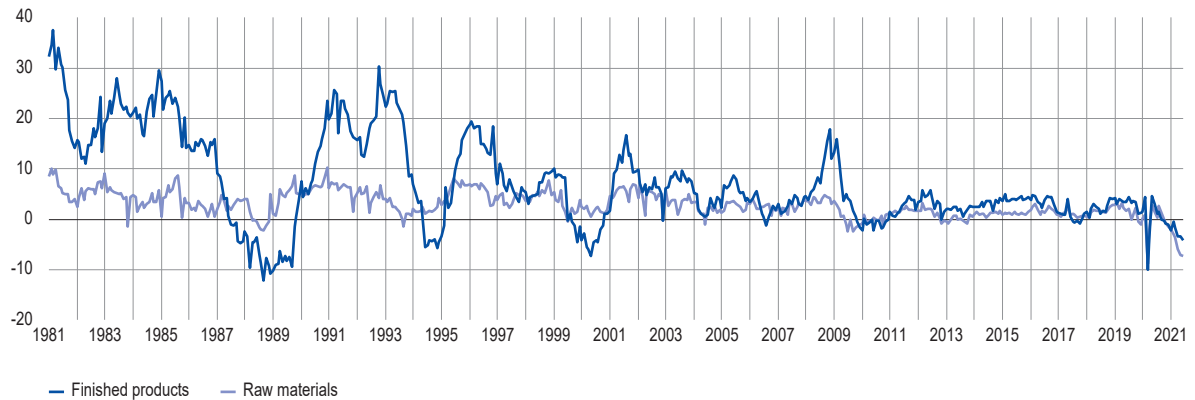
(%, unadjusted data)



In this context, inventories continued to decline, with the balance of opinion on raw materials and finished goods inventories reaching an all-time low.

Balance of opinion on the level of inventories compared to normal Manufacturing industry

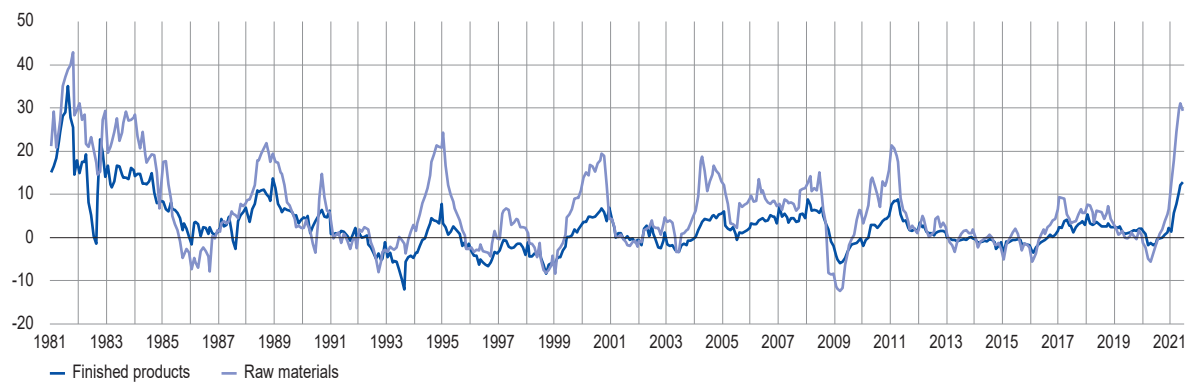
(balance of opinion, seasonal and working-day adjusted)



These supply difficulties were again accompanied by sharp rises in raw materials prices, although the balance of opinion has stabilised at a high level. According to business leaders, the rise in selling prices since the beginning of the year has been stronger in chemicals, rubber and plastic products, wood and paper, and metal and metal products manufacturing; the rise has been more moderate in agri-food and pharmaceuticals.

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

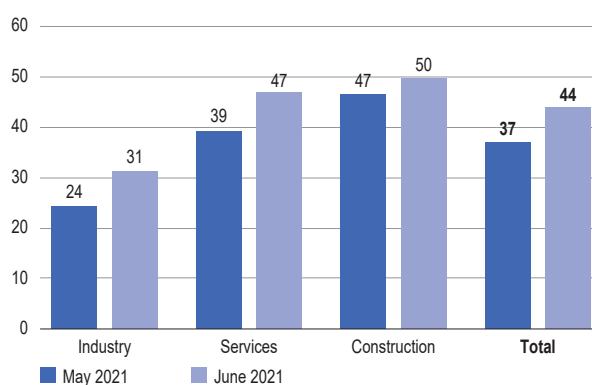
(balance of opinion, seasonal and working-day adjusted)



Business leaders were also asked about their **recruitment difficulties**: these tended to increase in June, with 31% of industrial firms reporting that recruitment difficulties were weighing on activity (compared with 24% in May). Construction and services were the worst-affected sectors, with close to half of firms reporting difficulties, compared with fewer than a third in industry.

Share of firms reporting recruitment difficulties

(%, unadjusted data)



In industry, the worst-affected sub-sectors were machinery and equipment, other industrial products and electrical equipment.

In services, close to 40% of firms in accommodation and food service activities said they were experiencing difficulties, compared with a little over 20% in May. The biggest difficulties were in temporary employment, with 85% of firms reporting recruitment problems (compared with 65% in May).

3. The survey results by sector suggest that activity rose sharply in June (estimated loss of GDP compared with normal levels of 2%, after 4% in May), in a context marked by the continued easing of public health restrictions.

According to the detailed quarterly national accounts published on 28 May, the loss of GDP compared with pre-crisis levels stood at 5% in the first quarter.

For June, based on the granular survey results and on other available data, we estimate the loss of activity at around 2%. This is more optimistic than in our previous update, where we estimated the loss at 3% based on business leaders' expectations at the end of May. The improvement versus May stems essentially from accommodation and food service activities, transportation, wholesale and retail trade, and services to households and businesses. This is related to the easing of the public health restrictions, especially the pushing back of the curfew on 9 June, followed by its lifting on 20 June together with the opening of restaurants and bars for indoor service.

Impact of the Covid-19 crisis on value added by sector

(%)

Activity sector	VA share	April	May	June
Agriculture and industry	15	-3	-3	-3
Agriculture and agri-food	4	-2	-1	0
Energy, water, waste, coking and refining	3	6	7	8
Manufacturing industry excluding food, coking and refining	9	-7	-8	-7
Construction	6	-8	-8	-7
Market services	57	-8	-5	-3
Wholesale and retail trade, transport, accommodation and food services	18	-16	-12	-8
Financial and property services	17	-1	-1	-1
Other market services	22	-6	-4	-1
Non-market services	22	0	1	1
Total	100	-5	-4	-2

This assessment is corroborated by the high-frequency data that we also monitor for information on sectors not covered by the survey, and to confirm our assessment on industry and trade in particular. Bank card transactions provide useful information on activity in retail and wholesale trade, transportation, and accommodation and food services. The recovery that began in May continued in June for retail trade and accommodation and food service activities. Data on firms' electricity consumption, which notably provides additional information on industry, confirm that activity has been improving since April in energy-intensive sectors. More general data from Google Mobility (movement to and from places of residence) and on road traffic also show an upward trend. The Google Mobility index for retail and recreation sites is continuing the sharp upward trajectory that began in mid-May.

Business leaders' expectations for July point to a further moderate improvement in activity, especially in transportation, and in accommodation and food services. This is consistent with the continued easing of the lockdown measures, and especially the removal of capacity limits on public venues as of 30 June, together with the easing of restrictions on trade fairs, festivals and live entertainment. The information from the survey, combined with assumptions about those sectors partially or not covered by the survey, leads us to estimate that the loss of activity will be absorbed slightly in July, but should remain close to 2%.

Taking into account our estimates for April, May and June, GDP growth for the second quarter of 2021 is estimated at around 1%.