

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

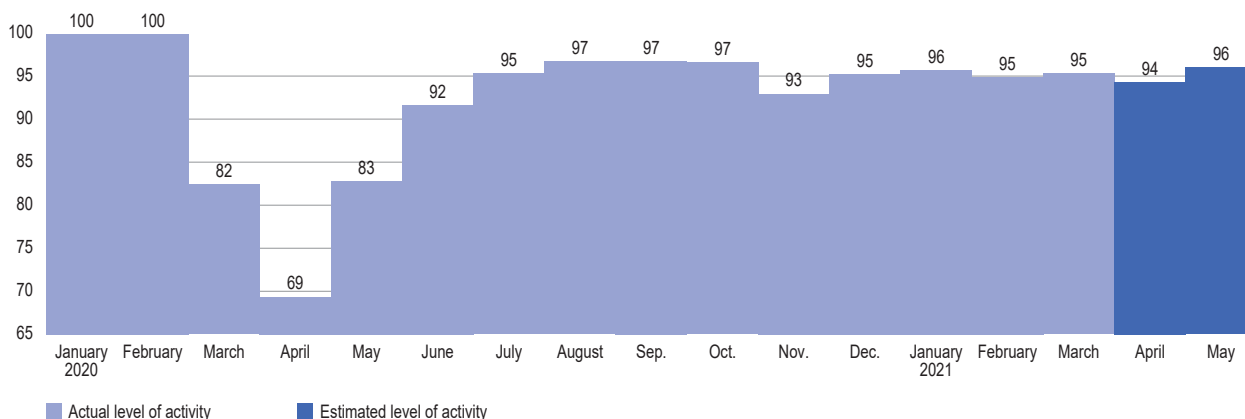
In April, the health measures were reinforced and extended to the whole of France, with in particular the closure of nurseries and schools until 26 April and the closure of non-essential shops. In this context, activity was down in market services (more particularly in local services) but was relatively resilient in industry (excluding the automobile sector). Activity in the construction sector remained at a level close to that of the pre-crisis period. In total, we estimate the loss of GDP compared to pre-crisis levels at 6% in April, as against 5% loss in March. Companies' cash position was above normal in industry and back to normal in services.

This month we focus on the fact that more than a quarter of companies in industry and construction report facing a supply problem, without, at this stage, it preventing their own business prospects from improving.

For May, business leaders expect activity to pick up in industry and services. In construction, activity is expected to be almost stable but still close to pre-crisis levels.

The survey data were collected between 28 April and 5 May from 8,500 companies or establishments. Close to 90% of the responses were received after the French President's announcements of 29 April (end of travel restrictions in France from 3 May, curfew shifted to 9 p.m. and reopening of shops, terraces, museums, cinemas and theatres with limited capacity from 19 May). Under these conditions, the loss of GDP compared to pre-crisis levels would be 4% in May.

Level of activity
(as a % of normal level)



1. In April, against a backdrop of tighter health measures activity fell in services, but was resilient in non-automotive industry and especially in construction

In market services, activity decreased slightly in April, against a backdrop of tighter health measures. In the non-automotive industry, activity was resilient. In construction, it remained at a level close to that of the pre-crisis period.

In **industry** as a whole, the capacity utilisation rate rose very slightly to stand at 81% (compared with 79% in February 2020). This rate increased in particular in rubber and plastic products (from 83% to 86%) and in the wearing apparel, textiles and footwear sector (from 80% to 82%). On the other hand, the capacity utilisation rate fell significantly in the automobile industry (from 81% to 77%), chemicals industry (from 82% to 80%) and pharmaceutical industry (from 83% to 81%). It remained particularly low in the aeronautics and other transport sector (72% after 71% in March).

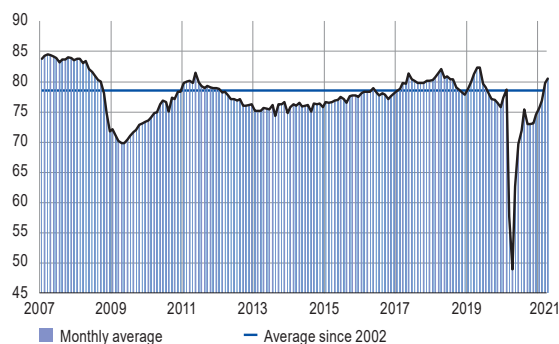
The survey's balance of opinion on the evolution of activity compared with the previous month remained positive, albeit down on March. On the other hand, business leaders' assessment of their level of activity (compared to normal) was slightly more pessimistic.

The levels of activity remained heterogeneous across the various sectors of industry. Thus, they were close to pre-crisis levels in rubber and plastic products and in other industries, but remained low in the aeronautics and other transport sector and in the automobile industry.

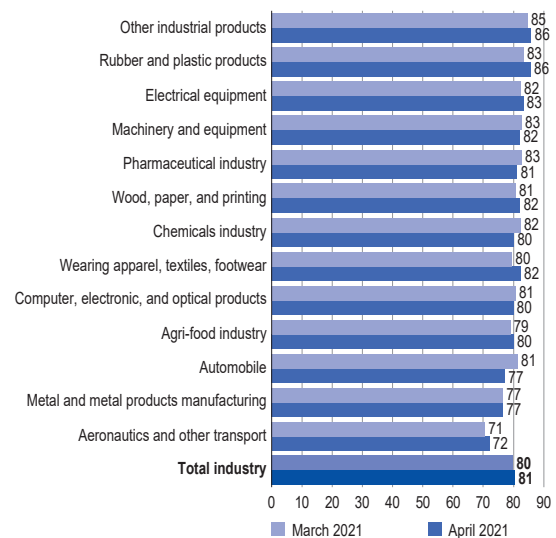
As in previous months, business leaders in industry report a strong increase in raw material and finished product prices in April. They expect sales prices to rise further in May.

In **market services**, activity was down in April, in particular in local services, which were particularly affected by the tightening of health measures: accommodation, food services, renting (cars, etc.) and recreation and personal services. On the whole, activity held up better in business services.

Capacity utilisation rate in industry
(%)



Capacity utilisation rate
(%)



In **construction**, activity was almost stable and very close to its pre-crisis level, according to the business leaders surveyed.

Overall, in most sectors, the impact of the tightening of health measures in April was slightly less marked than that of the November 2020 lockdown. Only a few sectors recorded lower levels of activity than last November:

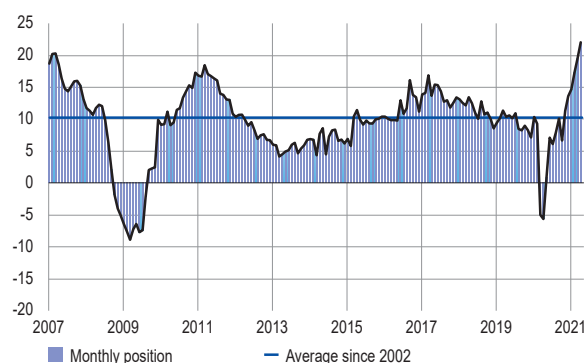
- in industry: the automotive sector and the aeronautics and other transport sector, where activity has been at a relatively low level for several months, and the pharmaceutical industry, which contracted in April;
- in services: accommodation, which was affected by the restrictive health measures.

In industry, the balance of opinion on **cash positions** improved further and was well above its long-term average. It also improved in services, reaching its pre-crisis level.

In addition, business leaders mentioned recruitment difficulties, especially in industry and construction.

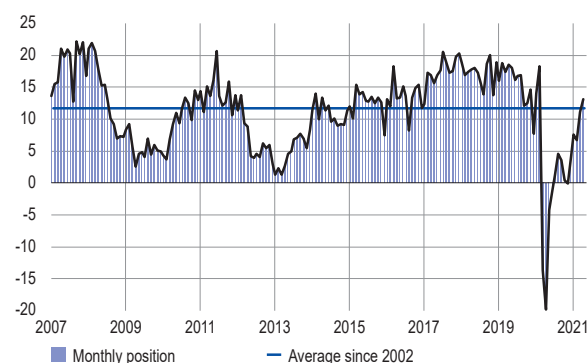
Cash position in industry

(balance of opinion)



Cash position in market services

(balance of opinion)



2. In May, business leaders expect activity to increase in industry and services and to remain virtually stable in construction

With the easing of health measures, business leaders expect activity to improve in both industry and services.

In **industry**, the recovery is expected to be marked in the pharmaceutical industry; activity is expected to pick up in the automobile industry, but will remain relatively weak. Production in the aeronautics and other transport sector is also expected to remain well below its pre-crisis level.

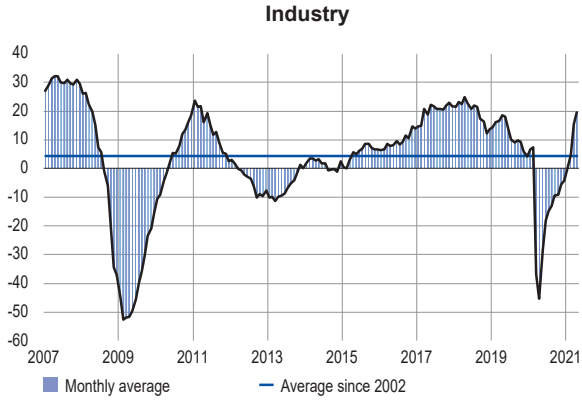
The improvement in activity should be more pronounced in services than in industry. Thanks to the easing of health measures, activity in accommodation and food services is expected to pick up slightly, but nevertheless remain at very low levels. The improvement should also be notable in recreation and personal services, as well as in renting (cars, etc.). The improvement is expected to be less marked in business services.

In **construction**, activity is expected to be virtually stable, at a level very close to its pre-crisis level.

The balance of opinion on **order books** continued to improve in industry in April, but to a lesser degree than the previous month. In construction, it continued to improve strongly and exceeded its pre-crisis level.

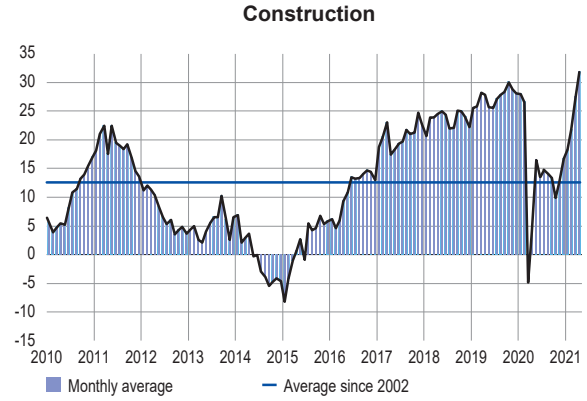
Level of order books

(balance of opinion)



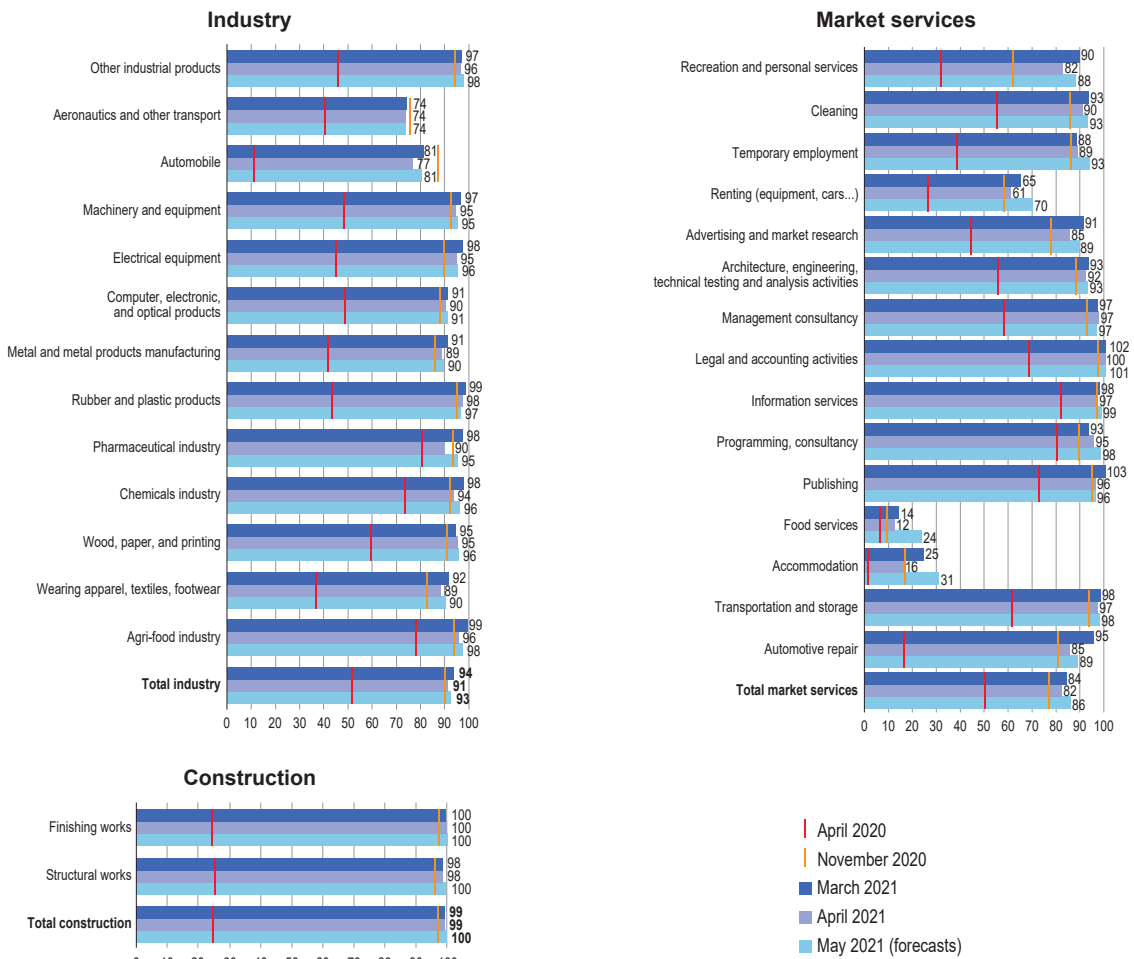
Level of order books

(balance of opinion)



Business leaders' assessment of their activity levels and expectations for May

(% of level deemed "normal")

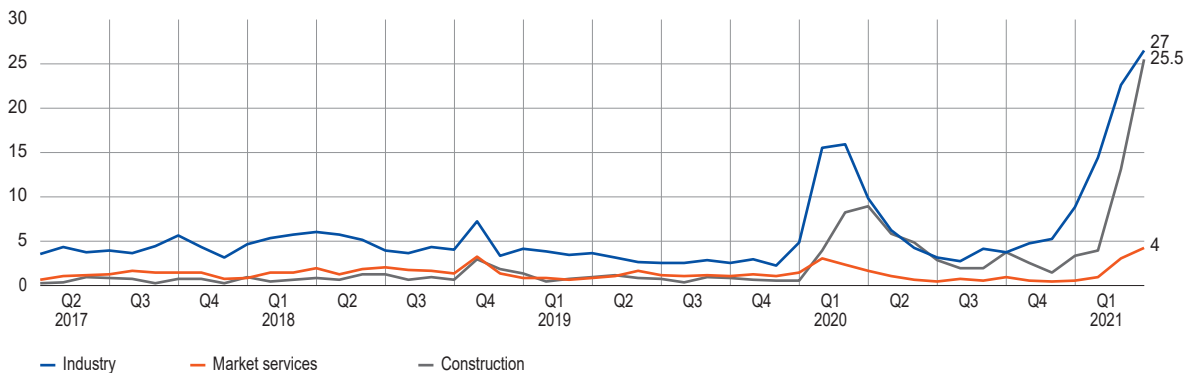


Focus: more than a quarter of companies in industry and construction report facing a supply problem without, at this stage, it preventing their own business prospects from improving

Since the start of the year, more and more business leaders interviewed in the business survey have reported facing a supply problem.¹ In April, in industry, 27% of respondents spontaneously raised this issue during interviews with the Banque de France, compared with approximately 3% usually. In construction, 26% of respondents mentioned it, compared with less than 1% as a rule. In services, 4% of business leaders spontaneously mentioned this issue, compared with the usual 1%.

Mention of a 'supply' issue* in monthly business survey comments

(as % of comments made)

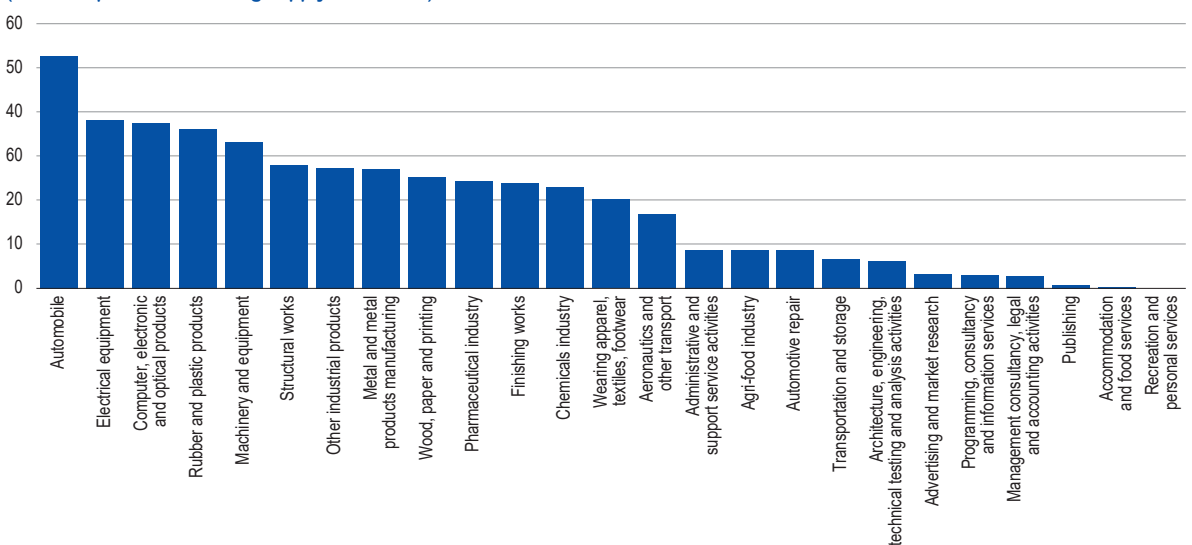


* Scope: comments of more than 4 words and for which the business conditions test has not been estimated.

Among the sectors surveyed, the automobile industry is the one where a supply problem is most frequently mentioned. Other industries, but also the construction sector, also appear to be concerned by this problem. The sectors in which this issue is most frequently mentioned are those in which the consumption of electrical and electronic components is particularly high: automobile industry, electronic and computer products, and electrical equipment.

Supply difficulties

(% of companies mentioning supply difficulties)



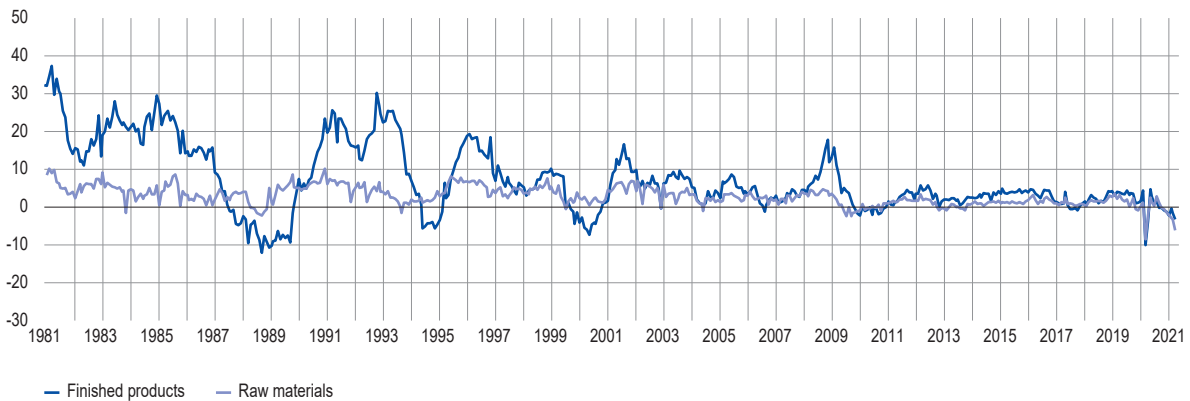
¹ We do not distinguish here between companies that report supply difficulties and those that report that they do not have any supply difficulties, but it can be assumed that companies that spontaneously mention this issue mostly report difficulties.

At the beginning of the year, there is no clear difference between the evolution of the activity of companies that mention a supply problem and that of the others, which suggests that at this stage the effect of this phenomenon remains contained at the level of the economy as a whole, even if there is an effect in the automobile industry.

Beyond the fact that not all companies are affected in the same way by supply difficulties, those that are able to cushion the impact of this phenomenon on their activity by drawing on their input inventories. As it is, the survey's balances of opinion on raw material inventories are at historically low levels, in particular in the sectors most affected by this problem.

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

(balance of opinion)

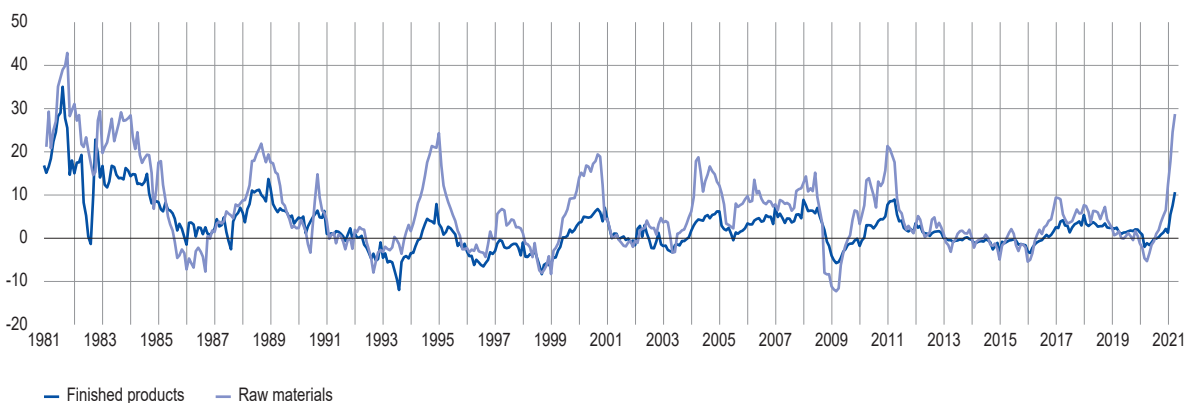


The balances of opinion on inventories of finished products are also tending to drop, which could signal emerging constraints on production, but also reflect a voluntary reduction in inventories in the face of weaker demand since the start of the crisis. These elements imply increased vigilance in the monitoring of the economic situation without, at this stage, indicating any checks, other than punctual ones, to the business growth prospects as mentioned by the companies themselves.

These supply difficulties are also accompanied by a rise in input prices. As it is, the balances of opinion on the evolution of raw material prices have clearly recovered since the beginning of the year, with in particular the rise in oil prices, and have reached particularly high levels in the survey.

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

(balance of opinion)



In response to raw material price increases, companies may choose to cut their margins or raise their selling prices. At this stage, the balances of opinion on the evolution of companies' selling prices have increased, but to a lesser extent than raw material prices, which are close to historical peaks, as in 2010. It should nevertheless be remembered that raw materials are not the only determinant of companies' selling prices, which will depend on their overall cost structure (inputs excluding raw materials, wages, rents, taxes, etc.). Moreover, these price pressures should lessen as one moves down the value chain to the products sold to final consumers, which are included in the HICP index. Thus, while the effect on consumer prices of price increases in low-processed commodities such as oil or certain food products is rapid and clear, the final effect of price increases in commodities is generally much more diffuse.

3. The survey results by sector lead us to estimate the loss of activity compared to its normal level at around 6% for April, after 5% in March, and suggest that it would drop to 4% in May with the easing of health measures

As a reminder, in our previous update on business conditions published on 12 April 2021, we estimated the loss of GDP at 4% in March, after 5% in January and February. The outcome of the quarterly accounts for Q1 2021 released at end-April is very close to our estimate, with a loss of GDP compared to the "normal" pre-crisis level of around 4% for the quarter as a whole. Combined with the information stemming from other monthly indicators, however, this leads us to slightly revise the sequence of monthly losses over the quarter, in particular for March, with a loss estimated today at around 5%.

In April, we took into account all of the monthly business survey economic indicators related to the evolution of the health and economic situation, which reflect companies' capacity to adapt to these constraints for the various sectors covered by the survey.

This assessment is corroborated by the high-frequency data that we monitor for additional information for sectors not covered by the survey (such as trade and transport). Indeed, bank card transactions show a loss of an order of magnitude close to that of last November. Google Mobility data (mobility to and from the place of residence, shops and recreational activities), as well as indicators of road traffic and ambient noise in the Île-de-France region, show a slight decrease in April, but depict a situation with a loss of lesser magnitude than that of the November lockdown. Finally, firms' electricity consumption data show only a very slight deterioration.

Using the survey data at a fine level of disaggregation and all the other available data leads us to estimate the loss of activity for April at around 6%, slightly less than our first estimate of around 7% in our previous update on business conditions (and also less than the loss of 7% last November). This corresponds to a moderate deterioration, i.e. a 1 percentage point decline in activity compared to March. This deterioration can be mainly attributed to the fall in activity in trade and transport services, see table below.

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

(%)

Activity sector	VA share	March	April	May
Agriculture and industry	15	-6	-6	-5
Agriculture and agri-food	4	-2	-3	-2
Energy, water, waste, coking and refining	3	-6	-7	-5
Manufacturing industry excluding food, coking and refining	9	-7	-7	-6
Construction	6	-7	-6	-6
Market services	57	-6	-8	-5
Wholesale and retail trade, transport, accommodation and food services	18	-14	-19	-13
Financial and property services	17	1	1	1
Other market services	22	-5	-5	-3
Non-market services	22	1	0	1
Total	100	-5	-6	-4

Firms' expectations for May point to a fairly significant improvement in activity, which is consistent with the partial lifting of health measures. This information provided in the survey, combined with assumptions about the sectors partially or not covered by the survey, leads us to estimate a loss of activity in May of around 4%. Improvements are expected to be notable in particular in trade and transport services.