

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

According to the Banque de France's business survey, conducted between 28 September and 5 October among 8,500 companies or establishments, activity fell slightly in industry, but firmed in construction and market services. The slowdown in industry was particularly marked in the automotive sector. In services, food services improved significantly. Overall, in September, we estimate a $-1/2$ percentage point loss in GDP compared to the pre-crisis level, after a -1% loss in August.

Supply difficulties increased again in September: they affected the activity of 56% of companies in industry and 62% of companies in the construction sector surveyed, compared with 51% and 61% respectively in August. The share of companies reporting recruitment difficulties reached 53% after 50% in August.

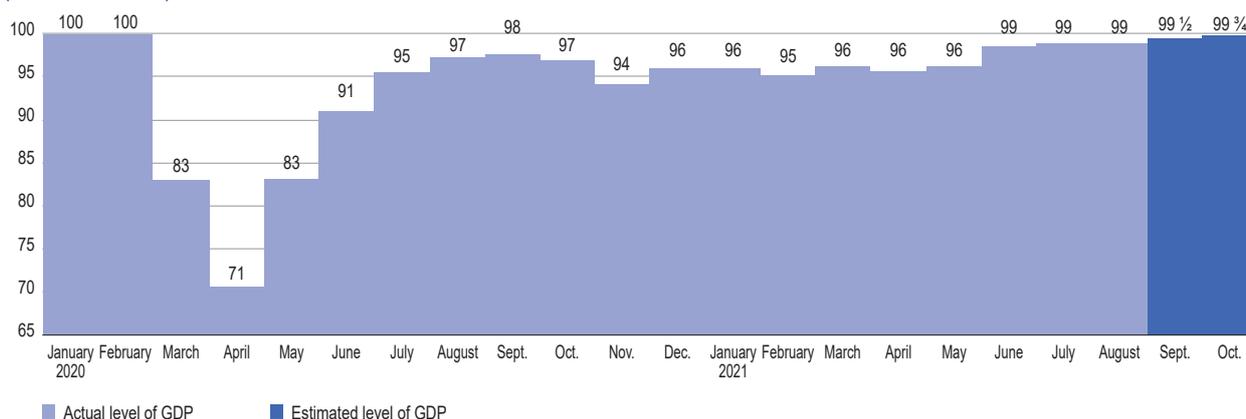
GDP growth in the third quarter is expected to be around to 2.3%.

In October, business leaders expect activity to improve in industry and services, while in construction it should be stable.

We estimate that activity in October should be almost 100% of the pre-crisis level.

Level of GDP

(% of normal level)



1. In September, activity fell slightly in industry, but rose in services and construction

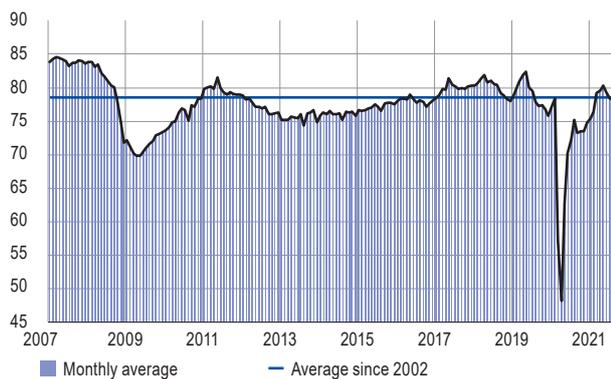
In **industry**, the overall capacity utilisation rate stood at 77% in September, after 78% in August; which is close to its pre-crisis level of 78% in February 2020. This rate rose sharply in the pharmaceutical industry, to 84% in September after 78% in August. In contrast, it fell significantly in the automotive industry, to 56% after 69% in August.

The change in the balances of opinion on activity confirmed this deterioration in the automotive sector, while activity was clearly more resilient in the other industrial sectors.

Levels of activity continue to vary across the different sectors of industry: production was close to pre-crisis levels in sectors such as wearing apparel and textiles, agri-food, chemicals and pharmaceuticals, while it remained between 75 and 80% of pre-crisis levels in the automotive, aeronautics and other transport sectors.

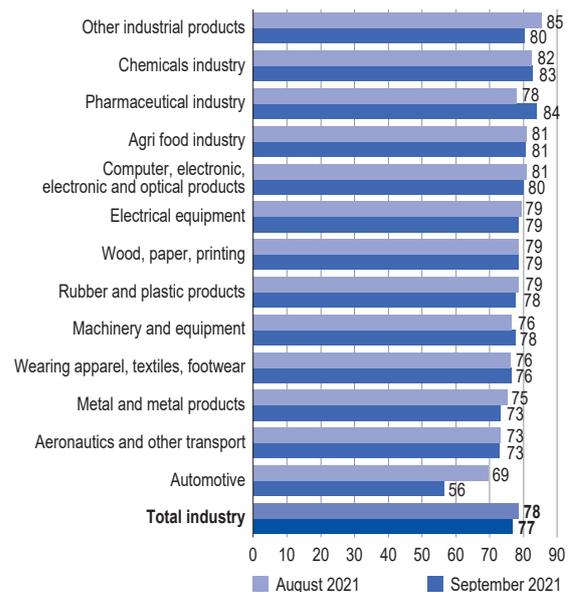
Capacity utilisation rate in industry

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



Capacity utilisation rate by sub-sector

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



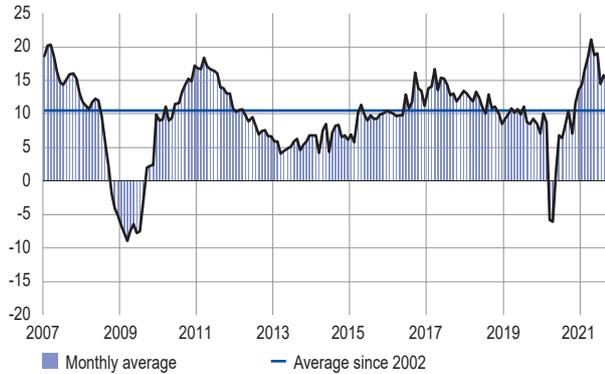
In **market services**, activity grew in September. This improvement was observed in all sectors. This rebound was particularly marked in leisure and personal services, information services and publishing, as well as in food services, where activity was 86% of the pre-crisis level in September, compared with 77% in August.

In the **construction** sector, activity firmed in both the structural and finishing works sectors, despite the supply difficulties reported by business leaders (see box below).

The balance of opinion on the **cash position** was stable overall and remained well above its long-term average. The opinion on the cash position remained negative in the food service sector, although it improved compared to previous months.

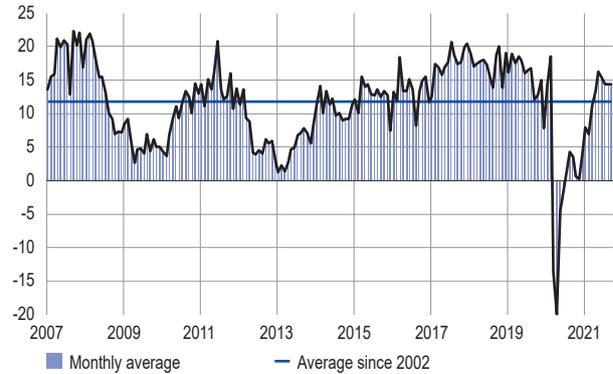
Cash position in industry

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



Cash position in market services

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



2. Business leaders expect a slight improvement in activity in October in industry and a more marked rise in services, whereas the outlook for the construction sector is stable

In industry, activity is expected to be almost stable or to increase across-the-board. The most improved sectors should be chemicals, electrical equipment and aeronautics and other transport. Production is not expected to change much in the automotive, machinery and equipment, metal and pharmaceutical industries.

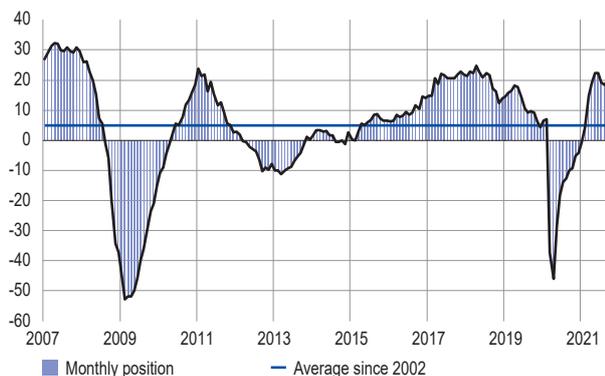
In services, activity is expected to increase in almost all sectors. The improvement should be particularly marked in food services, management consulting and temporary work.

In the construction sector, activity is expected to increase slightly in the structural work sector and to stabilise in the finishing work sector.

The opinion on order books improved slightly in industry, where it was well above its long-term average. Order books declined somewhat in the construction industry, but are still considered to be very strong and close to their 2019 peak.

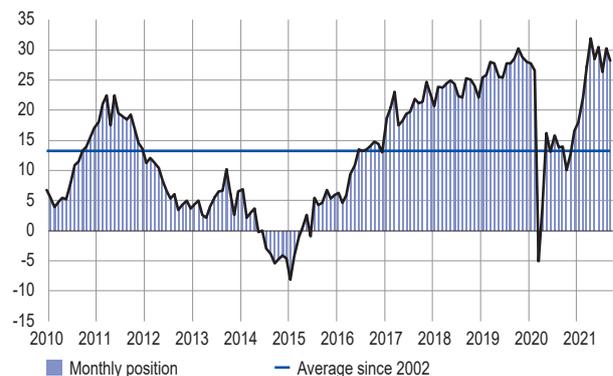
Level of order books in industry

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



Level of order books in construction

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

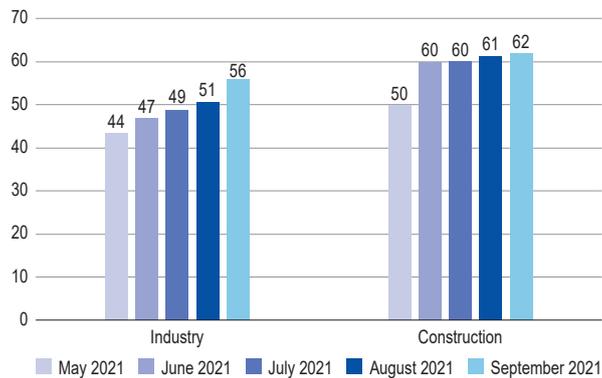


Supply and recruitment difficulties

Like in previous months, business leaders were asked about their supply difficulties. In September, the share of business leaders who consider that their activity has been affected by supply difficulties increased in industry (56%, after 51% in August) and in construction (62%, after 61%).

Share of firms reporting supply difficulties

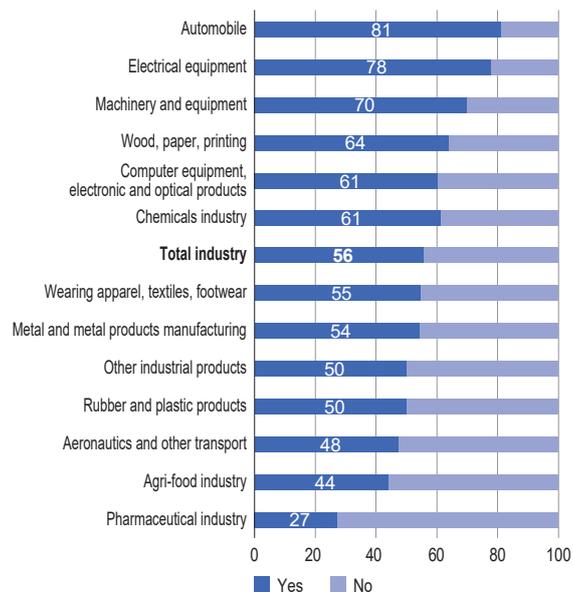
(%, unadjusted data)



In industry, the sectors most affected by these difficulties remain the automotive, machinery and equipment and electrical equipment sectors. Supply difficulties were also prevalent in the wood, paper and printing industries.

Share of firms reporting supply difficulties – Industry, September 2021

(%, unadjusted data)

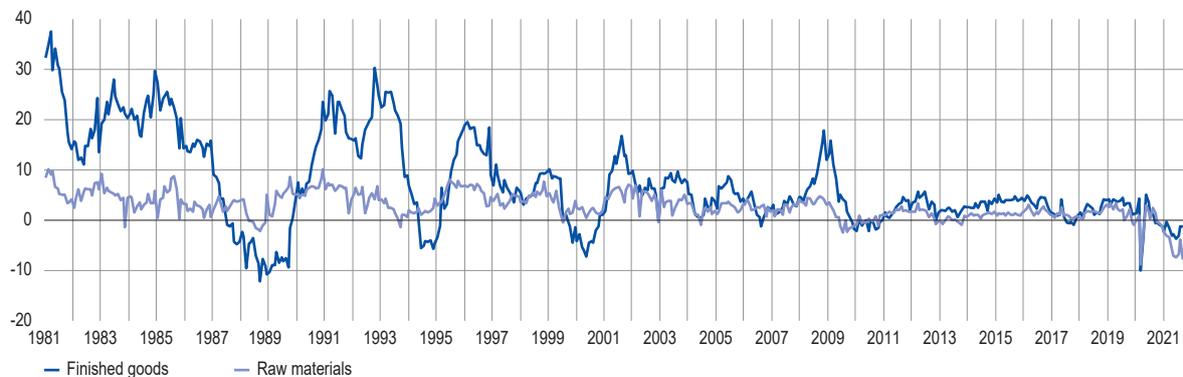


Depending on the sector, supply difficulties did not affect the activity in the same way. In particular, while production in the automotive sector fell significantly in September, construction activity rose slightly, buoyed by very strong demand.

In this context, raw material inventories, and to a lesser extent finished goods inventories, remained at low levels. In the automotive industry, manufacturers' finished goods inventories appear to have declined, but those of component suppliers remained high, as orders from manufacturers were disrupted by shortages of certain electronic components.

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

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



According to business leaders, these supply difficulties were compounded by further increases in the prices of raw materials and finished goods. This is particularly the case in the wood, paper and printing sectors, chemicals, computer, electronic and optical products, and electrical equipment sectors. However, in some sectors, price increases were less pronounced than in previous months (automotive, metal, rubber and plastic products). On the whole, business leaders expect their selling prices to continue to rise in October, albeit at a somewhat more moderate pace.

As in previous months, the balances of opinion suggest a more moderate increase in selling prices than in raw material prices; this has been the case, in particular, since the beginning of the year, for the automotive and agri-food industries. Raw materials are not the only determinant of companies' selling prices, which depend on their overall cost structure (inputs excluding raw materials, wages, rents, taxes, etc.) and margin behaviour: in some sectors, companies have been able to lower their margins in order to cushion the rise in selling prices.

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

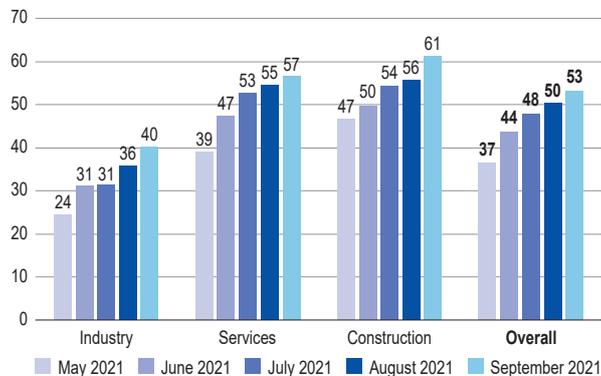
(balance of opinion, adjusted for seasonal and working-day variations)



Business leaders were also asked about their **recruitment difficulties**. The share of companies reporting such difficulties increased in September to 53% from 50% in August. These difficulties increased in industry, construction and services. They nevertheless eased in the food service and temporary work sectors, where they were reported by 63% and 70% of companies respectively in September, after 66% and 89% in August.

Share of firms reporting recruitment difficulties

(%, unadjusted data)



3. The survey results by sector suggest a level of activity that is expected to increase slightly in September as well as in October

In our previous business update published on 13 September 2021, we estimated the loss of GDP at -1% of the pre-crisis level for August.

For September, based on granular survey data, and other data available, we confirm our estimate of a loss of activity of around $-\frac{1}{2}$ percentage point, in line with that of our previous business update. Trends differ slightly from one sector to another, with industry declining slightly this month, while services and construction continue to recover.

This assessment uses the high-frequency data that we also monitor additionally for sectors not covered by the survey, and to confirm our assessment regarding industry and retail trade. In particular, credit card spending provides useful insights for the retail sector, which continued to fall following a lull in August. More general data from Google Mobility and on road traffic provide information on the transport sector, which continued to recover in September.

Impact of the Covid19 crisis on value added by sector

(%)

Activity sector	VA share	Jun.	Jul.	Aug.	Sept.
Agriculture and industry	15	-2	-2	-1	-2
Agriculture and agri-food industry	4	0	1	0	0
Energy, water, waste, coking and refining	3	9	6	7	8
Manufacturing industry excluding food, coking and refining	9	-6	-5	-3	-5
Construction	6	-2	-1	-3	0
Market services	57	-2	-2	-2	-1
Wholesale and retail trade, transport, accommodation and food services	18	-6	-6	-7	-7
Financial and real-estate services	17	0	0	0	0
Other market services	22	0	0	0	2
Non-market services	22	0	1	1	1
Total	100	-1	-1	-1	-½

GDP growth for the third quarter is expected to be around 2.3% compared to the previous quarter.

Business leaders' expectations for October point to a further moderate improvement in activity. Based on the information from the survey, combined with assumptions about those sectors partially or not covered by the survey, we estimate that activity will be between 99.5 and 100% of its pre-crisis level.

These estimates confirm at this stage the full-year forecast for 2021 that we published on 13 September.