

## Supply constraints and recruitment difficulties weigh on French companies

The business climate in France fell slightly in August, due to a high base effect, but also due to the unprecedented difficulties faced by companies, both in recruitment and supply chains



### The recovery is still underway

The French business climate indicator, published by INSEE, fell again in August to 110, in comparison with 113 in July and 114 in June.

The first message to be drawn from the indicators is that the economic recovery in France continues. However, several months after the last lockdown, the momentum of the economic recovery is beginning to wane, particularly in the services and retail sectors. The slowdown in the business climate can be partly explained by a significant base effect.

After a very strong increase in business leaders' opinion on the general outlook in May and June thanks to easing restrictions, the increase is now slowing down, even though the level of activity remains high.

## Some clouds

In addition to the base effect, various elements are beginning to weigh on the business climate.

First, the pandemic and in particular, the Delta variant remain an issue for French companies. For now, the 'health pass' puts in place to fight the pandemic does not seem to represent a brake on economic activity. On the contrary, the health pass seems to be seen as an important aid to avoid another lockdown and has a rather positive impact on the economic recovery.

Secondly, the French economy is facing unprecedented difficulties. Firstly, there are recruitment difficulties. The Banque de France surveys indicated in July that 48% of companies were facing this type of difficulty, compared to 37% in May. The president of Medef (the French business movement) goes even further, stating that this is the most pressing issue for employers and a real brake on activity, with recruitment difficulties affecting all levels of qualifications and all sectors.

French companies are also still facing major supply difficulties that limit supply. This is particularly the case in the automotive sector, where the global shortage of semiconductors is weighing heavily on production. In June, the level of production in this sector was 28% below the level that prevailed in February 2020 before the start of the pandemic. And this is not expected to improve in the coming months.

Toyota, for example, has announced that the resumption of production in France will be delayed by at least two weeks, Stellantis has put its production in France on hold for at least a week and Renault says that the lack of components will lead to a significant reduction in production. The PMI surveys for August also indicate that input shortages and bottlenecks in supply chains again led to a sharp increase in supplier delivery times in the manufacturing sector in August.

## Recovery expected to continue strongly, but the growth phase isn't accelerating

We expect the recovery to continue in the coming months, but it will remain constrained by the current difficulties. Indeed, the good shape of the labour market means that recruitment constraints are likely to continue to impact businesses. Supply difficulties are also unlikely to be resolved in the coming months, and input prices are likely to remain high. We expect input shortages to continue until 2022.

As a result, the French economy will not grow as much as the evolution of demand would have allowed. Supply-side constraints are likely to weigh on activity and limit GDP growth. We expect growth to be 5.6% in 2021, which is lower than the government's forecast of 6%.

## An investment plan to come

The major investment plan desired by Emmanuel Macron to "build the France of 2030" will be unveiled in September.

Its objective should be to improve France's growth potential by investing in industrial sectors considered promising for the future, such as semiconductors, biotechnologies and health, batteries, hydrogen, etc. It will be a five-year plan, worth around 20 to 30 billion euros.

However, the financing details of the plan have not yet been announced. It is unlikely that this plan

will have an impact on GDP growth in 2021. However, influencing only the supply side of the economy could increase the potential for GDP growth in the medium term.

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