

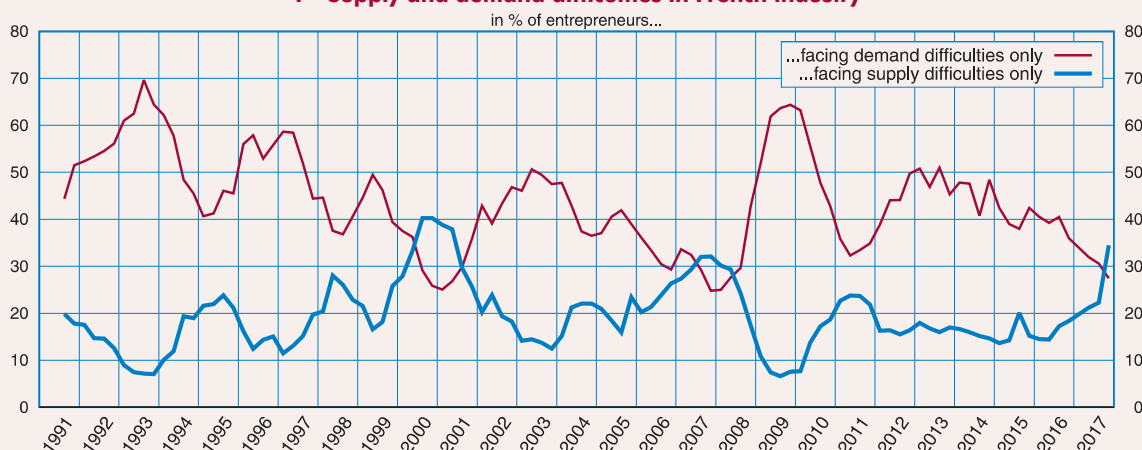
## More and more French companies consider themselves hampered by production capacity issues

Staff shortages, insufficient equipment, difficulties in sourcing ... While the business climate in France is at its highest point in ten years, more and more businesses are reporting difficulties that prevent them from increasing their production as much as they would like. These supply-side difficulties are currently outstripping demand issues. Since summer 2017, companies have been reporting supply problems more often than demand problems in industry, services and building construction, although in this last sector slightly more companies than average over the past thirty years have experienced demand difficulties. In all sectors, hiring difficulties have become much more acute since 2016 and are approaching their 2007 level. In other European countries too, companies are increasingly feeling that the lack of manpower is holding back their expansion, especially German industrial enterprises.

### In industry, business leaders report similar supply-side tensions to those experienced in 2000 or 2007

The business climate in France has improved since the beginning of the year and was at a very high level in November. At the same time, in their responses to INSEE's business tendency surveys, more and more business leaders report that they are experiencing supply difficulties which prevent them from developing their production as they would like. In industry especially, production capacity tensions are increasing. The production capacity utilisation rate has been rising steadily for several quarters, and stood at 84.9% in October 2017, not quite reaching its highest level (86.6% at the end of 2007). For the first time since 2007 industrialists say they the majority of their constraints are on the supply side rather than the demand side (*Graph 1*). Almost twice as many as a year ago only report supply difficulties (*Table*).

**1 - Supply and demand difficulties in French industry**



Source: INSEE, quarterly business survey in industry

**Table - Distribution of companies according to sector and factors restricting their activity**

|  | Demand difficulties only |              |              | Supply difficulties only |              |              |
|--|--------------------------|--------------|--------------|--------------------------|--------------|--------------|
|  | Average of the serie     | October 2016 | October 2017 | Average of the serie     | October 2016 | October 2017 |
| <b>Industry</b>                                      | <b>44</b>                | <b>36</b>    | <b>27</b>    | <b>19</b>                | <b>18</b>    | <b>34</b>    |
| C1 - Agrifood industries                             | 43                       | 37           | 31           | 19                       | 19           | 28           |
| C3 - Capital goods                                   | 50                       | 55           | 33           | 17                       | 12           | 26           |
| C4 - Transport equipments                            | 43                       | 26           | 23           | 25                       | 28           | 49           |
| C5 - Other industries                                | 45                       | 39           | 29           | 19                       | 19           | 26           |
| <b>Building industry</b>                             | <b>19</b>                | <b>33</b>    | <b>21</b>    | <b>28</b>                | <b>16</b>    | <b>26</b>    |
| <b>Services</b>                                      | <b>32</b>                | <b>35</b>    | <b>26</b>    | <b>22</b>                | <b>22</b>    | <b>30</b>    |
| H - Road freight transport                           | 42                       | 45           | 20           | 23                       | 18           | 53           |
| I - Accommodation and food services activities       | 42                       | 55           | 55           | 17                       | 18           | 22           |
| J - Information and communication                    | 23                       | 29           | 18           | 29                       | 29           | 37           |
| L - Real estate activities                           | 18                       | 15           | 13           | 28                       | 25           | 30           |
| M - Specialised, scientific and technical activities | 37                       | 42           | 34           | 18                       | 18           | 20           |
| N - Administrative and support services              | 35                       | 33           | 21           | 18                       | 18           | 27           |

Scope : Industry since April 1991 (seasonally adjusted data), Building industry since January 1999 (raw data), Services since January 2004 (excluding road freight transport, data since 2006 ; seasonally adjusted data)

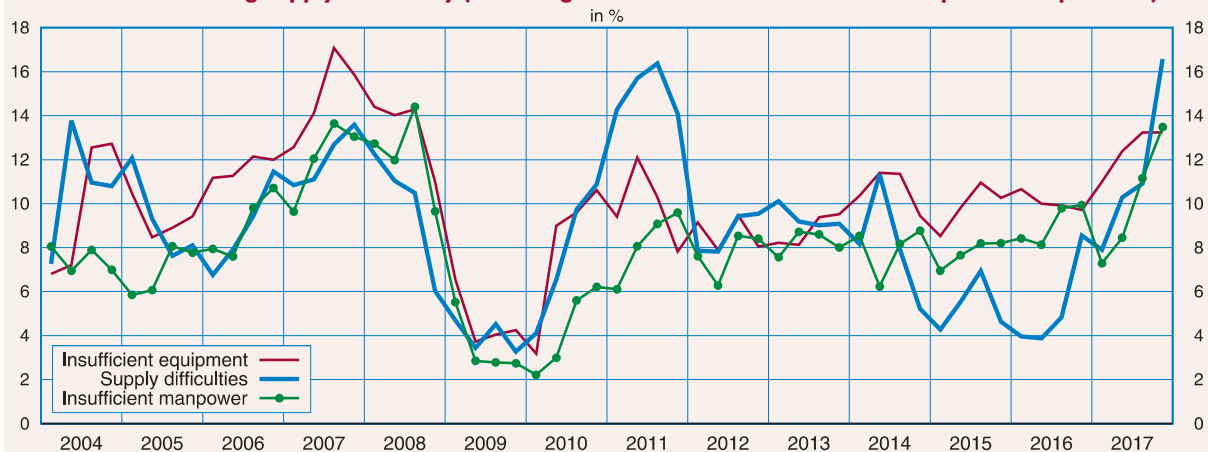
Source : INSEE, business tendency surveys

## French developments

These tensions have deepened since 2015, and since January 2017 the supply difficulties have become more frequent than the long-term average. Conversely, the proportion of industrial enterprises that say they are limited in their activity solely because of demand problems has decreased since 2013; From 2015 it fell below its long-term average.

Since the beginning of 2017, the increase in supply constraints in industry has been largely due to a very distinct rise in sourcing difficulties. This increase was particularly vigorous in October. Also more industrialists report difficulties caused by insufficient equipment and staff shortages (*Graph 2*). All sub-sectors are concerned, especially transport equipment.

### 2 - Factors limiting supply in industry (excluding manufacture of coke and refined petroleum products)



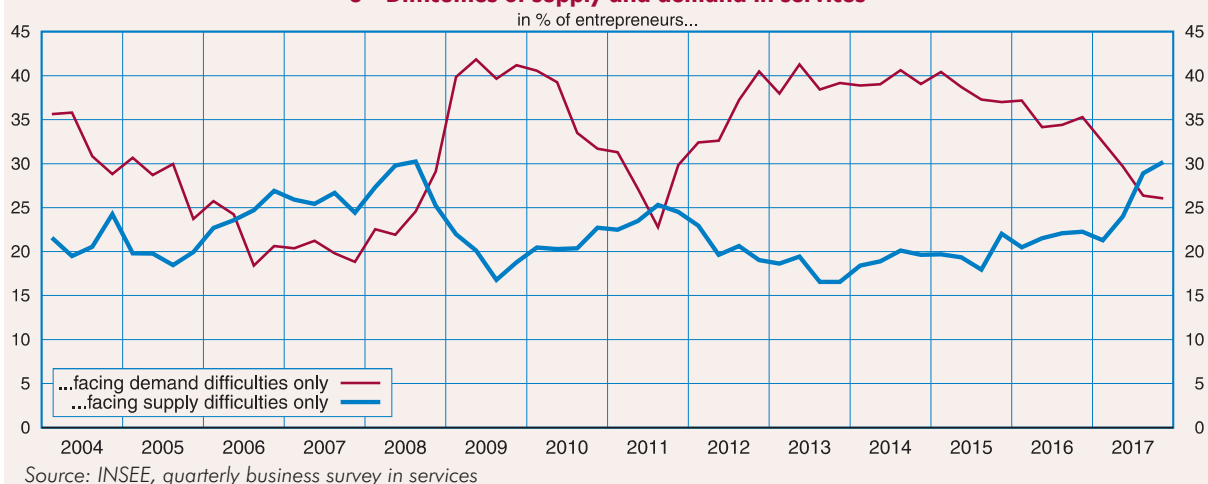
### Since H2 2017, supply difficulties have exceeded demand difficulties in services

In November 2017, the business climate in services reached its highest level since May 2011 (109). At the same time, 30% of service sector businesses said that they had supply problems only, against 22% one year before. This rise is widespread across all sub-sectors, but it is particularly strong in road freight transport, administrative and support service activities, and information-communication (*Table*). Business leaders in services reported that they were mostly hampered by staff shortages and, to a lesser degree, by insufficient equipment or materials.

In contrast, difficulties linked solely with demand fell sharply: in October 2017, 26% of service enterprises said they experienced demand problems against 35% one year earlier. This decline is seen in all sub-sectors except accommodation and food services.

Since October 2011 the number of companies reporting demand problems was greater than those with supply problems only. This trend has reversed since July 2017. In October 2017, while there were fewer demand problems, the proportion of companies describing supply problems is now well above its long-term average (*Graph 3*).

### 3 - Difficulties of supply and demand in services

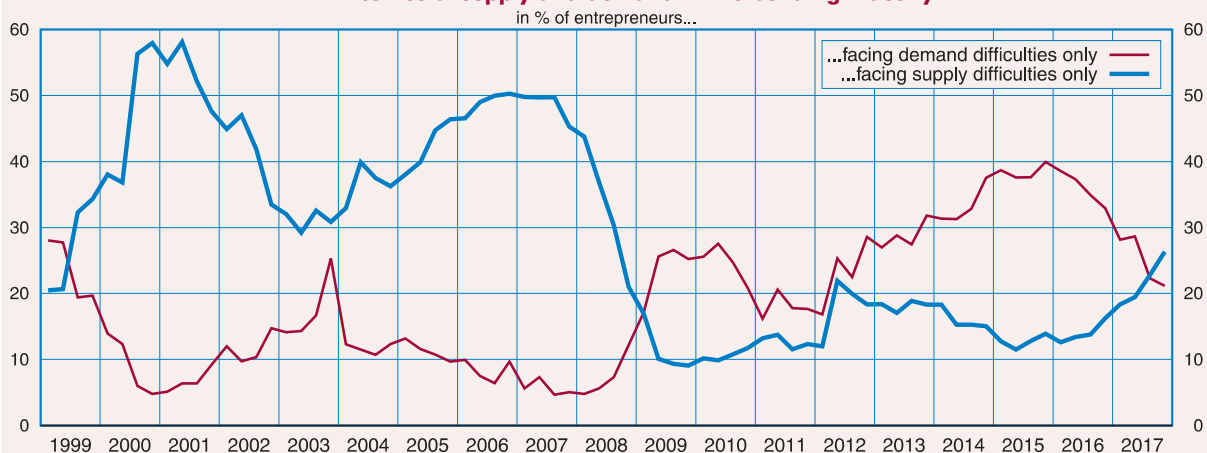


## In the building industry, the business climate is improving but demand problems still slightly exceed the long-term average

In the building industry the business climate was sluggish for several years, but has improved regularly over the last two and a half years. The sector's composite indicator returned to its long-term average (100) in November 2016 and in November 2017 was well above this level (107). At the same time, the share of companies only facing demand problems has gradually decreased and has almost returned to its average (Graph 4). In addition, in October 2017, 26% of entrepreneurs said they experienced supply difficulties only, a figure which is almost as high as the long-term average (28%) and substantially higher than two years ago (14%). The main reason for this sharp rise is the growing number of enterprises reporting staff shortages. Indeed, 24% highlighted this problem in October 2017, virtually the same proportion as the long-term average, against only 9% two years ago.

Another sign of a return to normal in construction is that the proportion of enterprises reporting that they have no difficulty increasing their production is once again close to the long-term average, after several years under this level.

**4 - Difficulties of supply and demand in the building industry**

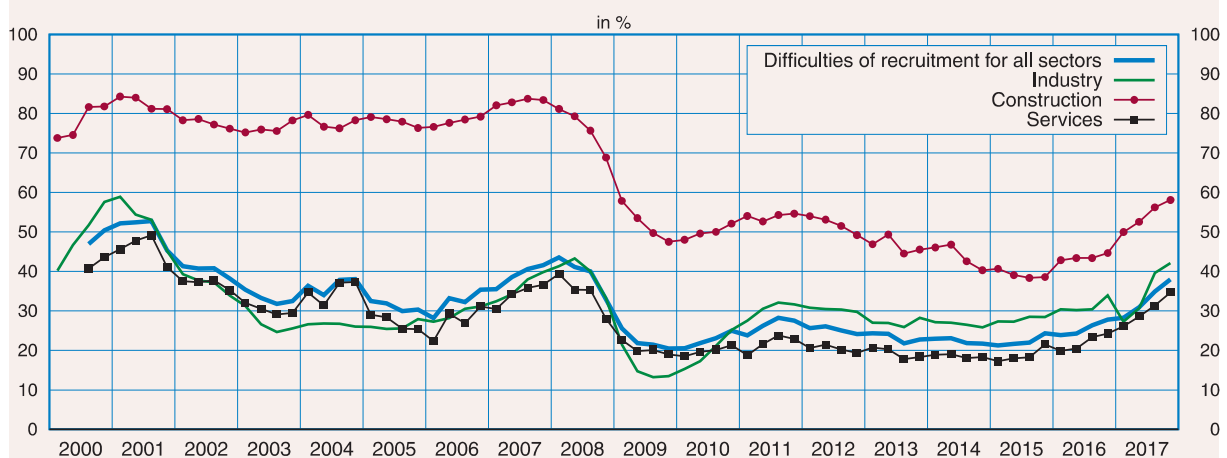


Source: INSEE, quarterly business survey in building industry

## Hiring difficulties increased in all sectors and were close to 2007 levels

In their responses to the business tendency surveys, companies described the factors that limit their growth in production, and among these are staff shortages. They are also asked to report whether, more generally, they have any hiring difficulties. At the end of 2017, this issue concerned 38% of companies. Recruitment difficulties have increased in all sectors since 2016. They have returned to their 2007 level in industry and services but are still far from this level in the building industry (Graph 5).

**5 - Difficulties of recruitment in all sectors**



Note: the general question concerning recruitment difficulties, and that of staff shortages hampering growth in production, are distinct. This graph illustrates the first of these questions.

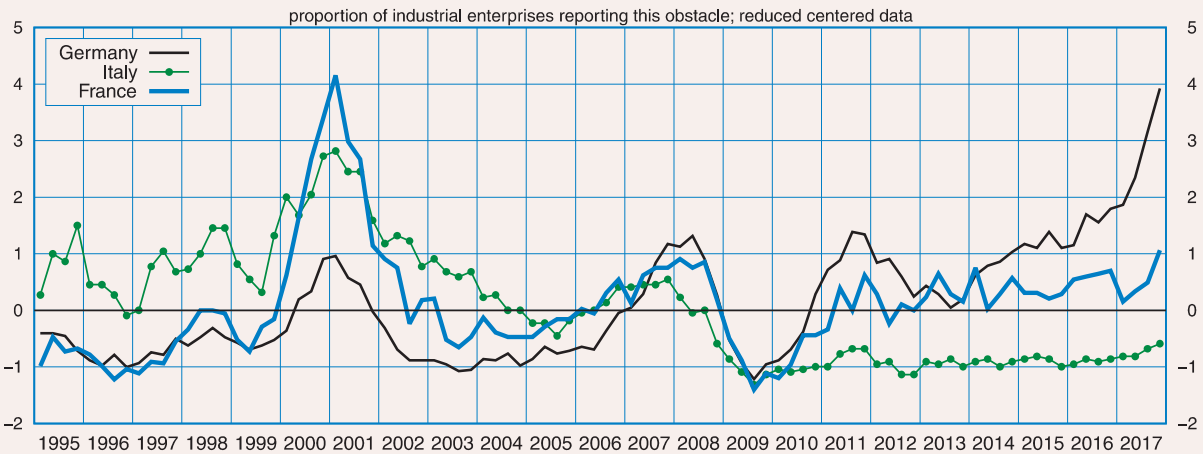
Source: INSEE, quarterly business surveys in industry, building industry and services

## French developments

### Lack of staff is more keenly felt in Germany and is more moderate in Italy

France is not an isolated case in Europe. Demand-side difficulties in industrial companies have also receded in the main Eurozone partners. Conversely, companies more often report supply-side difficulties, mainly due to a lack of manpower. This obstacle is not experienced with the same intensity in every country. In Germany, many more companies say they have to limit their production because of a lack of staff: in October 2017, 21% of industrialists said they experienced this type of problem, which is twice as many as in 2008 and a record level since the series first came into existence (1985). This share has increased beyond its average almost continuously since mid-2013 (*Graph 6*).

#### 6 - Industrial companies hampered in their production by a lack of manpower



How to read it: in Germany, 21% of industrialists reported that they were hampered in their production due to a lack of staff; such a level is 4 standard deviations above the long-term average for the industrialists' responses to this question (5%).

Source: European Commission (DG-ECFIN)

In France, the proportion of industrial companies who said that they were hampered in their activity by a lack of staff, a proportion which is also increasing, has returned to a level similar to that observed at the end of 2007 (13%). However, these tensions seem to be moderate compared with Germany.

In Italy, difficulties due to staff shortages are tending to increase slightly, but they remain low, well below their long-term average. ■