Business tendency surveys for April 2020: the business climate at its lowest ebb

The April 2020 business tendency surveys of companies were conducted in an unprecedented situation of general lockdown, a measure in place since mid-March to limit the spread of the coronavirus in France. Despite poor response rates, the surveys clearly trace the very sharp decline in business prospects across all the major economic sectors. The scale of this dramatic fall is unprecedented and most balances of opinion on expectations of future activity have dropped to the lowest levels ever seen in the business tendency surveys. The Covid-19 pandemic and its direct consequences (lockdown) are widely cited among the obstacles to production.

Business climates decline

Business climates are presented by sector and at global level in the various issues of *Informations Rapides* published at the same time as this *Point de conjoncture*.

At the global level, the business climate's sudden fall, which began in March, has intensified: it lost 32 points in April, having already fallen by 11 points in March, and dropped to 62, its lowest level since the beginning of the series (1980). The scale of this fall over a single month is also unprecedented: in October 2008, after the Lehman Brothers collapse, the indicator dropped by "only" 9 points. The employment climate has also continued to deteriorate dramatically: after losing 10 points in March, it tumbled by 24 points, its greatest decline since the beginning of the series (1991).

At sectoral level, the spectacular fall in the business climate escalated in services (−37 points in April) and in retail trade (−23 points). This was the largest decline since these series began (1989 for services, 1991 for retail trade).

In April, the indicator also fell in industry, plummeting by an unheard-of 16 points. It fell to 82, a low point that has only been exceeded on two previous occasions: during all of 1993, and from the end of 2008 to August 2009. However, there has never been such a sudden collapse.

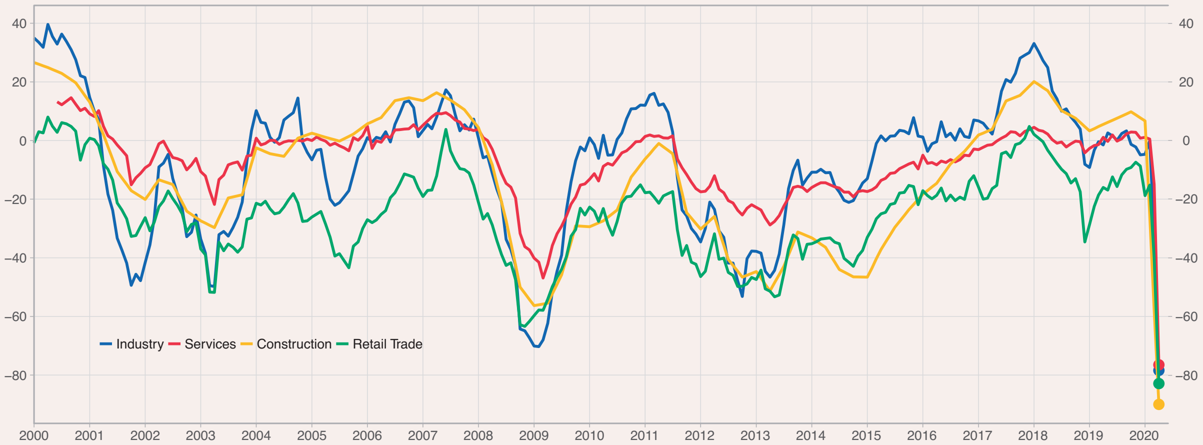
Lockdown has also proved challenging for data collection, and the way that balances of opinion and composite indicators are calculated and interpreted. For example, the business climate in the building industry could not be calculated to the minimum statistical reliability required. There was a particularly high level of non-response in this sector and the method known as the constant sample method (Box), which is usually used to correct for non-response, would have meant that the results were artificially smoothed, largely wiping out the impact of the current shock.

Prospects for activity collapse

Business leaders consider that the general prospects for activity in their sector have deteriorated substantially. This balance of opinion fell dramatically and reached its lowest level since the start of the series in all sectors, clearly illustrating the further deterioration of the economic outlook as perceived by businesses (*Graph 1*). This indicator, calculated as a simple average of responses, is not weighted or adjusted for non-responses: the opinion of each respondent counts as one. In industry too, business leaders are extremely negative about the general prospects for exports in this sector: this fairly volatile quarterly balance of opinion plummeted in April to its lowest level since the series came into existence (1991).

Business leaders are also much more pessimistic about their own prospects for activity, despite the difficulty of anticipating three months into the future in this period of such uncertainty. The corresponding balances of opinion have fallen dramatically in all the main economic sectors, especially in services. In

1 - Balance of opinion of business leaders on general prospects for activity in their sector



Note: the balance of opinion series on general prospects for activity in the building industry is quarterly
Source: INSEE, business surveys

industry and services, this indicator has fallen to its lowest level since the beginning of these series.

In fact, these levels have deteriorated even further if we consider only the responses actually received from respondents, without applying the constant sample method and without adjusting for seasonal variation, providing an instant snapshot of this exceptional situation for our surveys where a sudden shutdown in activity has combined with a huge non-response rate (*Table 1*)

In industry, services and building construction, the proportion of companies reporting "other factors" limiting growth in their activity reached an unprecedented level

In the business tendency surveys in industry, services and building construction, companies are able to report any difficulties that limit growth in their production. For example, they can point out a shortage of personnel, difficulties with supplies or inadequate equipment, by ticking several boxes where necessary. They can also tick the box labelled "Other" at their discretion: in this case they are invited to explain the difficulty encountered. In April 2020, a huge number of companies chose this option. Taking the three surveys together, of the companies that ticked the "Other" box, more than 80% of their comments related to the Covid-19 epidemic.

In industry the share of companies mentioning other difficulties reached its highest level this month since the beginning of the series in 1991: 23% of companies reported "other" difficulties. If we consider only respondents who actually replied this month, without applying the imputation method for non-respondents, then 43% reported "other" difficulties (*Table 2*). In addition, in April, many more business leaders reported insufficient demand and difficulties with supplies in industry than in January (*Table 3*). At the same time, fewer companies declared that they had no difficulties this month.

In the services sector, without the imputation method, a little over two out of five business leaders reported other factors limiting their production; this proportion of companies has never been so high since the start of the series in 2004. As in industry, more business leaders mentioned insufficient demand and significantly fewer reported no difficulties.

In the building construction industry, 65% of business reported "other" difficulties, when only respondents from April were taken into account. In addition, the share of supply difficulties increased this month (*Table 3*); although this share remained limited, it nevertheless reached its highest level since April 2009.

Table 1 - In April, the opinion of respondents on their personal prospects for activity was extremely negative

Balance of opinion on personal prospects for activity for the next three months, April 2020		
	Traditional balance (by constant sample, seasonally adjusted)	Based only on respondents, data untreated
Manufacturing industry	–35	–65
Services	–41	–63
Building construction industry	–22	–78
Retail trade	–45	–62

Source: INSEE, business and consumer surveys of April 2020

Table 2 - "Other" factors limiting growth in production in companies rose strongly in April

"Other" difficulties in the quarterly survey of industry (in %)		
Method	January	April
Excluding constant sample	5.7	43.2
Including constant sample	5.5	23.2
"Other" difficulties in the quarterly survey of services (in %)		
Method	January	April
Excluding constant sample	7.4	41.9
Including constant sample	-	-
"Other" difficulties in the monthly survey of the building construction industry (in %)		
Method	March	April
Excluding constant sample	6.8	64.5
Including constant sample	7.0	21.8

Note: see Box for description of the constant sample method
Source: INSEE, Business outlook surveys in services, industry (January and April 2020) and the building construction industry (March and April 2020), data not seasonally adjusted

Among companies highlighting other difficulties limiting their activity, virtually all mentioned the Covid-19 epidemic and its consequences

In April, in connection with the increase in the proportion of "other" factors limiting production, more than 1,300 comments were analysed across the three surveys, many more than usual. In comparison, in January 2020, companies submitted a little over 300 responses in this category.

Among companies reporting "other" factors limiting their production, 83% cited the "Covid-19" epidemic (*Figure 1 and Graph 2*). This was by far the most cited word, the next being "crisis" in 12% of comments, followed by "health" (8%). The consequences of the fight against the epidemic, such as lockdown, closures, short-time working and site shutdowns were also mentioned. ■

Table 3 - In industry and construction, the share of supply difficulties increased

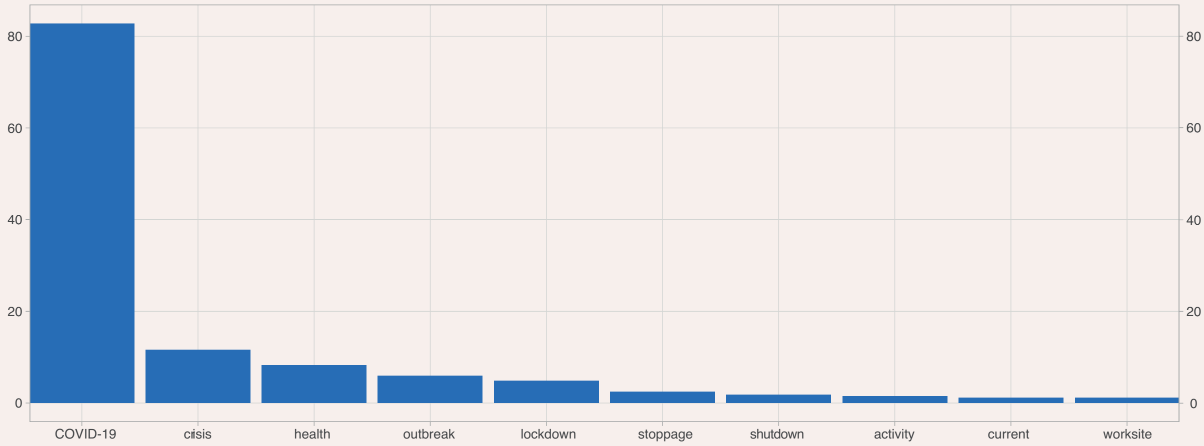
Supply difficulties in the quarterly industry survey (in %)		
Method	January	April
Excluding constant sample	9.6	19.9
Including constant sample	9.5	12.7
Supply difficulties in the monthly building construction industry survey (in %)		
Method	March	April
Excluding constant sample	2.5	11.5
Including constant sample	2.3	4.7

Note: see Box for description of the constant sample method
Source: INSEE, business and consumer surveys in industry (January and April 2020) and the construction industry (March and April 2020), not seasonally adjusted

Figure 1 - Word cloud showing the thirty words most cited by companies

How to read it: the larger the size of the word in the word cloud, the more frequently it appeared in comments left by companies
Note: the text was cleaned up beforehand, mainly to remove words that provided no information or meaning to the analysis (e.g. the article "the"). Words referring to the same idea were grouped together, this is the case for the words "coronavirus", "virus", "covid", etc. which were grouped under the heading "Covid-19" and the word "pandemic" was grouped under "epidemic".
Source: INSEE, Business outlook survey April 2020 in industry, services and the building construction industry

2 - In April, virtually all comments referred to Covid-19 and its consequences



Source: INSEE, business survey of April 2020 in industry, services and building industry

Box

Data collection during general lockdown

Business tendency surveys for April 2020 were collected in an unprecedented situation of general lockdown, a measure in force in France since 17 March to combat the spread of Coronavirus. Companies' responses were collected online only and none of the usual reminders were sent out to companies that were late with their replies. Collection started on 25 March and the responses received were analysed on 17 April to obtain provisional results. A number of companies were unable to complete the questionnaire, and therefore the response rate was significantly lower than usual. Out of approximately 13,800 companies that were surveyed by INSEE in April, about 4,000 replied, all sectors combined. Depending on the sector, the response rate ranged between a little under 20% for building construction and 36% for industry. As a proportion of turnover, this rate has deteriorated a little less, reaching as much as 45% across all of retail trade and the trade and repair of automobiles and motorcycles, the sector with the best coverage this month from this point of view.

Construction sector surveys were affected most in April. In addition to the major issue of the total or partial shutdown of their building sites, many companies in this sector prefer to use the paper format questionnaire rather than reply online.

For almost all the monthly balances of opinion, non-responses were processed using what is called the "constant sample" method, which consists in imputing responses from previous surveys to non-responding companies. Companies that had replied the previous month made up the core of the constant sample established in order to calculate the provisional results for the current month (month m) and the final results for the previous month (m–1). If companies had not yet sent in their responses for the current month by the time the first survey analyses were performed, their responses from the previous month were carried over for the current month. Companies that replied in the current month (m) and also two months previously (m–2) were also part of this constant sample: their missing response for the "middle month" was imputed according to their responses in months m–2 and m, in accordance with rules that take into account the possibility that their opinion may change between these two surveys. However, companies that responded in the current month (month m) but did not respond even once to the two previous surveys (months m–1 and m–2) were excluded from the constant sample. Their responses will be taken into account next month, when the final results for month m are produced. The aim of this constant sample method is to show how tendencies reflect an effective change in the short-term outlook as perceived by businesses, rather than demonstrate structural effects. The aim is also to limit the revisions required when late responses are taken into account. However, the method introduces some sluggishness by automatically prolonging opinions expressed previously by business leaders. It is effective in periods of regular change or moderate fluctuations in activity, but it is less well suited in the event of a sudden decline, combined with the lack of responses from a very large number of businesses. It is therefore perfectly possible that this method has a tendency to underestimate the already extremely serious collapse in the business climate. ■