

French economic outlook

Faced with energy price rises, companies are reacting mainly by increasing their selling prices, while also considering investments to reduce their energy bill

In February, in a context where high energy bills still prevail, the industrial companies interviewed for the business tendency surveys continue to give priority to increasing their selling prices, but they also plan to make investments to protect themselves against this eventuality. The expected decline in activity affects mainly energy-intensive companies or those exposed to larger energy price increases. There are slightly fewer companies saying that they plan to reduce their production in the next three months than there are saying they have already done so in the last three months.

Wholesale electricity and gas market prices have fallen back since mid-December, returning to their levels before the start of the war in Ukraine, but still higher than before the health crisis¹ (► **Energy and commodities**). For most companies, however, the purchase prices of electricity and gas are not directly indexed to the wholesale price: their prices are fixed over a contractual period (► **Focus** related to these issues in the *Economic Outlook* of December 2022), and therefore depend on the terms and schedule of the energy supply contract. In particular, for multi-year contracts signed in H2 2022, the prices are automatically very high. In the case of electricity, a recent survey of suppliers by INSEE confirmed the sharp increases in selling prices to companies (► *Insee Focus* N°290).

In February 2023, INSEE interviewed companies in industry and services for its business tendency surveys, as it had done at the end of 2022, on their reactions to this energy situation. The responses they obtained in February cannot, strictly speaking, be compared to the responses collected at the end of 2022. Although the

response modalities for the two questionnaires were broadly identical, questions in the February survey, like most other questions in these surveys, referred to actions taken in the last three months or expected to be taken in the next three months. The questionnaire at the end of 2022 was only forward-looking but without mentioning any particular time period. In both questionnaires, companies were free to express several types of reaction.

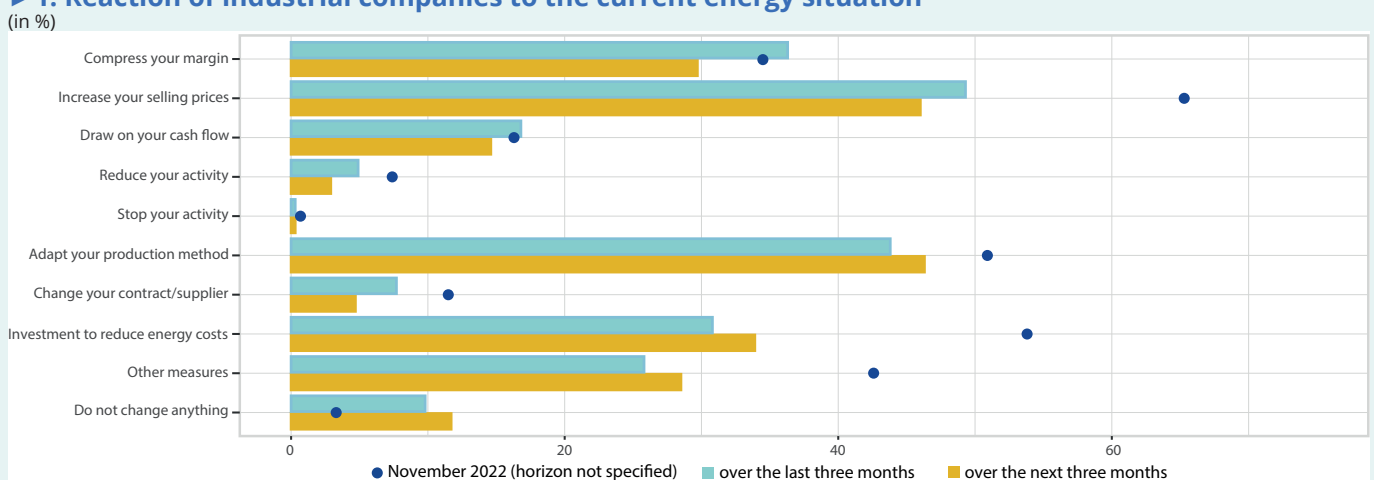
Nearly half of industrial companies are considering an increase in their selling prices in response to the current energy context

Despite the difference in the questioning, companies' reactions to energy prices in February were overall and qualitatively fairly similar to what they had said at the end of last year.

To cope with the energy situation, and especially in industry, more than 45% of companies plan to increase their selling prices (► **Figure 1**), and this figure was even as high as 70% in the agrifood industry. Just under half of

¹ In February 2023, the price of natural gas (TTF) was close to its level at the beginning of September 2021, and in January 2023, the French Industrial Production Prices Index (IPPI) for electricity sold wholesale on the spot market was back to its September 2021 level.

► 1. Reaction of industrial companies to the current energy situation



Note: data stop at 27 February 2023. The dots associated with the November 2022 survey relate to an unspecified time in the future. The bars showing "over the last three months" and "over the next three months" correspond to responses in February. Proportions are calculated by weighting companies' responses by their turnover.

Scope: industry.

Source: business surveys, INSEE.

companies plan to adapt their production methods in the next three months. Many companies are also considering making investments² (35%) or squeezing their margins (30%). Lastly, only 3% plan to reduce their activity.

The reactions given are relatively similar, whether they refer to the last three months or the next three months, but with some discrepancies. For example, slightly fewer industrial companies intend to squeeze their margins in the next three months (30%) than did so in the last three months (36%). With regard to increasing their selling prices, withdrawing from their cash reserves and reducing activity, again fewer companies envisaged doing this in the next three months than did so in the three months that had just ended, but the difference was much smaller. Conversely, concerning adapting production methods or investments in order to save energy, a few more companies were considering doing this in the next three months than in the last three months.

3% of industrial companies intend to reduce their production in the next three months (against 5% in the last three months)

In industry (or services), companies that say they intend to reduce their activity in the next three months are in the minority overall, at around 3% (or 2%) of companies (► Figure 2). However, these proportions exceed 10% in wood-paper and 8% in chemicals, although this is down compared to the proportion of companies that say they did reduce production in the last three months (more than 13% in these two sectors). In services, it is accommodation and catering companies that state most frequently (6%) that they are considering reducing their activity in the next three months, more than over the last three months for this branch.

In industry, declared reductions in activity are expected to be 0.9% on average (counting a zero value for companies

² The response behaviour to this modality seemed to match the increase in energy price declared for 2022.

► 2. Decline in activity: proportion of companies considering this and average percentage by sector

Sector		In November 2022 (timeline not specified)		In February 2023			
		% of companies saying they plan a reduction in activity	average decline (%)	over the last three months		over the next three months	
				% of companies saying they plan a reduction in activity	average decline (%)	% of companies saying they plan a reduction in activity	average decline (%)
INDUSTRY		7.3	1.5	4.7	1.1	2.8	0.9
Food products	C1	6.7	0.9	3.4	0.4	1.5	0.2
Equipment goods	C3	1.9	0.4	1.2	0.2	1.5	0.6
Transport equipment	C4	1.4	0.4	1.0	0.2	0.1	0.1
<i>of which motor vehicles</i>	CL1	0.9	0.5	0.1	0.2	0.1	0.0
<i>of which other transport equipment</i>	CL2	1.8	0.3	1.8	0.2	0.0	0.1
Other manufacturing	C5	11.9	2.7	8.1	2.1	5.1	1.8
<i>of which wood and paper products</i>	CC	12.1	3.8	14.0	2.8	10.7	2.7
<i>of which chemicals and chemical products</i>	CE	13.5	2.8	13.4	2.7	8.3	1.5
<i>of which basic metals and fabricated metal products, except machinery and equipment</i>	CH	22.5	4.5	12.4	4.0	6.0	3.8
SERVICES		2.9	0.7	1.7	0.4	1.7	0.5
Road freight transport	H	2.9	2.3	3.8	1.5	2.9	1.9
Accommodation and catering	I	14.3	1.1	3.4	0.9	5.6	0.8
Information-communication	J	0.8	0.5	0.6	0.0	0.2	0.5
Real estate	L	5.3	0.3	2.0	0.4	1.9	0.3
Business services	MN	0.5	0.3	1.0	0.1	0.8	0.2

Note: data stop at 27 February 2023. Responses correspond to the November 2022 and February 2023 surveys. The question on the expected decline in activity includes a three-month timeline in the February survey, which was not the case in November. Averages are weighted by turnover. Companies that did not answer the question are considered to have given a value of zero. The services sector represented here does not include rail transport services, as they are not surveyed in the business tendency surveys.

Source: business surveys, INSEE.

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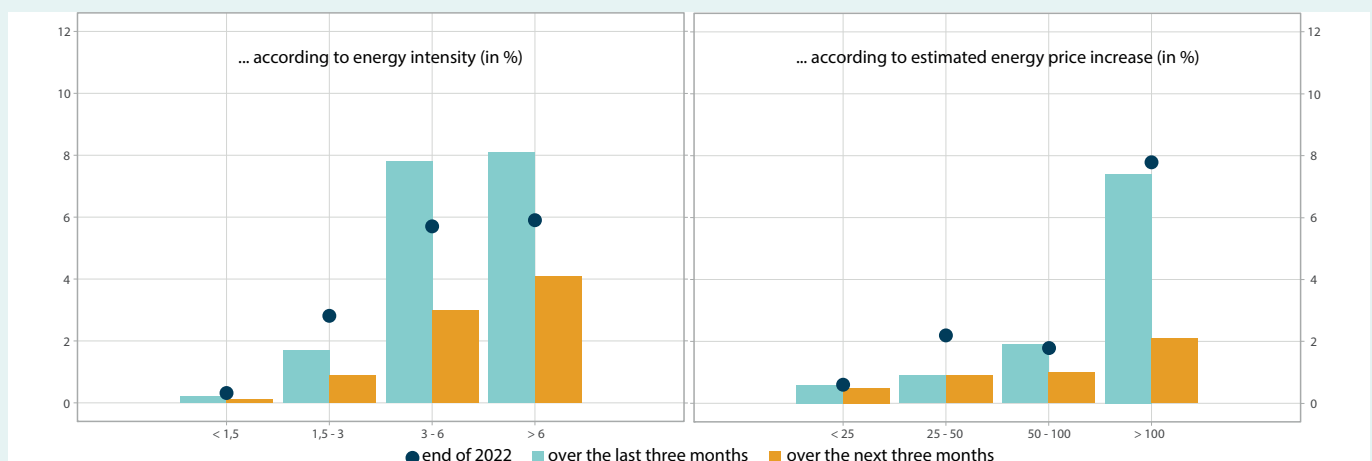
planning no reduction in activity), whereas in services, which are less energy-intensive for the most part, they are likely to be 0.5%. It is in the most energy-consuming sectors that declared reductions in activity are expected to be most significant, at around 3% in metallurgy and the wood and paper industry. While these reductions are on average smaller in services, the road freight transport and accommodation-catering branches continue to stand out (declining by 1.9% and 0.8% respectively).

In fact, the most energy-intensive companies, in industry or services, are indeed those whose activity would

seem to be most affected by the rise in energy prices. Among the industry and services companies whose gas and electricity consumption is over 3% of turnover, the average drop in activity expected in February is in excess of 3% (► **Figure 3** left). Similarly, this average is around 2% for companies that faced at least a doubling of their energy prices in 2022 (► **Figure 3** right). However, these figures are not forecasts of change in activity: in this module companies are only questioned on any reductions in production linked to the energy context, and not on any increases they may be expecting. ●

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► 3. Average of responses to the question on decline in activity...



Note: data stop at 27 February 2023. Averages are weighted by turnover. Companies that did not answer the question are considered to have given a value of zero. Energy intensity is defined as the ratio of electricity and gas consumption in 2022, declared or imputed, to the declared turnover. In particular, 17% of non-responses on gas consumption and 20% on electricity consumption were completed using the EACEI survey of energy use in industry. As some companies said their activity declined in November or December, or they had different responses for the two months, the average of the two was used for the dots representing "end of 2022" in order to have a wider sample.

Price changes are calculated based on company responses to the November and December questionnaires and relate to 2022. The declared variation in energy prices corresponds to the average of these prices for gas and electricity by weighting according to their corresponding energy ratios (if the ratio for a given energy is not known, only the other one is considered).

Note that the categories are not of equal proportions, whether in terms of turnover or number of companies (in particular, a very large majority of companies have an energy ratio of less than 1.5).

Scope: industry and services.
Source: business surveys, INSEE.

Bibliography

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