Health restrictions in some services, sourcing problems in industry: there were many factors limiting companies' activity at the start of 2021

Using companies' responses to INSEE's business tendency surveys, change in the types of problems that businesses may be facing in their activity can be tracked over a long period. These problems may be driven by supply factors (sourcing, equipment, workforce, etc.) or demand factors. In the surveys, the first lockdown resulted in an increase in supply problems (sometimes combined with demand problems) in all sectors. At the same time, the share of companies reporting only problems with demand fell briefly, probably related to the effects of the restrictions. In early summer 2020, as the first lockdown was being lifted, the share of companies reporting only problems with demand increased sharply in all sectors, although without returning to the levels reached during the financial crisis at the end of the 2000s. At the start of 2021, curbs on activity in the different sectors were very varied. Some services were very strongly constrained by the strict health measures (e.g. accommodation-catering), while industry was affected by problems with sourcing. As before the crisis, many building construction companies say their problems are related to a workforce shortage.

After reaching a high point in 2020 during the first lockdown, supply constraints increased further at the start of 2021, especially in industry

In 2020, and especially at the time of the first lockdown,[1] there was an unprecedented rise in the number of companies reporting that their production was limited chiefly by supply factors, and this was equally the case in industry (► **Figure 1**), building construction (► **Figure 2**) and services (► **Figure 3**). In addition, in April 2020, many businesses reported demand difficulties alongside supply difficulties -the result of supply restrictions in downstream or upstream sectors, emphasising how unusual a situation this was with economic activity partly at a standstill.

Subsequently, with the easing of health restrictions during summer 2020, the share of companies reporting only supply difficulties decreased significantly (surveys in July then October 2020), returning to a level similar to that pre-crisis. However, the number of companies having difficulties only with demand rose sharply in industry and services, while in building construction there was a return to the pre-crisis level.

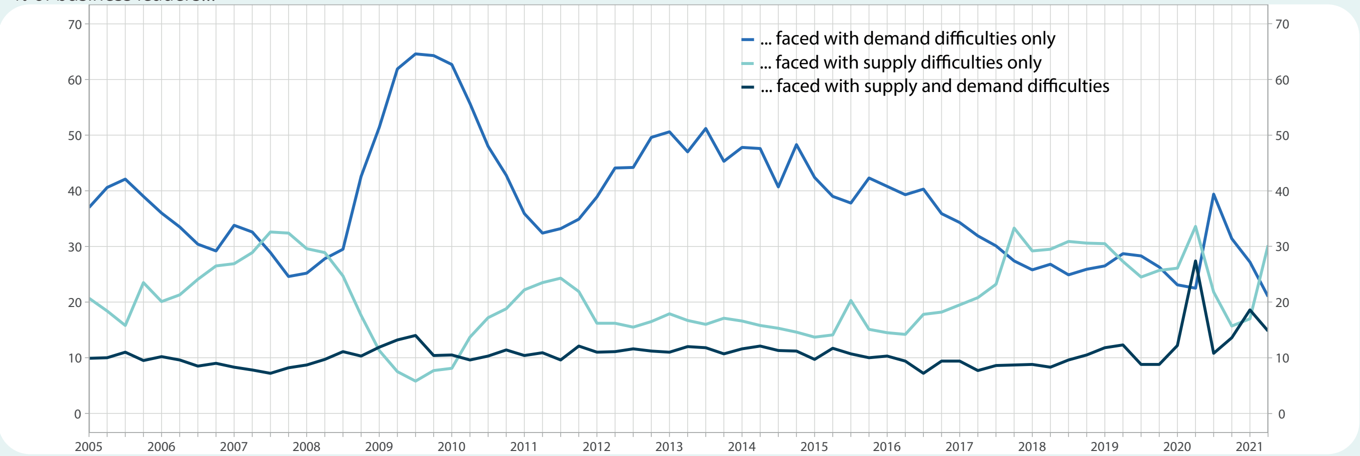
At the end of 2020 (with the second lockdown) then the beginning of 2021, companies once again reported an increase only in supply difficulties. This was a sharp rise in industry, but more moderate in building construction and services.

In industry and services, there now tend to be fewer companies with only demand constraints and numbers are stabilising in building construction. In April 2021, the proportion of companies concerned returned to its pre-crisis level in industry and construction, but remained higher than at the start of 2020 in services, especially services to businesses.

1 In April 2020, response rates to the business tendency surveys declined sharply for a time, as a result of the first lockdown.

► 1. Supply and/or demand difficulties in industry

% of business leaders...



Note: results (SA data) are weighted by turnover.
Source: INSEE, business surveys in industry

Supply constraints at the start of 2021 differ from those in spring 2020

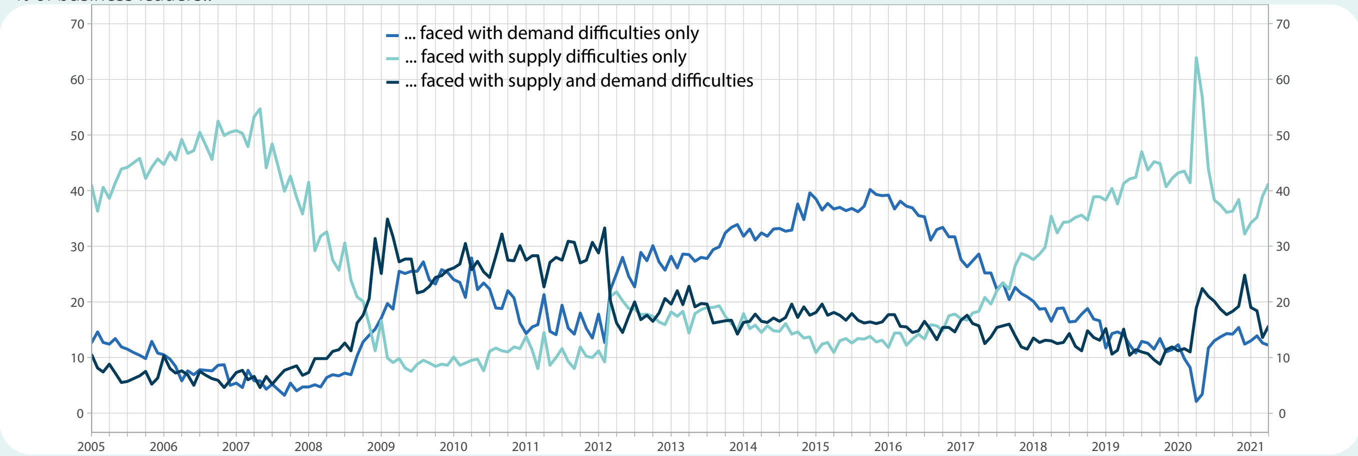
In the questionnaires sent out to business leaders, they can specify the type of supply difficulty they feel they are facing: insufficient equipment or material, insufficient workforce, financial constraints, sourcing difficulties or any other problems that they may be able to pinpoint.

Thus the supply difficulties encountered in April 2020 (► **Figure 4**) during the first lockdown clearly stemmed from exceptional factors, and were classified as "other factors" by the companies questioned, in unprecedented numbers (43% in industry, 64% in building construction, 43% in services). These "other factors" reflect the particular nature of the first lockdown –unprecedented, unforeseen, sudden and severe– limiting companies' production, or even bringing it to a complete stop, not only in industry (closure of factories, before specially adapted health protocols were put in place), but also in building construction (building sites shut down for the same reasons) and services (restrictions on activity). In the manufacturing industry, however, the proportion of business leaders flagging up sourcing difficulties also increased sharply in April 2020 (from 11% on average in 2019 to 21% in April 2020). When it was not at a standstill because of the health context, industrial production was also likely to be limited by sourcing difficulties, resulting from the decline in activity in sectors upstream in the production chain, in France or abroad. Other types of supply difficulty, however, did not show any particular increase in April 2020 in the three main sectors, compared to their 2019 average, with the exception of sourcing difficulties in building construction.

One year later, in April 2021, the supply difficulties companies are encountering are of a different nature and less uniform across sectors. In industry, sourcing difficulties predominate, they are up on April 2020 and even more so compared to their 2019 average. Other supply constraints, however, have declined somewhat compared to 2019 (insufficient workforce or equipment) or have increased slightly ("other factors"). In building construction and services, it is "other factors" -and also

► 2. Supply and/or demand difficulties in construction

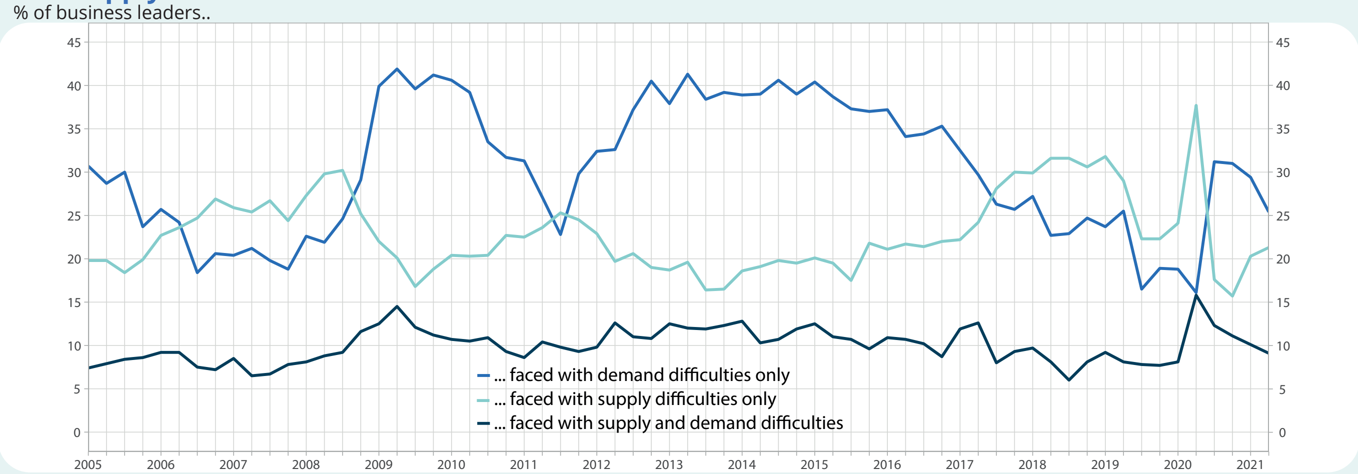
% of business leaders..



Note: results (SA data) are weighted by turnover.
Source: INSEE, business surveys in construction

► 3. Supply and/or demand difficulties in services

% of business leaders..



Note: results (SA data) are weighted by turnover.
Source: INSEE, business surveys in services

insufficient workforce in construction- that, compared to 2019, seems to be hampering production most. On the services side, these other factors mainly reflect, as in April 2020, the restrictions that are still affecting specific sectors, mainly catering. In addition, the number of companies reporting financial constraints among the factors limiting their production is no greater in April 2021 than the average for 2019, which perhaps means that due to the support schemes for businesses in difficulty, their financial situation is not at this stage a factor that is penalising their activity, or at least not the primary factor.

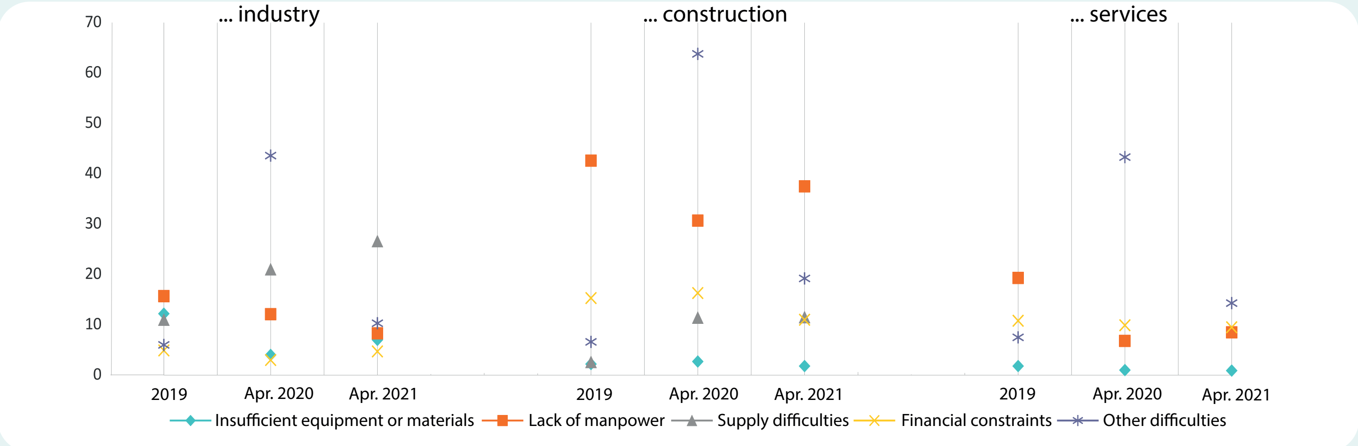
In early 2021, sourcing difficulties affected industry and building construction

The April 2021 surveys reveal an increase in sourcing difficulties (► **Figure 5**) in all sub-sectors of industry, and in building construction. In most, the share of companies reporting sourcing problems exceeds not only the high point reached in April 2020 (when other supply constraints predominated, as we have seen) but also, and by a considerable margin, the average level for the previous years.

In the capital goods sector, sourcing difficulties in April 2021 reached a level unmatched for at least the last fifteen years. This unprecedented increase was particularly strong in the manufacture of electrical equipment, but also affected computer and electronic products and also machinery and equipment. In "other industrial branches", sourcing difficulties also reached a particularly high level in April 2021: this increase compared to the level in previous years, but excluding April 2020, also applies for most branches in this sector (textiles, chemical industry, metallurgy, rubber, paper, and the pharmaceutical industry, to a lesser extent, etc.).

► 4. Different types of supply difficulty in...

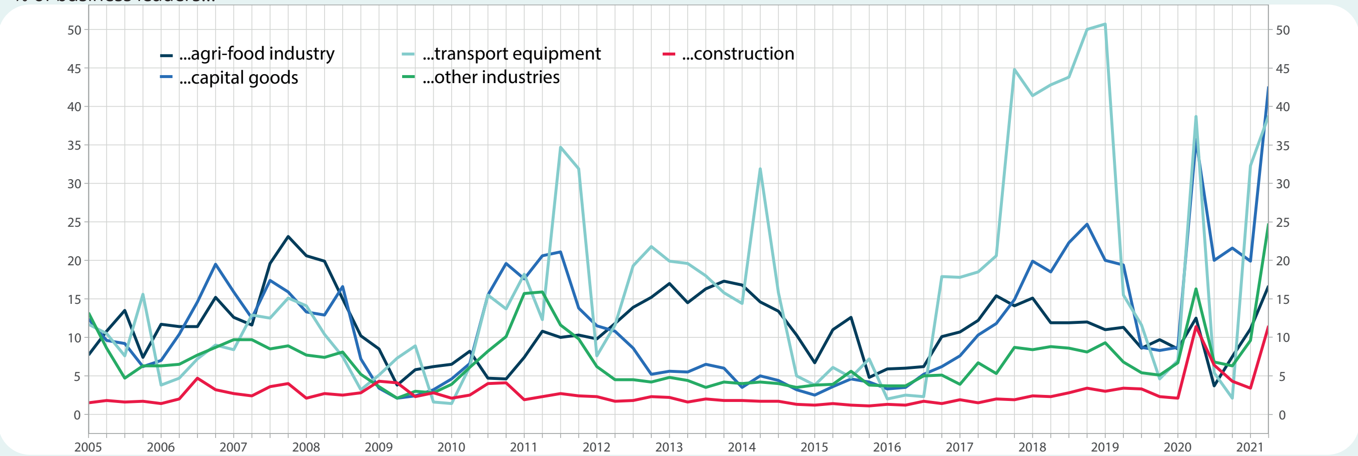
% of business leaders...



How to read it: for 2019, the percentages correspond to the response average over the year.
Note: companies can report more than one difficulty that limits their activity. Results (SA data) are weighted by turnover.
Source: INSEE, business surveys

► 5. Sourcing difficulties in the major industrial sectors and building construction

% of business leaders...



Note: results (SA data) are weighted by turnover.
Source: INSEE, business surveys

It was in the transport equipment sector that the rise in sourcing difficulties was greatest between October 2020 and April 2021. The share of companies declaring sourcing difficulties reached 39% in April 2021. This increase occurred particularly in the automotive industry, while the high point in April 2020 stemmed from other transport equipment companies (especially aeronautical construction). In recent years, the transport equipment sector has already experienced considerable sourcing difficulties: at the end of 2018, half of the companies questioned reported difficulties with sourcing, i.e. more than in April 2021.

In spring 2021, in services, supply constraints were linked above all to restrictive measures

In services, supply difficulties (► **Figure 6**) appeared to be distributed differently according to sector. This wide variety is above all a reflection of the diversity of situations that companies encounter in these sectors, depending on whether they are part of an activity that is affected relatively little by the health crisis or whether, on the contrary, they are directly affected by measures that restrict activity.

Thus, in information-communication and services to businesses, the proportion of business leaders who mentioned supply difficulties has been fairly stable since mid-2020, at between 20% and 30%.

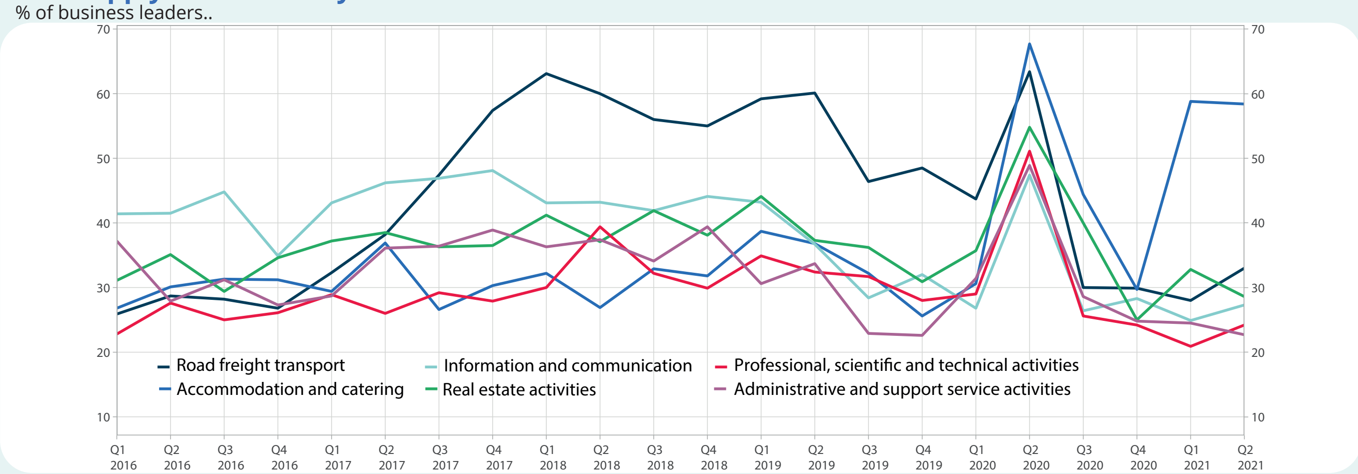
Accommodation-catering stands out clearly: there were many more companies reporting supply difficulties in January and April 2021, reaching a proportion of almost 60%. In this sector, unsurprisingly, it is "other types of difficulty" that make up most of the supply constraints, reflecting the measures in place that restrict activity and affect the companies concerned. The proportion of companies reporting supply difficulties had already increased substantially in April 2020, exceeding 60%, then in October 2020 it returned to a level similar to pre-crisis, despite residual measures that could concern companies in this sector (physical distancing, limits on numbers, etc.).

In road transport of merchandise, there are also more companies reporting supply difficulties in April 2021, although this increase is much smaller than in accommodation-catering. While in April 2020, companies pinpointed "other difficulties", which were doubtless directly linked to the lockdown, in April 2021, on the other hand, supply difficulties seem to stem more from financial constraints and a lack of manpower. In fact, this last reason was the one referred to most often by businesses in this sector in the pre-crisis context.

Tanguy Barthélémy, Emmanuel Blanchard, Husges Génin et Clément Lefebvre

► 6. Supply difficulties by sub-sector in services

% of business leaders..



Note: results (SA data) are weighted by turnover.
Source: INSEE, business surveys in services

A text analysis clearly reflects the different nature of the supply constraints affecting industry and building construction on the one hand, and services on the other

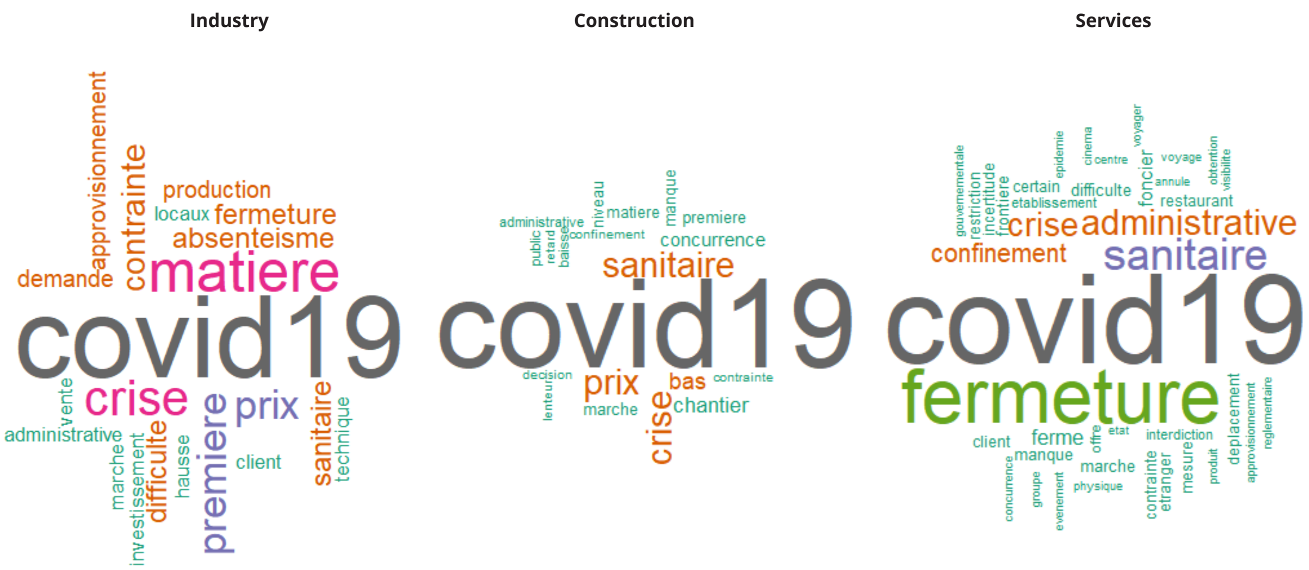
Questions relating to *factors limiting production* appear in three of the business tendency surveys: business surveys in industry, in services and in building construction companies with more than 10 employees. Responses to the questions are in the form of closed-ended items, apart from the last, "other difficulties", where the company is asked to specify the type of difficulty encountered. When business leaders leave comments here, this text can then be studied and it is possible to assess the specific difficulties that companies have highlighted.

Word clouds can then be created for the major sectors of activity. The more frequently a word appears in the comments left by the business leaders, the larger it becomes in size in the word cloud.

In April 2021, in the context of the health crisis, it is not surprising that it was the word "Covid-19" that was by far the most frequently used in the comments left by companies in the different sectors. This term was also combined with "crisis" and "health", which were both also found very often. The health crisis therefore remains, still today, the main reason for the supply and demand difficulties that companies mentioned.

It was through other most often used terms that the sectors were distinguished, apart from terms specific to the health crisis. In industry, the term "material" is clearly in evidence, as are "sourcing" and also "production", confirming the difficulties encountered by industrial companies upstream of the production process. This is also evident in the building construction sector, where vocabulary relating to the words "material", "first" and "price" is strongly emphasised. In services, on the other hand, the terms "closure", "administrative" and "lockdown" reflect difficulties of a more regulatory nature, linked to the restrictive measures that directly affect some companies in this sector, especially those in accommodation-catering.

The health crisis is therefore, as one might expect, the most obvious constraint among the comments made by companies, but with different repercussions depending on the sector: production difficulties in industry and building construction, difficulties related to restrictive measures in services. ●



Source: INSEE, business surveys April 2021