

CHART OF THE WEEK

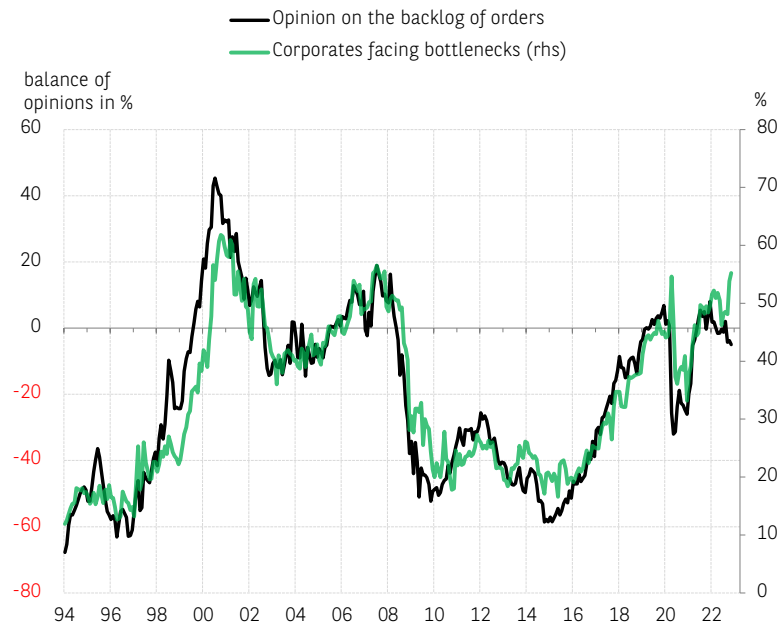
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14 December 2022

FRANCE: BOTTLENECKS AT A HISTORICALLY HIGH LEVEL IN CONSTRUCTION

Stéphane Colliac

France: Construction sector, backlog of orders vs. bottlenecks to production increase



Source: Insee, BNP Paribas

The construction output index is defying the most pessimistic outlook. In October, it reached its best level since January 2021, up 1.1% month-on-month and 2.6% year-on-year, while new orders are eroding. However, the cumulative order books (8.7 months according to INSEE, close to the historical level of 9 months) remain substantial and their implementation is lagging behind.

Production bottlenecks illustrate these difficulties and have reached their highest level (excluding the Covid-19 period) since 2007 impacting 53.6% of companies. These bottlenecks explain why the sector is struggling to meet demand and why the recent erosion of demand is only moderately affecting activity for the time being. These supply constraints also partly reflect the fall in production capacity after the 2008 crisis: according to our estimate, it is now almost 25% lower than it was at the end of 2007 (which can be explained by an average level of insolvencies of 16,000 units per year between 2009 and 2015, compared with almost half that in cumulative terms over 12 months to the end of October 2022, according to the Bank of France).

Recruitment difficulties are structural in the sector. This was compounded by shortage of inputs and rising construction costs, which during the spring delayed the implementation of order books. The continued substantial order book suggests that activity should remain buoyant in the coming months, before a likely downturn.

stephane.colliac@bnpparibas.com

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