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IHS MARKIT FRANCE SERVICES PMI®

INCLUDING IHS MARKIT FRANCE COMPOSITE PMI®

December sees slightly faster growth in service sector activity

KEY FINDINGS

Moderate rise in business activity at end of 2019

Rate of new order growth accelerates

Further solid rise in employment

The latest PMI® data pointed to a slightly faster increase in business activity across the French service sector during December. Growth was supported by a solid expansion in new business, which in turn saw backlogs of work rise at the quickest pace since October 2018. Meanwhile, firms continued to employ additional workers, extending the current run of workforce expansion to three years. This came despite confidence towards the business outlook slipping to a four-month low.

The headline seasonally adjusted IHS Markit France Services Business Activity Index – which is based on a single question asking respondents to report on their actual change in business activity at their companies compared to one month ago – registered at 52.4 in December, up from 52.2 in November. The reading pointed to a moderate expansion in business activity, but one that was slightly faster than in the previous survey period. Sub-sector data revealed broad-based growth, with the sharpest increase registered by Hotels & Restaurants.

Underpinning the further expansion in activity was another rise in demand during December. New orders placed with service providers increased for the ninth month in a row. Moreover, the rate of growth accelerated from November and was solid overall.

Overall new business growth was supported by an increase in international sales. Foreign demand rose for the third time in as many months, although the rate of expansion eased slightly from November. Sub-sector data pointed to growth

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

in four of the six covered categories.

Amid increasing business requirements, firms continued to hire additional workers in the final month of the year. Although the rate of job creation eased from November, it remained slightly quicker than the long-run trend.

Despite increasing staff numbers, service providers recorded a solid rise in outstanding business during December. In fact, the latest expansion was the fastest since October 2018, with each of the six monitored sub-sectors reporting accumulation.

On the cost front, input prices faced by French service providers rose markedly. The result extended the current sequence of inflation to ten years. The rate of inflation was marginally quicker than that registered in the previous survey period but remained softer than the historical average. When explaining the rise in cost burdens, some firms noted higher average wages.

Firms opted to pass on some of the higher costs to their clients with a modest increase in output prices. The rate of charge inflation accelerated fractionally from November.

Finally, firms in the French service sector predicted a rise in business activity during 2020. Optimism was primarily supported by expectations for demand growth. That said, the degree of positivity was the weakest since August.

IHS MARKIT FRANCE COMPOSITE PMI®

Output growth little-changed from November

Composite Output Index

sa, >50 = growth since previous month



Source: IHS Markit

The latest Composite Output Index* signalled little-change in the rate of activity growth in the French private sector. At 52.0 in December, down from 52.1 in November, the reading pointed to another modest expansion.

At the sub-sector level, growth was driven by services, where the latest increase was fractionally quicker than that registered in November. Meanwhile, manufacturers saw production rise only marginally, and at the slowest pace in the current three-month sequence.

The continued to rise in composite output growth was supported by a further increase in new business during December. However, similar to the trends for activity, there were varied results at the sub-sector level. Service providers recorded an acceleration in demand growth, while manufacturers registered a return to contraction territory. Overall, the rate of expansion ticked up from November.

Private sector firms continued to increase their staff numbers in the final month of 2019, extending the current run of workforce expansion that began in November 2016. That said, the rate of job creation eased to the softest for three months amid a broad-based slowdown at the sub-sector level.

Finally, although firms recorded anticipation for a rise in activity during 2020, the degree of optimism was the weakest for six months.

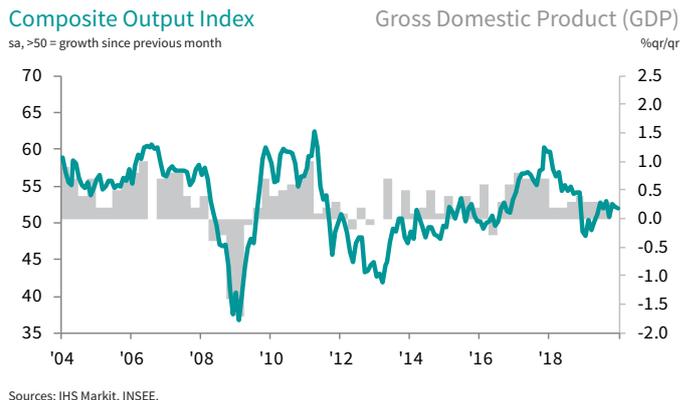
* Composite PMI indices are weighted averages of comparable manufacturing and services PMI indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The France Composite Output Index is a weighted average of the France Manufacturing Output Index and the France Services Business Activity Index.

COMMENT

Commenting on the PMI data, Eliot Kerr, Economist at IHS Markit said:

"The French service sector ended 2019 with a slightly quicker rise in business activity. The result locked in a solid rate of output expansion for the final quarter of the year, which was supported by strong new order growth throughout."

"Faster headline growth at service providers helped offset stuttering manufacturing production and ensured the pace of expansion in composite activity was little-changed from November. Taking into account PMI results from the final three months of the year, the data point to economic growth of approximately 0.4% in the fourth quarter."



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Methodology

The IHS Markit France Services PMI® is compiled by IHS Markit from responses to questionnaires sent to a panel of around 400 service sector companies. The sectors covered include consumer (excluding retail), transport, information, communication, finance, insurance, real estate and business services. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Services Business Activity Index. This is a diffusion index calculated from a question that asks for changes in the volume of business activity compared with one month previously. The Services Business Activity Index is comparable to the Manufacturing Output Index. It may be referred to as the 'Services PMI' but is not comparable with the headline manufacturing PMI figure.

The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index. The weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Composite Output Index may be referred to as the 'Composite PMI' but is not comparable with the headline manufacturing PMI figure.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

December 2019 data were collected 5-18 December 2019.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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About PMI

Purchasing Managers' Index® (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to ihsmarkit.com/products/pmi.html.

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