France’s service sector regained momentum during October, the latest PMI® survey showed, with output rising at the fastest rate since July and ending a three-month period of slowing growth. Trends elsewhere also moved in a positive direction as both new orders and employment increased more markedly. The performance of the latter was particularly noticeable, with staffing levels rising at the fastest pace for over two decades.

Meanwhile, inflationary pressures remained elevated. Input costs rose at a sharper rate, while output price inflation was among the sharpest seen over the past ten years.

The seasonally adjusted France Services Business Activity Index edged up slightly to 56.6 in October, from 56.2 in September. While the overall rate of growth was not too dissimilar to those seen since July, the latest data signalled renewed vigour to the recovery as growth accelerated for the first time since June. Moreover, the rate of expansion was the fastest in three months.

According to surveyed companies, higher volumes of new work stoked further business activity growth in October, while other firms linked higher output to sustained recovery efforts. The headline index has posted above the 50.0 no-change mark for seven straight months and continues to record above its historical average.

French service providers recorded higher intakes of new work during the latest survey period. The trend here matched that seen in output, with new business growth rising to a three-month high. Many firms linked the upturn in demand to the resumption of pre-pandemic levels of activity among their clients. Indeed, some companies reportedly benefited from looser travel restrictions, which encouraged orders from overseas clients. This was also evidenced by survey data, which showed new export business rising moderately during October.

To accommodate for higher workloads, French service providers bolstered their staffing levels at the start of the fourth quarter for a tenth successive month. Moreover, the rate of jobs growth was the sharpest since July 2001 and quickened sharply from that seen previously.

With activity and employment levels both increasing at sharper rates, efficiency gains at some firms contributed to a slower increase in backlogs of work during October. Overall, outstanding business volumes were accumulated to the softest extent since April.

Meanwhile, inflationary pressures remained elevated during October. Input costs increased at the fastest rate since July 2008, accelerating from that seen in September. The respective seasonally adjusted index has increased by almost 12 points since May, highlighting the rapid ascent of input price inflation so far this year. According to firms, higher energy, fuel, material and employment costs were the key drivers.

In response to greater cost burdens, output charges were increased during October. Overall, the rate of inflation was broadly level with that seen in September and elevated by historical standards.
Latest survey data showed a widening divergence between trends in the French manufacturing and service sector during October. While activity in the latter grew at a strong and accelerated pace, and underpinned broad growth across the economy, the former registered a renewed drop in production amid intense supply chain dislocations.

The Composite Index, which is a weighted average of the Manufacturing Output Index and the Services Business Activity Index, fell to 54.7 in October, from 55.3 in September. This represented its lowest reading for six months and a fourth successive drop. The slowdown was entirely a reflection of falling production at manufacturers, where supply shortages reportedly impeded factory output.

That said, there were more positive trends in other sub-indices in October. New orders grew at an accelerated rate, spurred on by a sharper upturn at services firms, although goods producers registered the first reduction in sales since last December.

Employment growth accelerated in a broad-based fashion in October and was the strongest since November 2017. Hiring activity was particularly marked at services firms.

Lastly, cost pressures picked up during the latest survey period as input prices rose at the fastest pace for 17 years. That said, output price inflation edged slightly lower, but remained sharp overall.

Comment

Joe Hayes, Senior Economist at IHS Markit, which compiles the survey:

“The economic recovery progressed further in October. Services output is still rising at a relatively sharp rate by historical standards as activity levels within the economy return to pre-pandemic levels. Demand conditions are still robust, and firms are adding more staff to the payroll. Jobs growth was at its sharpest for over two decades in October, which should facilitate a continuation of the strong growth trend we’ve seen since the summer.

“However, we cannot ignore what’s happening over in the manufacturing sector. The recovery is becoming highly dis-jointed as supply issues disrupted goods producers immensely in October.

“Spillover effects remain confined to service sector prices so far. Input costs rose at the fastest pace for over 13 years, keeping output charge inflation at an elevated rate. Economic recovery efforts heading into the winter appear to be resting on resilience in the services economy.”
Survey 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.
For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

Survey dates and history
Data were collected 12-26 October 2021.
Survey data were first collected May 1998.

Flash vs. final data
Flash services data were calculated from 85% of final responses. Flash composite data were calculated from 88% of final responses.
Since January 2006 the average difference between final and flash Services Business Activity Index values is -0.1 (0.5 in absolute terms). Since January 2006 the average difference between final and flash Composite Output Index values is -0.1 (0.4 in absolute terms).

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