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IHS Markit France Business Outlook

Businesses firmly optimistic towards growth prospects

Key findings:

- Firms remain strongly confident towards business activity prospects
- Hiring intentions stay broadly level with record high seen in previous survey
- Inflation expectations climb to near-record amid growing cost pressures

Data collected October 12-26

The latest IHS Markit France Business Outlook survey showed a strong level of confidence towards growth prospects, despite the overall degree of optimism waning slightly from the decade high seen previously.

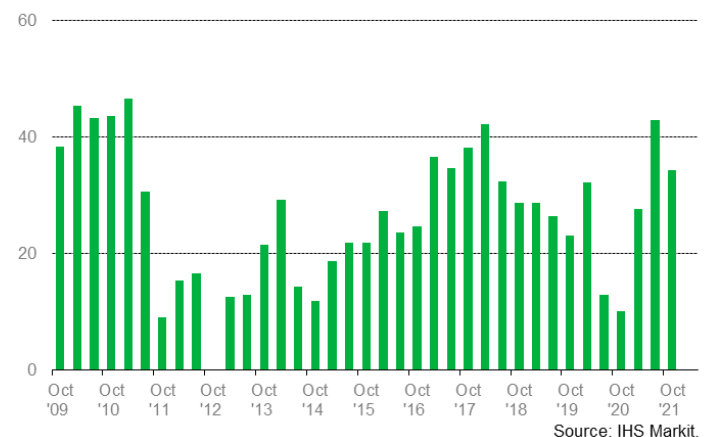
The positive outlook for business activity supported strong hiring and investment intentions, while profitability is also expected to rise. This was despite mounting concerns regarding cost burdens, which firms are poised to combat with record increases in their selling prices.

The net balance of firms that forecast business activity growth over the next 12 months fell to +34% in October, from +43% in June – the highest reading since February 2011. Nevertheless, the latest data still signalled a firm degree of optimism among private sector companies in France and compared with a eurozone-wide net balance of +38%.

Weaker sentiment was seen at both manufacturers and service providers in October, although the deterioration was stronger among the former as concerns regarding rising energy, transport, and raw material costs, as well as supply shortages, muddied the outlook.

That said, many businesses expect growth to be spurred on by improving global economic conditions as firms continue to recoup their pandemic-related losses over the next 12 months.

France business activity expectations



Corporate Earnings

The outlook for business profits was sector-dependant, latest data showed. On aggregate, a net balance of +15% of companies anticipate higher earnings over the coming year, but this was only a reflection of bullish forecasts at service providers as manufacturers foresee reduced profitability. According to anecdotal data, goods producers were concerned about the impact of rising cost pressures.

Employment & Investment Plans

Having reached their highest since composite data were first compiled in October 2009 during the last survey period, hiring intentions at private sector companies in France was broadly unchanged. In line with their more bullish activity growth expectations compared to manufacturers, service providers were more optimistic towards recruitment prospects.

Meanwhile, both capex and R&D spending are set to increase over the forthcoming year. A net balance of +4% of firms foresee growth in R&D, while capex spending plans were at their strongest for three years.

Inflation Expectations

There was a widespread increase in inflation expectations, with manufacturers and service providers expecting their costs, and in turn selling prices, to increase. A net balance of +43% of private sector firms predict higher non-staff costs over the coming year, the highest since records began in October 2009. The net balance for non-staff costs also reached a new peak of +40%.

With costs set to rise, firms intend to raise their selling prices over the next 12 months to protect their margins. A net balance of +32% of firms are planning hikes, from +20% in June and the highest since February 2011. Prices charged by manufacturers look set to increase by a particularly steep margin, with a net balance of +53% seen here, compared to +28% at service providers.

Comment:

Commenting on the France Business Outlook survey data, **Joe Hayes**, Senior Economist at IHS Markit, said:

“French businesses showed a still-strong level of optimism towards their prospects despite a number of economic headwinds appearing since the summer. That said, the data does suggest that there is a risk of a two-speed economic recovery taking hold as output expectations, hiring intentions and profitability forecasts were all much higher at service providers than manufacturers.”

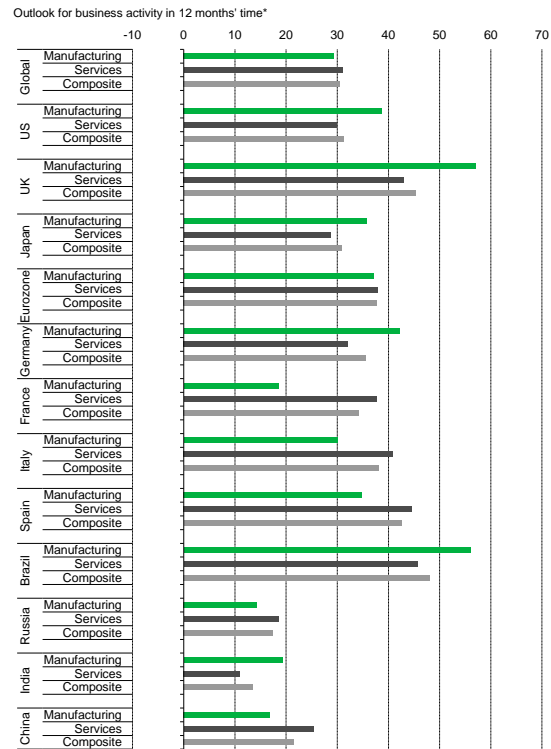
“The supply-chain issues which have acted as a restraint on production in the manufacturing sector, and led to intense rates of input cost inflation, caused goods producers to moderate their expectations to a greater extent than service providers. In fact, profitability is forecast to fall at the former, but rise at the latter.”

“Nonetheless, capex, R&D and hiring plans were resilient, including in manufacturing, suggesting that expansion plans haven’t been shelved for the time being despite the challenging environment some firms are facing.”

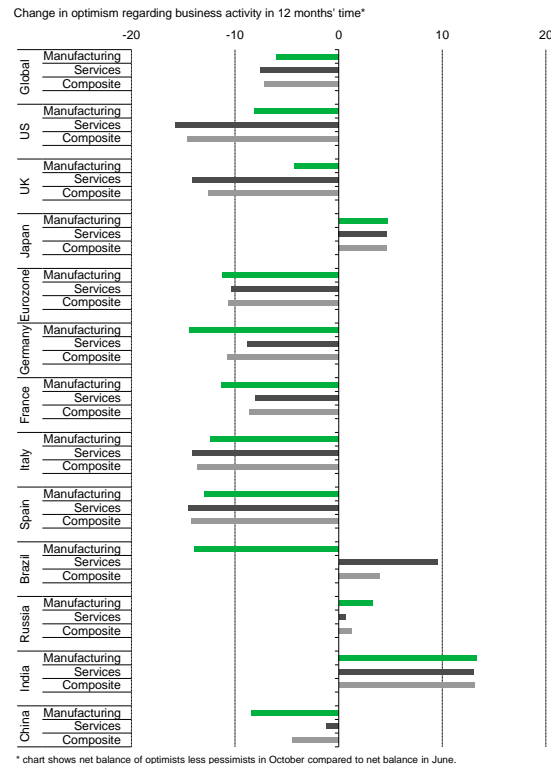
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Full data available on request from economics@ihsmarkit.com

Business optimism in October



How business activity expectations have changed since June



For further information, please contact:**IHS Markit**

Joe Hayes, Senior Economist
Telephone +44-1344-328-099
Email joseph.hayes@ihsmarkit.com

Joanna Vickers, Corporate Communications
Telephone +44-207-260-2234
Email joanna.vickers@ihsmarkit.com

Notes to Editors:

The Global Business Outlook Survey for worldwide manufacturing and services is produced by IHS Markit and is based on a survey of around 12,000 manufacturers and service providers that are asked to give their thoughts on future business conditions. The reports are produced on a tri-annual basis, with data collected in February, June and October. The latest survey was conducted between October 11 and 29.

Interest in the use of economic surveys for predicting turning points in economic cycles is ever increasing and the Business Outlook survey uses an identical methodology across all nations covered. It gives a unique perspective on future business conditions from Global manufacturers and service providers.

The methodology of the Business Outlook survey is identical in all countries that IHS Markit operates. This methodology seeks to ensure harmonization of data and is designed to allow direct comparisons of business expectations across different countries. This provides a significant advantage for economic surveillance around the globe and for monitoring the evolution of the manufacturing and services economies by governments and the wider business community.

Data collection is undertaken via the completion of questionnaires three times a year at four-month intervals. A combination of phone, fax, website and email are used, with respondents allowed to select which mechanism they prefer to use.

The Business Outlook survey uses net balances to indicate the degree of future optimism or pessimism for each of the survey variables. These net balances vary between -100 and 100, with a value of 0 signalling a neutral outlook for the coming 12 months. Values above 0 indicate optimism amongst companies regarding the outlook for the coming 12 months while values below 0 indicate pessimism. The net balance figure is calculated by deducting the percentage number of survey respondents expecting a deterioration/decrease in a variable over the next twelve months from the percentage number of survey respondents expecting an improvement/increase.

Questionnaires are sent to a representative panel of around 12,000 manufacturing and services companies spread across the global economy in the countries mentioned above. Companies are carefully selected to ensure that the survey panel accurately reflects the true structure of each economy in terms of sectoral contribution to GDP, regional distribution and company size. This panel forms the basis for the survey. The current report is based on responses from around 8,000 firms.

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