

Purchasing Managers' Index[®]
MARKET SENSITIVE INFORMATION
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IHS Markit Flash France PMI[®]

Sharper decline in French business activity as COVID-19 restrictions continue

Key findings:

- Flash France Composite Output Index⁽¹⁾ at 45.2 in February (47.7 in January), 3-month low
- Flash France Services Activity Index⁽²⁾ at 43.6 in February (47.3 in January), 3-month low
- Flash France Manufacturing Output Index⁽³⁾ at 52.4 in February (49.5 in January), 5-month high
- Flash France Manufacturing PMI⁽⁴⁾ at 55.0 in February (51.6 in January), 3-year high

Data collected February 11-18.

February PMI data pointed to the quickest decline in French business activity for three months, as restrictions designed to stem the spread of the coronavirus disease 2019 (COVID-19) continued to hinder economic activity. Output has now fallen in each of the past six months.

At the sector level, there were contrasting results, with service providers posting another decline in activity while manufacturers saw a modest expansion. Notably, the decline in the service sector was the fastest since last November and sharp overall. When explaining the latest contraction, some panellists mentioned prolonged closures of their businesses due to COVID-19 regulations.

Similar to the trend for output, new orders received by French private sector firms fell in February. Moreover, the pace of reduction accelerated to the quickest for three months and was marked overall. The downturn was driven solely by the service sector, where demand conditions deteriorated markedly. This more than offset the fastest increase in manufacturing new orders for two-and-a-half years.

Underlying data indicated that the reduction in overall new business was centred on the domestic market, with new export orders increasing during

February. The result marked the first rise in foreign sales since December 2019. However, the expansion was only marginal overall. Sector data revealed that the result was underpinned by notable growth in manufacturing as services firms registered another sharp decline.

Despite the ongoing reductions in activity and new business, private sector firms increased their staff numbers in the latest survey period. The result marked the first back-to-back monthly rise in employment since a 40-month sequence ended in February 2020. Both manufacturers and service providers posted higher staffing numbers.

Amid a rise in employment and softer inflows of new business, backlogs of work in the French private sector fell further in February. Moreover, the rate of decline was the quickest for three months and solid overall. In line with the trend for demand, the reduction in outstanding business was limited to services as goods producers posted an increase for the third month running.

On the cost front, input prices faced by private sector firms continued to rise at a marked pace. Sector data indicated that the latest increase was predominantly driven by the manufacturing sector, where input price inflation was the strongest since May 2011. Anecdotal evidence suggested that widespread shortages of inputs was driving not only higher inflation but also considerable delays in deliveries.

Although input prices continued to rise, French businesses opted to continue cutting their average output charges in February. The result extended the current sequence of decline to six months and was again driven by the service sector.

Looking forward, firms remained optimistic towards the 12-month business outlook. In fact, the degree of positivity was the strongest for just over two-and-a-half years, with panellists signalling expectations for a recovery in demand later this year.

Comment

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

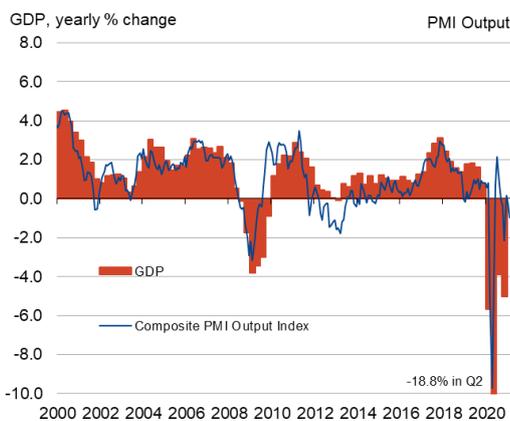
“The latest PMI data suggested that the French private sector is continuing to struggle amid the ongoing COVID-19 crisis. However, downturns in activity and new orders were confined to the service sector in February, where some businesses remain temporarily closed due to current activity restrictions. Meanwhile, there were signs that manufacturers are taking steps towards a recovery, with new orders increasing at the quickest rate for two-and-a-half years and output expanding solidly.

“Another bright spot in the latest data was the increase in employment for both sub-sectors. The second successive monthly rise at services firms is particularly promising given the ongoing decline in activity and suggests that firms are looking past the current climate and focusing on future growth. This was further illustrated by the strongest expectations regarding future activity since July 2018.

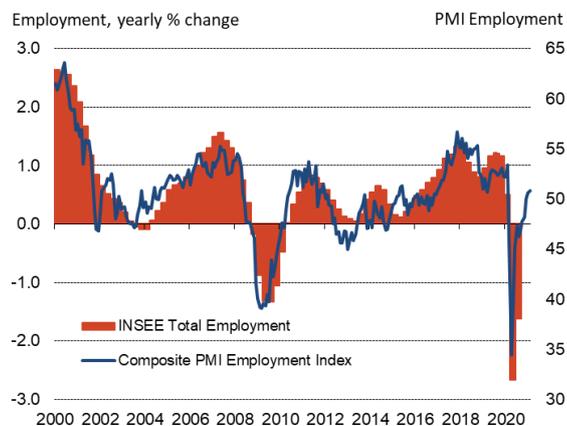
“The pandemic did, however, continue to cause issues on the supply-side, with input shortages driving another sharp rise in cost burdens and delivery delays. Moreover, firms were again unable to pass on higher prices to their clients. Instead, output charges were cut further, and again acted as a squeeze on profit margins.”

-Ends-

Economic Output



Employment



Sources: IHS Markit, INSEE via Datastream

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Note to Editors:

Final February data are published on March 1st for manufacturing and March 3rd for services and composite indicators.

The France PMI (Purchasing Managers' Index) is produced by IHS Markit and is based on original survey data collected from a representative panel of 750 companies based in the French manufacturing and service sectors. The **flash** estimate is based on around 85% of total PMI survey responses each month and is designed to provide an accurate advance indication of the final PMI data.

The average differences between the flash and final PMI index values (final minus flash) since comparisons were first available in January 2006 are as follows (differences in absolute terms provide the better indication of true variation while average differences provide a better indication of any bias):

Index	Average difference	Average difference in absolute terms
France Composite Output Index ⁽¹⁾	-0.1	0.4
France Manufacturing PMI ⁽⁴⁾	0.1	0.3
France Services Business Activity Index ⁽²⁾	-0.1	0.5

The Purchasing Managers' Index (PMI) survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries (including the European Central Bank) use the data to help make interest rate decisions. PMI surveys are the *first* indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

Notes

1. The Composite Output PMI is a weighted average of the Manufacturing Output Index and the Services Business Activity Index.
2. The Services Business Activity Index is the direct equivalent of the Manufacturing Output Index, based on the survey question "Is the level of business activity at your company higher, the same or lower than one month ago?"
3. The Manufacturing Output Index is based on the survey question "Is the level of production/output at your company higher, the same or lower than one month ago?"
4. The Manufacturing PMI is a composite index based on a weighted combination of the following five survey variables (weights shown in brackets): new orders (0.3); output (0.25); employment (0.2); suppliers' delivery times (0.15); stocks of materials purchased (0.1). The delivery times index is inverted.

IHS Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from IHS Markit. Please contact economics@ihsmarkit.com.

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