

Embargoed until 0930 CEST (0730 UTC) 6 April 2020

IHS MARKIT FRANCE CONSTRUCTION PMI®

Construction activity plummets amid COVID-19 outbreak

KEY FINDINGS

Fastest contraction in activity for just over five years

Severe drop in new business as demand evaporates

Sharp reduction in employment

The latest PMI® data revealed a sharp contraction in French construction activity during March, amid widespread site closures due to the coronavirus outbreak. Meanwhile, evaporating demand saw new business collapse and firms cut their staff numbers for the first time since May 2017. There was also evidence of severe supply-side disruption, with suppliers' delivery times lengthening markedly.

Looking forward, French construction companies were pessimistic towards the 12-month business outlook.

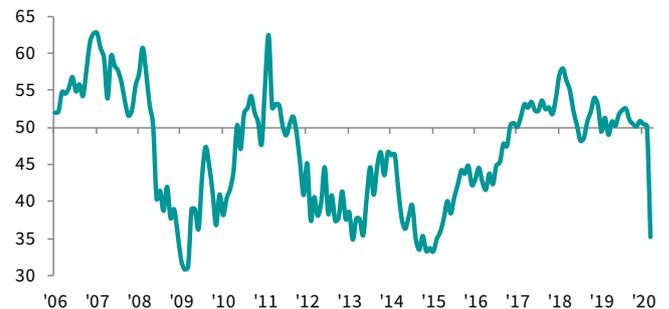
The headline France Construction Purchasing Managers' Index® (PMI®) – which is based on a single question asking respondents to report on the actual change in their total construction activity compared to one month ago – fell to 35.2 in March, down from 50.2 in February. The latest reading pointed to the fastest decline in French construction activity for just over five years. Panellists often cited disruption related to the COVID-19 outbreak when explaining the decline.

At the sub-sector level, the result was driven by a broad-based reduction. After a marginal recovery in February, home building contracted at the sharpest rate since November 2014. Meanwhile, commercial activity decreased for the first time in almost a year and civil engineering work fell at the quickest pace since June 2015.

March data also revealed tumbling demand across the French construction sector. New business placed with building firms fell at the sharpest rate since the nadir of the financial crisis over 11 years ago. Survey respondents overwhelmingly linked weaker demand to the COVID-19 pandemic.

Total Activity Index

sa, >50 = growth since previous month



Source: IHS Markit.

Amid temporary site closures and softer inflows of new work, firms cut their staff numbers at the end of the first quarter. The result represented the first workforce contraction since May 2017. Moreover, the rate of reduction was the fastest for over four years and marked overall.

Supplier delivery times faced by French construction firms continued to lengthen in March. In fact, the latest deterioration in vendor performance was the most severe since the 'gilets jaunes' protests in December 2018. Anecdotal evidence suggested longer average lead times were driven by product shortages at suppliers.

On the cost front, input prices continued to rise in March, but the rate of inflation eased sharply. The latest increase was the softest since November 2016 and historically subdued.

Finally, firms reported anticipation for a decline in activity over the coming 12 months, with many citing fears of prolonged coronavirus disruption. In fact, business sentiment fell to the weakest level since November 2014.

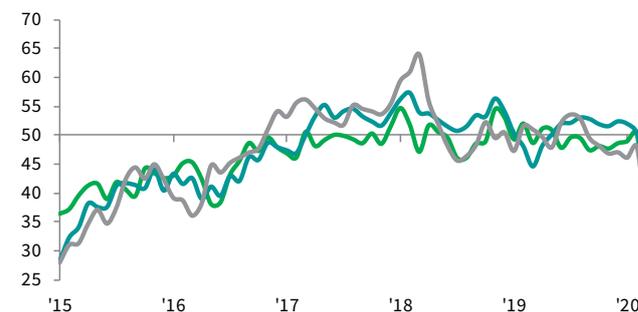
COMMENT

Eliot Kerr, Economist at IHS Markit, which compiles the survey:

"Like most sectors across the global economy, French construction was under severe pressure in March. The broad-based decline in activity was the fastest for just over five years, as building sites closed amid the coronavirus outbreak. However, the most worrying result came from the new orders index and its implications for business conditions going forward. The reading pointed to the sharpest reduction in demand since the global financial crisis, suggesting that the recovery from the COVID-19 pandemic may be a difficult one. With far fewer projects in pipeline, we are set for a lengthy period of subdued activity and a subsequent rise in unemployment."

Activity Index by construction category Housing / Commercial / Civil Engineering

sa, >50 = growth since previous month



Source: IHS Markit.

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Methodology

The IHS Markit France Construction PMI® is compiled by IHS Markit from responses to questionnaires sent to purchasing managers in a panel of around 150 construction companies. The panel is stratified by 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 Total Activity Index. This is a diffusion index that tracks changes in the total volume of construction activity compared with one month previously. The Total Activity Index is comparable to the Manufacturing Output Index and Services Business Activity Index. It may be referred to as the 'Construction 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.

March 2020 data were collected 12-31 March 2020.

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

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.

ihsmarkit.com/products/pmi.html

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