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IHS Markit France Business Outlook

Weakest business activity growth expectations since October 2016

Key findings:

- Optimism towards activity growth wanes in June
- Firms plan to increase capex
- Cost inflation expected to soften

Data collected June 12-25

The latest IHS Markit France Business Outlook survey indicates lower expectations for business activity compared to February. Although firms remain optimistic of growth, the overall level of confidence is at its weakest since October 2016. Despite this, there are improved expectations for profitability, employment and capex. Meanwhile, input cost inflation is anticipated to ease.

A net balance of +26% of companies expect a rise in business activity over the coming year, down from +29% in February to its lowest since October 2016. However, optimism remains stronger than both the global (+18%) and developed market (+19%) averages. Panellists hope that gains in new work will outweigh the negative effects of geopolitical instability.

At the sector level, manufacturers and services companies maintain a positive outlook, though confidence levels are down in both cases. Notably, the net balance of manufacturers expecting a rise in output is the lowest for six years.

Corporate Earnings

Although firms are less optimistic about business activity growth in June, they are more confident of an increase in profitability. At +13%, the net balance of firms forecasting a rise in earnings is higher than in February, when sentiment had weakened to the lowest since October 2014. The degree of positivity outstrips the eurozone (+8%) and global (+7%) averages.

France business activity expectations



The uptick in aggregate sentiment regarding profits is driven by the service sector, where businesses exhibit higher confidence following February's three-year low. Meanwhile, manufacturers report their weakest expectations for profits since June 2014.

Employment & Investment Plans

In contrast to the trend for business activity, the net balance of firms planning to increase their staff numbers over the next 12 months is slightly higher in June (+17%). The result represents the first rise in hiring intentions and the highest level of optimism since February last year. However, employment expectations remain subdued among both goods producers and service providers.

Similarly, overall confidence for an increase in capital expenditure over the next year is higher during June. A net balance of +14% of companies expect a rise in investment, pointing to a stronger degree of optimism than in February (+10%). Moreover, positive sentiment is above both the global (+11%) and developed market (+11%) averages. There are contrasting results at the sector level. Manufacturing companies report lower confidence compared to February, but that is more than offset by higher expectations at service providers.

Inflation Expectations

Private sector firms in France expect non-staff costs to keep rising over the coming year. However, the net balance is the lowest for two years, at +15%, driven by softer inflation expectations at both manufacturers and service providers. Firms also anticipate a slower increase in wages over the next 12 months.

With cost pressures expected to soften, a lower net balance of firms look set to increase their output charges. The net balance of companies planning to lift average charges (+11%) is the lowest since October 2016, remaining below the eurozone (+13%) and global (+12%) averages.

Comment:

Commenting on the France Business Outlook survey data, **Eliot Kerr**, Economist at IHS Markit, said:

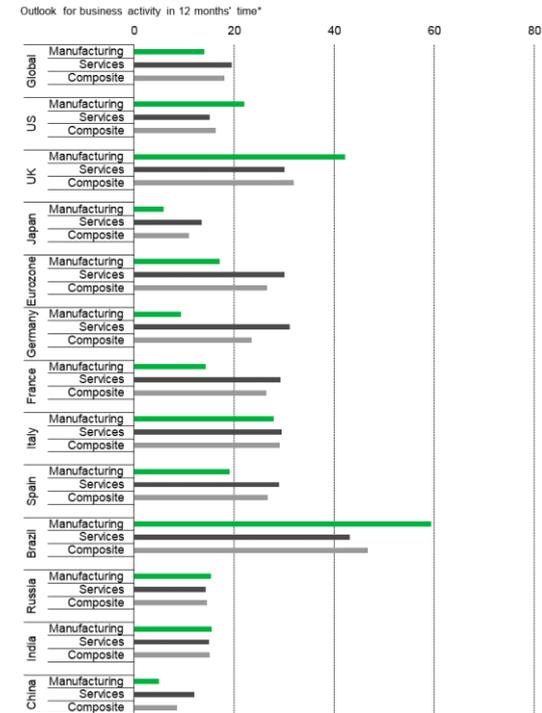
“Sentiment towards a rise in business activity over the next 12 months is the lowest since October 2016 in France. Despite this, confidence remains elevated compared to both the global and developed market averages, as a pipeline of new projects outweighs fears of further geopolitical tensions.

“Meanwhile, firms are more positive in their projections for profitability, employment and capital expenditure compared to February. Notably, the improved expectations for corporate earnings are driven entirely by the service sector, with manufacturing sentiment towards profits at its lowest for five years.”

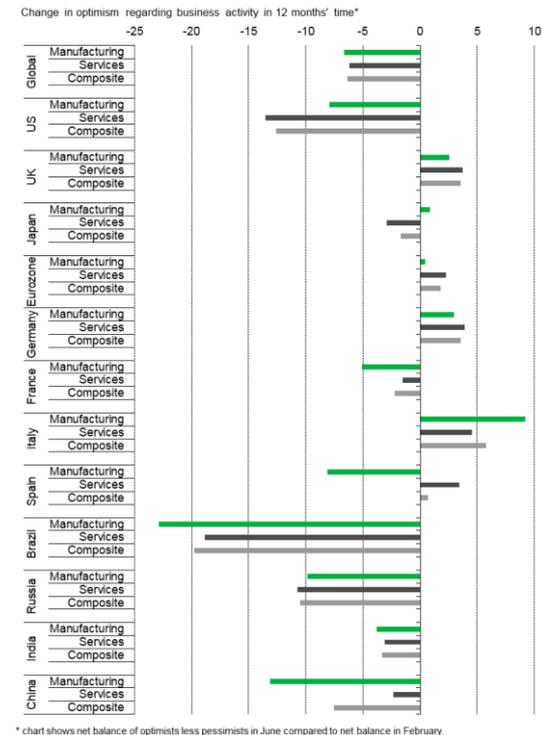
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Full data available on request from economics@ihsmarkit.com

Business optimism in June



How business activity expectations have changed since February



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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 June 12 and 25.

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 0.0 signalling a neutral outlook for the coming twelve months. Values above 0.0 indicate optimism amongst companies regarding the outlook for the coming twelve months while values below 0.0 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 7,000 firms.

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