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IHS MARKIT FRANCE SERVICES PMI®

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Service sector activity begins to recover in June

KEY FINDINGS

First output expansion since February

Softer reduction in new business

Firms register positive output expectations

Data collected 12-25 June

June PMI® data pointed to the first rise in French service sector business activity for four months. The result represented early signs of a recovery following three months of sharp contraction amid coronavirus lockdown restrictions. The expansion came despite continued demand weakness, with new businesses falling further, albeit at a softer rate than in May. Meanwhile, sentiment towards the 12-month business outlook moved back into positive territory, with panellists hopeful that the worst of the coronavirus crisis is over.

The headline seasonally adjusted IHS Markit France Services Business Activity Index – which is based on a single question asking respondents to report on the actual change in business activity at their companies compared to one month ago – registered 50.7 in June, up from 31.1 in May. The latest reading pointed to a slight recovery in output after the sharp reductions recorded over the previous three months. Anecdotal evidence suggested that many firms were beginning to resume operations following the easing of lockdown restrictions. At the sub-sector level, the expansion was predominantly driven by both Financial Intermediation and Renting & Business Activities firms, while Hotels & Restaurants continued to struggle.

The rebound in activity came despite a further softening in demand conditions during June. New business fell for the fourth month in a row. However, the rate of contraction eased substantially from May and was modest overall. Panellists suggested that clients remained hesitant to commit to new projects while there was potential for a second wave of coronavirus infections.

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

That said, looking forward, firms were optimistic of a rebound in demand. Service providers, on average, anticipated an expansion in activity over the coming 12 months, supported by expectations of a rise in new business as COVID-19 restrictions are continually eased. The result represented the first show of optimism since before the pandemic reached Europe.

Meanwhile, staff numbers at French service providers continued to tumble, extending the current sequence of workforce contraction that began in March. Though still sharp overall, the latest decline was the softest for three months. Underlying data suggested that job shedding was most severe at Hotels & Restaurants.

On the cost front, input prices increased for the first time in three months. That said, the rate of inflation was far softer than the historical average and marginal overall. When explaining higher costs, some panellists noted increased expenditure on protective equipment.

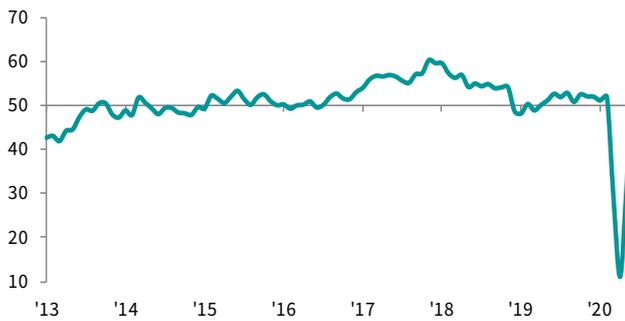
Despite facing higher cost burdens, service providers continued to cut their average output prices in June. Panellists often mentioned lowering charges in an attempt to boost sales. That said, the rate of decrease eased to the softest in the current four-month sequence of reduction.

IHS MARKIT FRANCE COMPOSITE PMI®

First rise in private sector activity for four months

Composite Output Index

sa, >50 = growth since previous month



Source: IHS Markit

The latest France Composite Output Index* reading of 51.7 pointed to a modest increase in business activity across the private sector in June. The result represented the first expansion for four months, following severe coronavirus lockdown restrictions which had seen output plummet since February.

The rebound in activity was predominantly driven by a sharp rise in manufacturing production, with the rate of growth the quickest since February 2018. Meanwhile, service providers posted a marginal expansion in activity.

Despite a further easing of coronavirus restrictions, new orders placed with French private sector firms continued to fall at the end of the second quarter. However, the rate of decline was by far the softest since lockdown measures were first introduced in March and only moderate overall. There were contrasting results at the sub-sector level, with service providers posting another reduction in sales, while manufacturers saw a fractional rise.

June data pointed to a marked reduction in staff numbers across the private sector. However, the rate of workforce contraction eased to the softest since March, with both covered sub-sectors recording slower decreases.

Finally, firms were optimistic towards the 12-month business outlook for the first time in four months. Optimism was supported by expectations of a recovery in demand as covid-19 restrictions are gradually lifted.

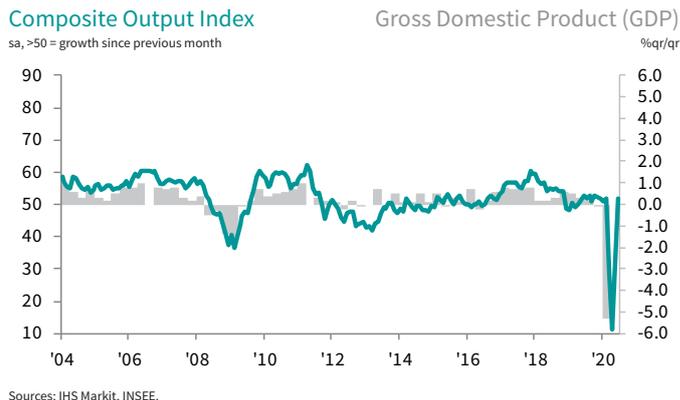
* Composite PMI indices are weighted averages of comparable manufacturing and services PMI indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The France Composite Output Index is a weighted average of the France Manufacturing Output Index and the France Services Business Activity Index.

COMMENT

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

"Following the easing of lockdown restrictions in May and early-June, businesses have had the opportunity to begin ramping up operations, and that was reflected by a renewed expansion in private sector activity at the end of the second quarter. Although the recovery was predominantly driven by manufacturers, service providers also posted an expansion in activity. That said, sub-sector data showed that services firms that are reliant on face-to-face interactions, such as Hotels & Restaurants, continued to suffer.

"Meanwhile, demand conditions deteriorated further, driven by a solid reduction in the service sector. However, the downward trajectory continued to flatten and if France can avoid a large scale second outbreak, we can expect new business to stabilise in the months ahead."



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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

June 2020 data were collected 12-25 June 2020.

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

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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.
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