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IHS Markit France Business Outlook

Growth expectations slump to weakest since October 2014

Key findings:

- Optimism subdued amid fears of further COVID-19 outbreaks
- Firms anticipate profits to decline for the first time in seven years
- Expectations for job cuts and reduced capex over the next 12 months

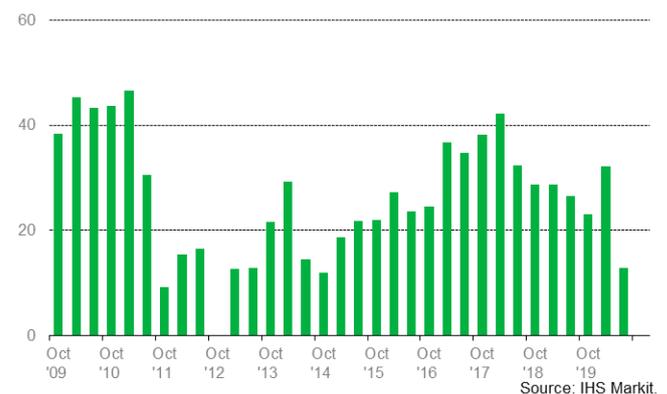
Data collected June 12-25

The latest IHS Markit France Business Outlook survey pointed to the weakest activity growth expectations among private sector firms since October 2014, with some panellists citing fears of further coronavirus outbreaks. June data also revealed that firms anticipated profit to fall over the coming year, the first negative forecast on earnings for seven years. In line with the subdued outlook for growth, French businesses expected both employment and capex to decline by June 2021.

A net balance of +13% of companies anticipated a rise in business activity over the next 12 months, down sharply from a recent high of +32% in February. While some survey respondents mentioned expectations of a demand rebound, others were worried by the prospect of a second large scale coronavirus outbreak. Confidence was also subdued compared to both the developed market and eurozone averages of +16% and +15% respectively.

At the sector level, weaker optimism was driven by both manufacturers and service providers. The former posted the softest growth forecast since last reporting expectations of a contraction in October 2012, while the latter saw confidence slump to the weakest since October 2014. Overall, optimism was most subdued among good producers.

France business activity expectations



Corporate Earnings

June data suggested French private sector companies expected a decrease in profits over the next year. The result represented the first negative forecast on earnings since June 2013, with both manufacturers and service providers anticipating bottom line reductions. Of the two monitored sectors, goods producers were the most pessimistic. However, net balances for both sectors were the most negative in over a decade.

The overall degree of negativity towards profits in France was slightly more severe than the eurozone average (-13%) and contrasted with positivity at the both global (+1%) and developed market (+3%) levels.

Employment & Investment Plans

For the first time since October 2014, French businesses expected a decline in employment over the coming year. A net balance of -11% of companies predicted a fall in staff numbers by June 2021, driven by negative hiring forecasts at both manufacturers and service providers. The degree of pessimism was sharper than the eurozone average (-8%).

Similar to the trend for employment, sentiment surrounding investment plans deteriorated to a record low in June. The proportion of firms anticipating a rise in capex minus the proportion expecting a fall fell to -20%, with both manufacturers and service providers posting figures well into negative territory.

Inflation Expectations

Businesses in France expected non-staff costs to keep rising over the coming year. That said, the net balance fell from +16% in February to +10% in June, with sub-sector data showing the decline was broad-based. The trend for staff costs was similar, however inflation expectations were barely positive in June. In fact, manufacturers anticipated a decline in wage expenditure for the first time since this series began in February 2019.

Amid softer expectations for cost inflation over the coming year, private sector firms reported plans to cut their output prices. It marked the first time since February 2013 that more firms expect a fall in charges than a rise (-2%).

Comment:

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

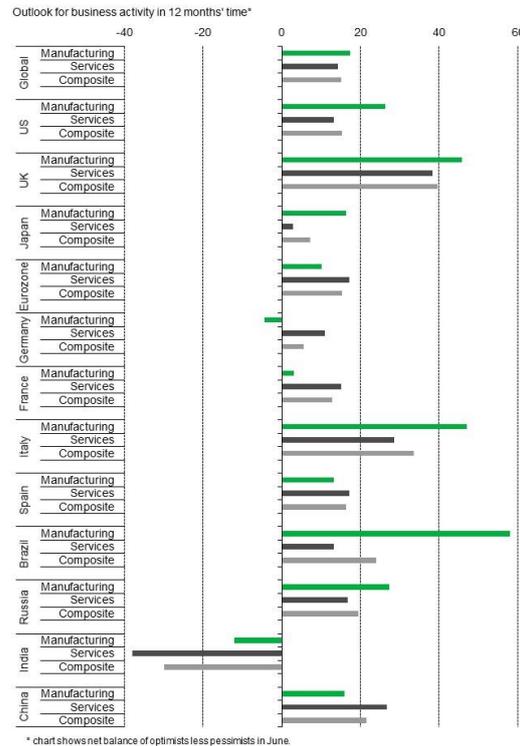
“Although June was the month in which the French economy began to accelerate its reopening after lockdown, the Business Outlook survey brings to light the lasting negative effects that this crisis has had on confidence. Despite the easing of restrictions, expectations remain well below averages levels, with businesses clearly hesitant due the lack of a vaccine and the potential for future outbreaks. An additional question in the latest survey revealed that in mid-June, 69% of panel members still had lower output than before the coronavirus outbreak, and 60% didn’t expect a recovery for at least another 3-6 months.

The latest numbers for employment and capex were also damning, as they suggest firms lack the confidence to invest in their future growth and are more focused on self-preservation during these uncertain times.”

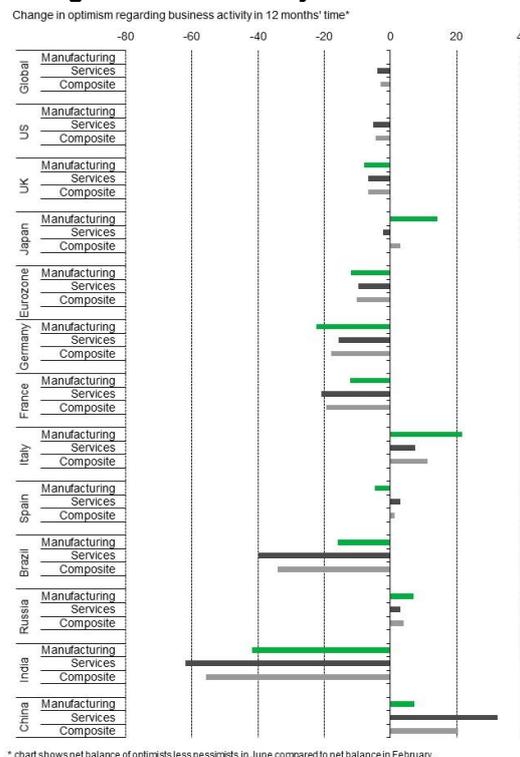
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Full data available on request from economics@ihsmarkit.com

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 10 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 7,000 firms.

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