Service sector activity growth eases during August

KEY FINDINGS

Activity growth falters after July's sharp expansion
New business little-changed
Rate of workforce contraction accelerates

Latest PMI® data signalled a further rise in business activity at French service sector firms during August, but the rate of growth eased substantially from July. The slowdown came amid a broad stagnation in new business and a renewed decline in backlogs of work. Firms responded with another reduction in staff numbers, with the rate of job shedding accelerating for the first time in four months. Meanwhile, firms remained optimistic regarding activity growth for the year ahead, although sentiment slipped to a three-month low.

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 51.5 in August, down markedly from 57.3 in July. Though the latest reading pointed to a third successive rise in activity since the initial recovery in June, the rate of expansion was far softer than July’s 27-month high. Underlying data indicated that a rebound in the Hotel & Restaurants sub-sector was partially offset by declines in other areas, including Post & Telecommunications and Renting & Business Activities.

Softer activity growth was coherent with a broad stagnation in demand midway through the third quarter. New business received by service providers was little-changed in August after posting a solid rise during July, with some panellists commenting that their clients were hesitant to commit to work due to uncertainty over the duration of the pandemic.

Weighing on aggregate demand was a further reduction in new export business during August. The latest result extended the current sequence of decline to six months. That said, the pace of reduction eased for the fourth month running.

Amid the lack of direction in new business, firms continued to cut staff numbers in the latest survey period. Moreover, the rate of workforce contraction accelerated for the first time since April, when employment fell at the quickest pace since data collection began in May 1998.

Meanwhile, backlogs of work at French service providers decreased in August. The result followed the first increase for five months during July, albeit one that was modest overall. Anecdotal evidence indicated that the renewed contraction was partially driven by the stagnation in new work.

On the price front, operating expenses rose for the third month in a row, with the rate of inflation accelerating to the quickest since January. Despite facing higher costs, firms continued cutting average output charges in order to retain clients and drive new business.

Looking forward, French services firms were optimistic towards the 12-month business outlook during August. That said, the degree of confidence was the weakest since May.
Private sector activity growth loses momentum during August

The France Composite Output Index* fell to 51.6 in August, down sharply from 57.3 in July. The latest reading pointed to the softest rise in private sector activity in the current three-month sequence of expansion, and one that was modest overall.

At the sub-sector level, the result was driven by a broad-based slowdown, with both manufacturers and service providers registering far slower expansions than in July. The former recorded the slightly faster rate of growth, although the increases in both market segments were moderate.

In line with the trend for activity, aggregate new order growth also eased in August. In fact, the latest increase in sales was just fractional overall, with both monitored sub-sectors barely registering in expansion territory. Underlying data indicated that remaining new business growth was centred on the domestic market, with international sales continuing to decline markedly.

Amid softer inflows of new work, French private sector firms continued to cut staff numbers. Moreover, the rate of workforce contraction accelerated from July and was sharp overall.

Finally, firms were still optimistic towards the 12-month outlook for activity, although sentiment sank to a three-month low, with some panellists still hesitant due to uncertainty surrounding the duration of the pandemic.

*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:

“The latest PMI data came as a disappointment following the sharp rise in private sector activity seen during July, which had spurred hopes that the French economy could undergo a swift recovery towards pre-covid levels of output. However, with activity growth easing considerably in the latest survey period, those hopes have been dashed and it is more likely that July was a temporary shock driven by a marked increase in the number of reopening businesses. Going forward, we can expect a steadier expansion, but even that comes with the risk of another sharp downturn if infection rates accelerate sufficiently for the government to impose another lockdown.”
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.

Sources: IHS Markit, INSEE.

August 2020 data were collected 12-25 August 2020.

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

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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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