Business conditions deteriorate further in May, but at softer rate

**KEY FINDINGS**

- Health of manufacturing sector deteriorates markedly again
- Output and new orders tumble further
- Employment continues to decline

Data were collected 12-21 May

May PMI® data pointed to another sharp deterioration in business conditions faced by French manufacturers, with many firms still debilitated by restrictions designed to stem the spread of coronavirus. The latest decline was softer than April’s survey record, however, with output, new orders and employment all falling at slower rates. Meanwhile, firms saw input delivery times continue to lengthen in a further sign of supply-chain disruption.

The seasonally adjusted IHS Markit France Manufacturing Purchasing Managers’ Index® (PMI) – a single figure measure of developments in overall business conditions – rose to 40.6 in May, up from 31.5 in April. The reading pointed to another marked deterioration in the health of the French manufacturing sector, but one that was softer than April’s survey record.

The continued decline in operating conditions was partially driven by another reduction in demand during May. New orders fell sharply for the third month in a row, and although the rate of decline eased from April, it remained among the quickest since data collection began over 22 years ago. Panellists often associated lower sales with the ongoing coronavirus outbreak.

While anecdotal evidence suggested that some firms had begun to restart their production lines, the latest data pointed to an overall decrease in output during May. Moreover, despite easing from April, the rate of contraction remained sharp overall. When reporting a fall in production, panellists often cited subdued demand conditions.

Amid softer inflows of new orders and reduced production capacity due to the implementation of social distancing measures, firms continued to cut staff numbers during May. The rate of workforce contraction decelerated from April’s record, but was still the second-strongest since the series was incepted.

Weak demand conditions also drove a further decrease in backlogs midway through the second quarter. The latest reduction extended the current sequence to three months and the rate of decline remained sharp.

On the supply-side, there was evidence of severe disruption, with input delivery times lengthening sharply. That said, the extent to which vendor performance deteriorated was less drastic than in April.

Input costs faced by French manufacturers continued to fall. Moreover, the rate of reduction accelerated to the fastest for just over four years. Some panellists commented on lower prices for oil-based products.

Finally, firms remained pessimistic towards the 12-month business outlook in May, driven by fears of a prolonged economic downturn due to the coronavirus outbreak. That said, the degree of negativity eased from April’s series low, with some survey respondents hopeful of a gradual recovery as lockdown measures are removed further.
COMMENT

Eliot Kerr, Economist at IHS Markit, which compiles the France Manufacturing PMI® survey, said:

"Despite some French manufacturers beginning to resume normal operations in May, output continued to decline following April’s record contraction. Although the rate of decline eased, the further reduction in activity highlights the challenges that the economy faces in its recovery from this crisis. Firms are now presented with an environment of subdued demand, as clients remain hesitant to place orders amid uncertainty over the removal of restrictions and the potential for further outbreaks.

"Going forward, the new orders index will take on an important role in determining when demand is beginning to recover, and only when that happens can we expect a return to sustainable growth."

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Methodology

The IHS Markit France Manufacturing PMI® is compiled by IHS Markit from responses to questionnaires sent to purchasing managers in a panel of around 410 manufacturers. 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 Purchasing Managers’ Index® (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers’ Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers’ Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

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.

May 2020 data were collected 12-21 May 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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