

**EMBARGOED UNTIL: 00:01 (UTC) November 10<sup>th</sup> 2020**

# IHS Markit France Business Outlook

## Weakest outlook for business activity since October 2012

### Key findings:

- Fears of ongoing COVID-19 outbreaks weigh on business confidence
- Firms expect earnings to decline over the coming year
- Negative sentiment for both capex and employment

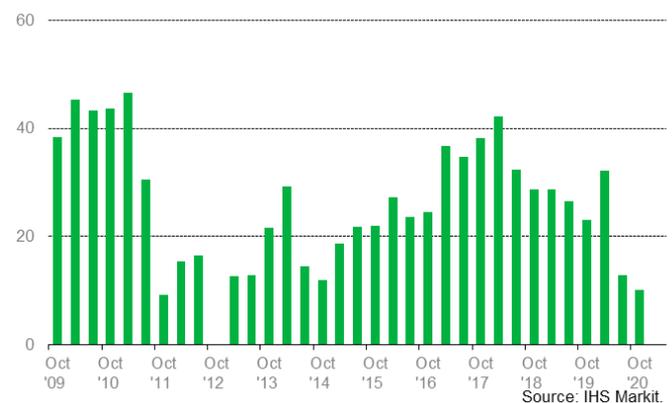
### Data collected October 12-27

The latest IHS Markit France Business Outlook survey signalled the weakest expectations for output since firms last anticipated stagnation during October 2012. Subdued optimism was predominantly driven by fears of persistent coronavirus disease 2019 (COVID-19) outbreaks and the potential for ongoing lockdowns. October data also revealed that firms anticipated a fall in profits over the coming year, only the second negative forecast on earnings since June 2013 (alongside June 2020). In line with the subdued outlook for growth, French businesses expected both employment and capex to decline by October 2021.

Down from +13% in June, a net balance of +10% of companies anticipated a rise in business activity over the next 12 months, the lowest figure for eight years. While some survey respondents were hopeful that a COVID-19 vaccine would lead to a recovery in business conditions, others were worried by the prospect of ongoing lockdown measures. Optimism in the French private sector was weaker than both the developed market and eurozone averages of +26% and +18% respectively.

At the sector level, the decline in confidence was driven by services, where firms recorded their weakest expectations for output since October 2014. Meanwhile, goods producers registered a more positive forecast than in June.

### France business activity expectations



### Corporate Earnings

October data indicated that French private sector companies remained pessimistic in their 12-month forecast for earnings. The result marked the second successive survey period in which profit expectations have been in negative territory, although the net balance of firms anticipating a decline improved from June (up from -18% to -11%). Underlying data revealed that both manufacturers and service providers were downbeat on earnings prospects, the latter more markedly.

The overall degree of pessimism towards profits in France was more pronounced than the eurozone average (-4%) and contrasted with positivity at both the global (+14%) and developed market (+13%) levels.

### Employment & Investment Plans

In line with a subdued outlook for activity growth, French businesses expected a decline in employment over the coming year. However, a net balance of just -2% of companies predicted a fall in staff numbers, which compared to -11% in June. Both manufacturers and service providers were less pessimistic than in the previous survey period.

Similar to the trend for employment, sentiment surrounding investment plans remained in negative territory, however degrees of pessimism towards capital expenditure (capex) and research and development (R&D) were softer than in June. The proportion of firms anticipating a rise in capex minus the proportion expecting a fall increased to -6%, up from a record low of -20%.

## Inflation Expectations

Businesses in France expected non-staff costs to keep rising over the coming year. That said, the net balance fell from +10% in June to +6% in October, with the decline driven by a downward revision at services firms. Private sector companies in France also anticipated a rise in staff costs over the next 12 months, with inflation expectations strengthening from June.

Amid expectations for higher cost burdens, firms reported plans to increase their output prices by October 2021. Both manufacturers and services firms anticipated mild rises in output charges over the next year.

## Comment:

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

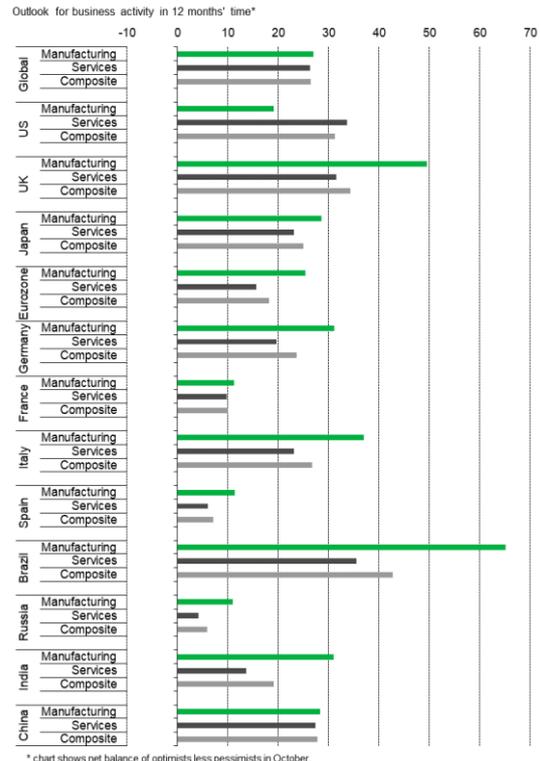
*“The latest Business Outlook data show that expectations for activity growth among French private sector firms are at the lowest level since the height of the eurozone crisis in 2012. Confidence continues to be hampered by uncertainty caused by the COVID-19 crisis, with firms fearful of persistent outbreaks and the potential for ongoing restrictions.”*

*“An additional question in the latest survey period indicated that, as of mid-October, 30% of panellists had seen activity recover to at least pre-coronavirus levels. With subdued expectations for growth over the coming year, firms will have to restructure their business models to account for lower output, if they haven’t done so already. Those changes will almost definitely include the reduction of staff numbers, so a further decrease in employment is likely.”*

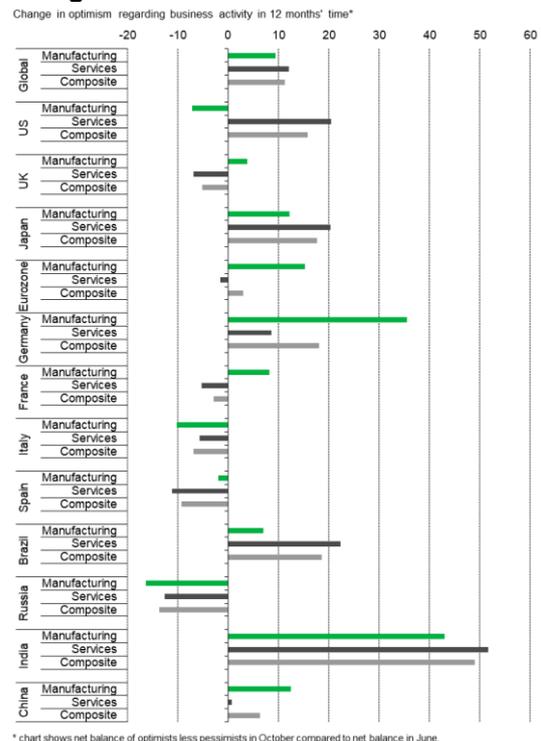
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Full data available on request from [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com)

## Business optimism in October



## How business activity expectations have changed since June



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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 October 9 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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