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IHS MARKIT FRANCE SERVICES PMI®

INCLUDING IHS MARKIT FRANCE COMPOSITE PMI®

Service sector activity contracts at quicker pace in January

KEY FINDINGS

Business activity falls amid fresh decline in new orders

First increase in employment for almost a year

Fastest rise in input costs for five months

Data collected 12-26 January

Latest PMI® data indicated a faster contraction in activity across the French service sector in January. The result was partially driven by a fresh decline in new orders as tighter coronavirus disease 2019 (COVID-19) restrictions hampered demand conditions. Despite the renewed downturn in sales, firms increased their staff numbers for the first time since February 2020. Meanwhile, input costs increased at the quickest rate for five months.

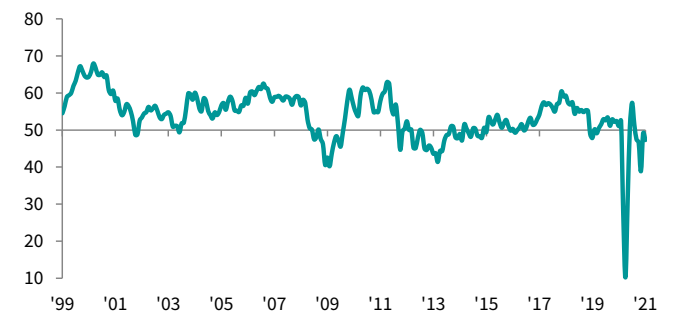
The headline seasonally adjusted IHS Markit France Services Business Activity Index – which is based on a single question asking respondents to report on the actual change in business activity at their companies compared to one month ago – registered 47.3 in January, down from 49.1 in December. The latest reading pointed to a faster contraction in service sector activity compared to the previous month and one that was solid overall. Panellists often commented that tighter COVID-19 restrictions had contributed to the downturn. Sub-sector data indicated that Hotels & Restaurants were the most severely affected.

Contributing to the sharper decline in activity was a decrease in new business during January. The result followed the first increase for four months in December. In the latest survey period, the rate of reduction was solid, but far softer than the average for 2020.

Overall new business received little support from international markets at the start of 2021, with foreign sales continuing to fall at a marked rate. That said, the latest decline was the slowest in the current 11-month sequence.

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

The trend towards stabilisation was aided by improvements in the Financial Intermediation and 'Other Services' sub-sectors.

Although demand conditions deteriorated, there was an upturn in employment during January. Notably, the increase in staff numbers was the first for almost a year. The marginal rise was underpinned by job creation in the Financial Intermediation and Post & Telecommunications sub-sectors.

On the cost front, input prices faced by French service providers continued to rise at the start of the year. Though modest overall, the rate of inflation was the quickest for five months. Anecdotal evidence suggested that the increase in costs was predominantly driven by higher wage expenditure.

Despite the rise in cost burdens, service sector businesses recorded a further reduction in output prices. The result extended the current sequence of decline that began with the escalation of the COVID-19 pandemic in March 2020. Moreover, the rate at which charges fell accelerated from December and was solid overall.

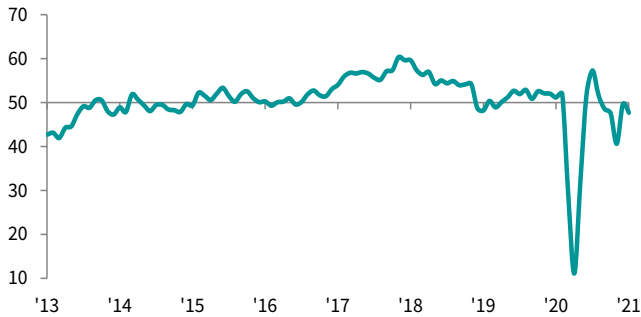
Finally, firms remained optimistic towards the 12-month business outlook in January. Optimism was supported by expectations for an improvement in demand conditions as COVID-19 vaccinations continue throughout 2021. The degree of positivity softened from December's 20-month high, however.

IHS MARKIT FRANCE COMPOSITE PMI®

Private sector activity declines at quicker rate

Composite Output Index

sa, >50 = growth since previous month



Source: IHS Markit

The France Composite Output Index* fell to 47.7 in January, down from 49.5 in December, to signal a faster contraction in private sector business activity.

At the sub-sector level, the decline in output was broad-based and led by services firms. Manufacturers posted a fresh downturn following a modest expansion in December.

New orders received by French businesses also fell at a quicker rate in the opening month of 2021. The result was driven by a fresh decline at service providers which more than offset a rebound at manufacturers. The overall rate of reduction was modest overall.

Meanwhile, employment in the French private sector rose during January. The result marked the first upturn in staff numbers since before the escalation of the COVID-19 pandemic in March 2020. Growth was supported by service providers, while goods producers posted a marginal decline.

January data pointed to increasing cost pressures, with input price inflation accelerating to the quickest for a year. This was predominantly driven by higher manufacturing costs, although services companies also saw a quicker rise. Average charges meanwhile fell further.

Looking forward, private sector firms were optimistic regarding future output, although the degree of positivity softened from December's 20-month high.

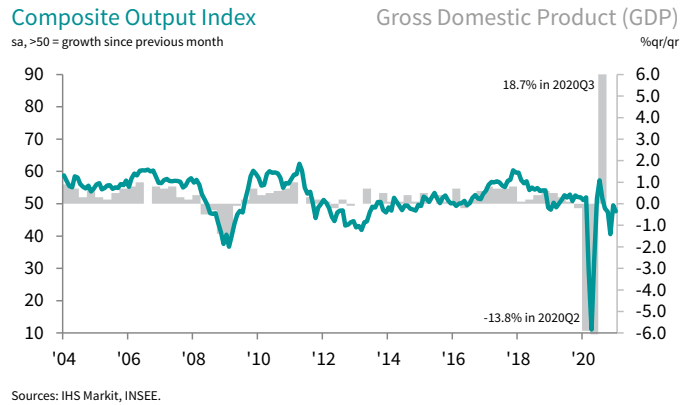
*Composite PMI indices are weighted averages of comparable manufacturing and services PMI indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The France Composite Output Index is a weighted average of the France Manufacturing Output Index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

COMMENT

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

"The first set of final PMI results for 2021 pointed to a sharper decline in private sector activity, as tighter COVID-19 restrictions hindered the economy. The service sector was more heavily impacted than the manufacturing sector, although goods producers did record a fresh decline in output, partially reversing the growth seen in December. Meanwhile, a faster decline in new business was confined to the service sector, with manufacturers registering an improvement in demand conditions for the first time since October.

"More promisingly, private sector employment showed early signs of recovery in January. Following the stabilisation in December, staff numbers rose for the first time in almost a year. Meanwhile, optimism regarding output in the year ahead remained strong, with firms expecting a broad-based recovery in the second half of this year."



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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

January 2021 data were collected 12-26 January 2021.

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

Flash vs. final data

Flash services data were calculated from 83% of final responses. Flash composite data were calculated from 89% of final responses.

Since January 2006 the average difference between final and flash Services Business Activity Index values is -0.2 (0.5 in absolute terms). Since January 2006 the average difference between final and flash Composite Output Index values is -0.1 (0.4 in absolute terms).

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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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