

EMBARGOED UNTIL: 00:01 (UTC) March 10th 2020

IHS Markit France Business Outlook

Strongest expectations for activity growth since June 2018

Key findings:

- Optimism towards activity growth rebounds in February
- Strongest profit forecasts for two years
- Cost inflation expected to ease

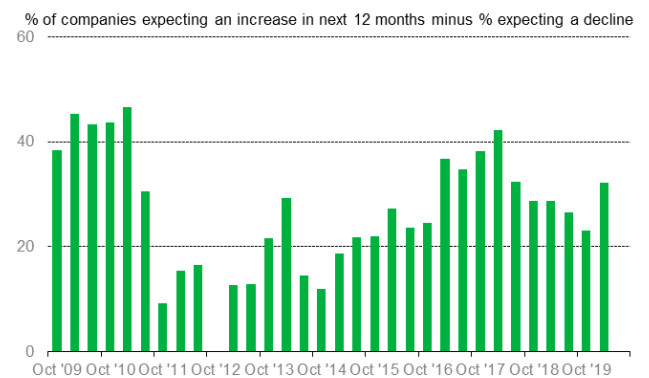
Data collected February 12-25

The latest IHS Markit France Business Outlook survey indicates stronger expectations for business activity in February compared to last October. In fact, the degree of positivity towards the business outlook has risen to the highest level since June 2018. Similarly, firms report their strongest profit forecasts for two years. On the other hand, businesses are slightly less confident of increases in both employment and capital spending over the next year. Meanwhile, both staff and non-staff cost inflation are expected to rise at softer rates.

A net balance of +32% of companies expect a rise in business activity over the coming year, up from +23% last October to the highest since June 2018. Moreover, confidence is far stronger than the global (+18%) and developed market (+20%) averages. Anecdotal evidence suggests that optimism is associated with ambitions to enter new markets and hopes of continued demand growth. However, it should be noted that the vast majority of survey responses were collected before the outbreak of coronavirus disease 2019 (COVID-19) in Europe.

At the sector level, both manufacturers and service providers anticipate an increase in business activity over the coming 12 months. Moreover, degrees of optimism are stronger than last October in both cases. Manufacturers are at their most confident for a year, while services firms report their strongest expectations for activity growth since February 2018.

France business activity expectations



Source: IHS Markit.

Corporate Earnings

Similar to the trend for business activity, private sector firms in France are more optimistic of a rise in profitability over the next year. At +21%, up from +13% last October, the net balance of firms forecasting a rise in earnings is the highest for two years. Moreover, the degree of positivity outstrips the eurozone (+7%), developed market (+13%) and global (+8%) averages.

The upturn in aggregate sentiment regarding profits in France is driven by both the manufacturing and service sectors. However, the latter is the most confident of the two, reporting its strongest expectations since February 2018.

Employment & Investment Plans

February data indicate a further softening in hiring plans across the French private sector. Although firms expect to increase staff numbers over the coming year, the degree of positivity is the weakest since October 2016. That said, expectations for employment remain elevated compared to the eurozone (+9%) and global averages (+11%).

Overall confidence for an increase in capital expenditure over the next year also prevails in February. However, only a net balance of +12% of companies foresee a rise in investment, down slightly from October (+13%). Sector data suggest that manufacturers have driven softer capex plans, with firms in the sector now forecasting no additional spending over the next 12 months.

Inflation Expectations

Businesses in France expect non-staff costs to keep rising over the coming year. That said, the net balance is down from +18% last October to +16% in February, amid softer inflation forecasts at both manufacturers and service providers. There was a similar trend for staff costs, where the net balance of firms anticipating an increase fell in both sectors, taking the aggregate reading to +24% in February (from +28% last October).

Amid softer expectations for cost inflation over the coming year, a lower net balance of firms look set to increase their output prices. The proportion of companies planning to lift average charges over and above those forecasting a reduction (+13%) fell compared to last October (+16%).

Comment:

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

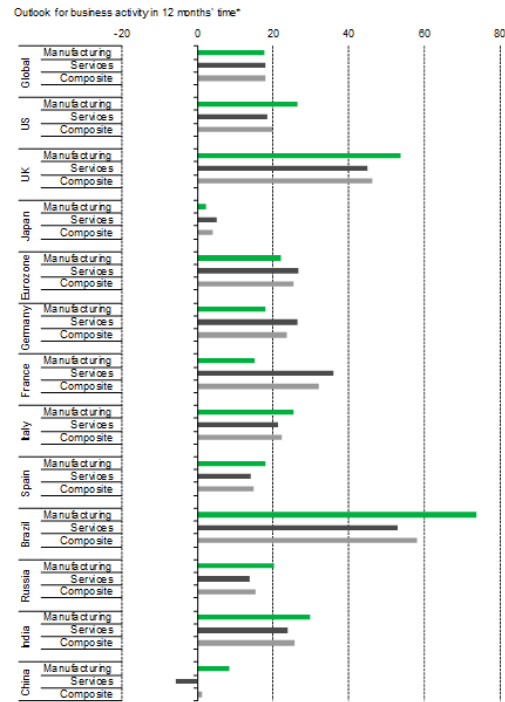
“The latest French outlook survey points to strong expectations for business activity. Moreover, firms expect output growth to be turned into higher profits, potentially through slower cost increases. The data suggests that such margin improvements could be aided by both softer employment growth and slower rises in capital spending.”

“That said, we must emphasise that the majority of February’s results were collected before the news of COVID-19 infections in Europe. Further spread of the virus is sure to weigh on optimism in the coming months.”

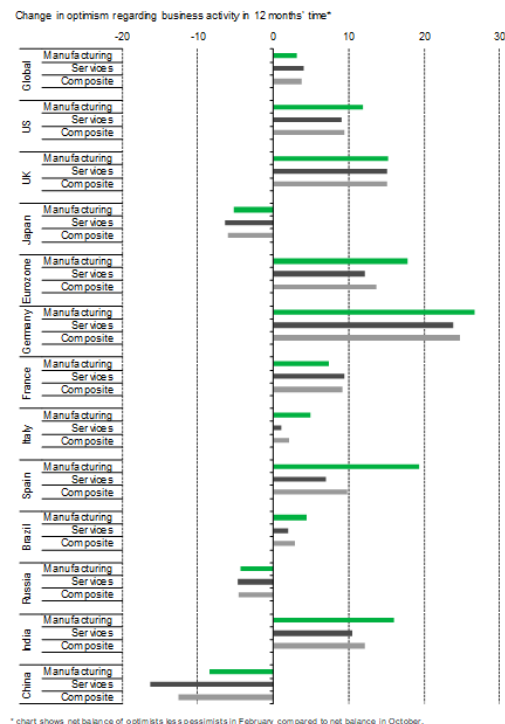
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Full data available on request from economics@ihsmarkit.com

Business optimism in February



How business activity expectations have changed since October



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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 February 12 and 25.

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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