

IHS MARKIT FRANCE MANUFACTURING PMI®

Output contracts for the first time in 27 months

KEY FINDINGS

Production declines slightly

New order growth weakens amid further drop in export sales

Business confidence at 28-month low

October survey data signalled the first fall in French manufacturing output since July 2016. Meanwhile, weaker increases were seen in new orders, employment and purchasing activity. Consequently, optimism towards the year-ahead deteriorated to a 28-month low.

The headline PMI is a composite single-figure indicator of manufacturing performance. It is derived from indicators for new orders, output, employment, suppliers' delivery times and stocks of purchases. Any figure greater than 50.0 indicates improvement of the sector, while any reading below 50.0 indicates deterioration.

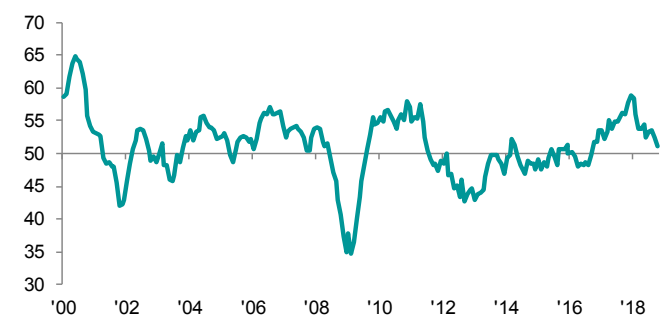
At 51.2 in October, down from 52.5 in September, the seasonally adjusted IHS Markit France Manufacturing Purchasing Managers' Index® (PMI®) pointed to a weaker improvement in operating conditions. Notably, this represented only a modest improvement in business conditions that was the weakest in 25 months.

Weighing on the headline PMI was a renewed fall in output at French manufacturers, and the weakest rise in new orders for four months. Anecdotal evidence suggested that softer market demand was behind the slower increase in new business.

New orders from abroad fell for the third time in the past four months. Notably, the rate of reduction quickened from September. Some manufacturers blamed a weak automotive sector for the sustained fall in export orders.

At the same time, the rate of job creation eased to a two-year low. By sector, only intermediate goods makers raised staff

Manufacturing PMI
sa, >50 = improvement since previous month



numbers in October while Consumer and investment goods businesses recorded declines in employment. Panellists linked slower job creation to subdued market conditions and automotive weakness.

Input buying expanded at the slowest rate in just over two years, while pre-production inventories declined for the second month in a row. Panellists mentioned subdued sales as a reason for depleting input stocks.

On the price front, the rate of input cost inflation hit an eight-month high. The overall steep increase in cost burdens was blamed on higher raw material prices. In particular, survey respondents mentioned higher purchasing costs for oil, steel and aluminium.

Charges set by French manufacturers rose solidly in October. Furthermore, the pace of output price inflation was the fastest seen since June. All three monitored market groups registered higher selling prices, led by consumer goods firms.

Reflective of the broad slowdown across the sector, business optimism towards the outlook for output fell to a 28-month low. French manufacturers attributed upbeat forecasts to positive expectations about future demand. On the other hand, relatively weak market conditions acted to dampen sentiment.

COMMENT

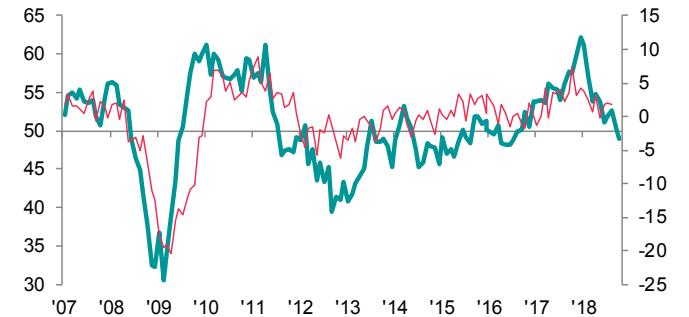
Eliot Kerr, Economist at IHS Markit, which compiles the France Manufacturing PMI® survey, said:

"For the first time since mid-2016, French manufacturing output contracted in October. There was also weaker new business growth as new export orders contracted for the third time in four months. Survey respondents frequently mentioned a subdued automotive sector in explaining October's weaknesses.

"For French manufacturers, profit margins may be squeezed as output prices rose more slowly than input prices in October. The sharp input cost inflation was attributed to higher rates for oil, steel and aluminium."

Output Index

sa, >50 = growth since previous month



Source: IHS Markit, INSEE.

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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 400 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.

October 2018 data were collected 12-24 October 2018.

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. To learn more go to [ihsmarkit.com/products/pmi.html](https://www.ihsmarkit.com/products/pmi.html).

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