

Purchasing Managers' Index[®]
MARKET SENSITIVE INFORMATION
EMBARGOED UNTIL: 09:15 (CET) / 08:15 (UTC) December 16th 2020

IHS Markit Flash France PMI[®]

Softer contraction in French private sector activity during December

Key findings:

- Flash France Composite Output Index⁽¹⁾ at 49.6 in December (40.6 in November), 4-month high
- Flash France Services Activity Index⁽²⁾ at 49.2 in December (38.8 in November), 4-month high
- Flash France Manufacturing Output Index⁽³⁾ at 51.3 in December (48.6 in November), 2-month high
- Flash France Manufacturing PMI⁽⁴⁾ at 51.1 in December (49.6 in November), 2-month high

Data collected December 4-15.

Latest PMI data pointed to a much softer decline in business activity during December, despite the country continuing to face strict coronavirus disease 2019 (COVID-19) lockdown restrictions. In fact, the latest contraction was the softest in the current four-month sequence and only marginal overall.

At the sector level, service providers registered a substantially slower reduction compared to November's six-month record, with the rate of decrease only slight in the latest survey period. Manufacturers, meanwhile, posted a fresh expansion in output. That said, the rate of growth was historically subdued.

Although business activity continued to decline in the final month of the year, there were signs of a recovery in demand as new orders received by private sector firms rose for the first time in four months. This was in stark contrast to November's marked decline, although the rate of growth was only marginal overall. Underlying data indicated that the expansion was supported by the service sector as manufacturers registered a further, albeit softer, reduction in new work.

The improvement in overall demand conditions was centred on the domestic market. Foreign sales continued to fall, extending the current sequence of decline to a year. However, the latest contraction

was far softer than in November and modest overall. Underlying data revealed diverging trends at the sector level, with service providers recording another sharp decline in international orders, while manufacturers posted a slight rebound.

Despite reduced output requirements, the rise in new orders saw French businesses slightly increase their staff numbers in December. The result marked the first workforce expansion since before the escalation of the COVID-19 pandemic in March. The increase in employment was broad-based at the sector level.

Following four months of successive contraction, backlogs of work at private sector firms stabilised in December. A marginal expansion at goods producing firms offset a further decline at services companies. Notably the reduction in the service sector was the softest in the current five-month sequence and only marginal.

On the cost front, input prices rose for the seventh month running. Moreover, the rate of inflation accelerated to the quickest for four months and was solid. When explaining higher prices, panellists mentioned shortages of some raw materials and unfavourable movements in US dollar exchange rates. At the sector level, the increase in costs at manufacturers was the sharpest for nearly two years and far outpaced the rate seen for service providers.

Although input costs continued to rise, French businesses continued to cut their average output prices at the end of the fourth quarter. The latest result extended the current run of reduction to four months, although the rate of decrease was the softest in that period. The decline in charges was driven by service providers, while manufacturers opted to pass on higher input costs to their clients.

Looking ahead, firms were optimistic towards the 12-month business outlook. In fact, confidence reached the highest level for almost a year, supported by an anticipated recovery in demand when COVID-19 vaccines become widely available.

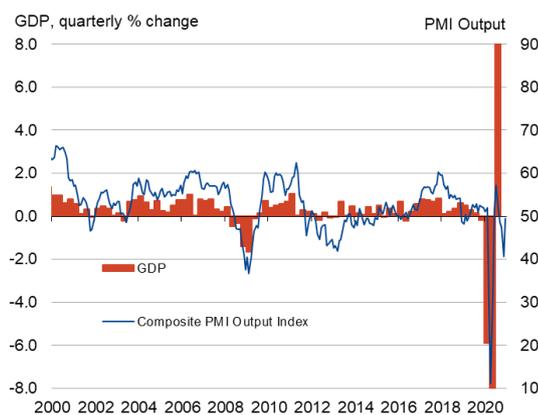
Comment

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

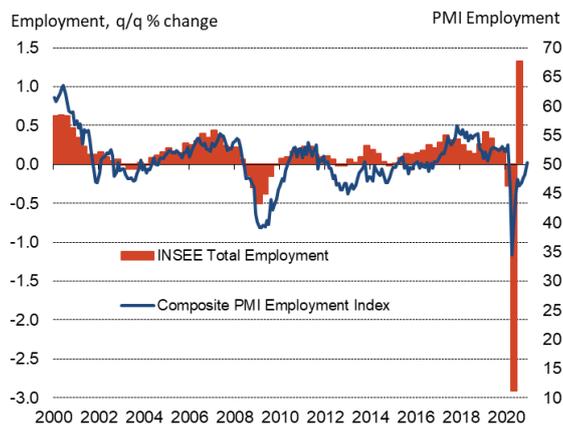
“Following the initial contraction after the re-imposition of lockdown measures in November, there was a far softer decline in French business activity during December. Although strict COVID-19 measures remained in place, private sector firms posted only a marginal decline in activity. More significant, however, was the return to growth territory for new orders. The result marked the first improvement in demand for four months, and offers hope that clients are now beginning to look beyond the current economic downturn. With lockdown restrictions having eased this week and a clearer pathway to immunising the population ahead, firms can now begin working back up towards pre-coronavirus levels of activity. That expansionary mindset was exemplified by the first increase in employment for ten months and confidence levels reaching their highest since January.”

-Ends-

Economic Output



Employment



Sources: IHS Markit, INSEE via Datastream

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Note to Editors:

Final December data are published on January 4th for manufacturing and January 6th for services and composite indicators.

The France PMI (Purchasing Managers' Index) is produced by IHS Markit and is based on original survey data collected from a representative panel of 750 companies based in the French manufacturing and service sectors. The **flash** estimate is based on around 85% of total PMI survey responses each month and is designed to provide an accurate advance indication of the final PMI data.

The average differences between the flash and final PMI index values (final minus flash) since comparisons were first available in January 2006 are as follows (differences in absolute terms provide the better indication of true variation while average differences provide a better indication of any bias):

Index	Average difference	Average difference in absolute terms
France Composite Output Index ⁽¹⁾	-0.1	0.4
France Manufacturing PMI ⁽⁴⁾	0.0	0.3
France Services Business Activity Index ⁽²⁾	-0.2	0.5

The Purchasing Managers' Index (PMI) survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries (including the European Central Bank) use the data to help make interest rate decisions. PMI surveys are the *first* indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

Notes

1. The Composite Output PMI is a weighted average of the Manufacturing Output Index and the Services Business Activity Index.
2. The Services Business Activity Index is the direct equivalent of the Manufacturing Output Index, based on the survey question "Is the level of business activity at your company higher, the same or lower than one month ago?"
3. The Manufacturing Output Index is based on the survey question "Is the level of production/output at your company higher, the same or lower than one month ago?"
4. The Manufacturing PMI is a composite index based on a weighted combination of the following five survey variables (weights shown in brackets): new orders (0.3); output (0.25); employment (0.2); suppliers' delivery times (0.15); stocks of materials purchased (0.1). The delivery times index is inverted.

IHS Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from IHS Markit. Please contact economics@ihsmarkit.com.

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