Solid rise in business activity during June

KEY FINDINGS

- Quickest expansion in output since last November
- Robust increase in new orders
- Employment continues to grow solidly

June data pointed to a third successive monthly rise in business activity at French service providers. Moreover, the pace of expansion accelerated to the quickest since last November and was solid overall. Growth was supported by the fastest increase in new business for seven months, which in turn led to higher levels of outstanding work. Meanwhile, the rate of employment growth in the sector was solid and broadly in line with that seen in May.

On the cost front, input prices continued to increase, but the rate of inflation eased to the softest for 22 months.

The headline seasonally adjusted IHS Markit France Services Business Activity Index – which is based on a single question asking respondents to report on their actual change in business activity at their companies compared to one month ago – rose to 52.9 in June, up from 51.5 in May. The result pointed to a solid increase in business activity that was the fastest for seven months. At the sub-sector level, expansions were recorded in five of the six monitored segments, with the strongest growth recorded in financial intermediation.

The rise in business activity was underpinned by a third consecutive monthly increase in new business at French service providers. Moreover, the rate of growth was the sharpest since last November and solid overall. Similar to the trend for output, financial intermediation firms recorded the steepest expansion.

New order growth was supported by a renewed expansion in international sales during June. The increase was the first recorded since last November and the quickest for 18 months.

Services companies in France continued to increase their staff numbers at the end of the second quarter, extending the current sequence of workforce expansion to two-and-a-half years. The rate of job creation was solid overall and broadly consistent with that registered in May.

Amid an improvement in demand conditions, volumes of outstanding business grew for the second month in row during June. Moreover, the rate of increase accelerated from May and was robust overall.

On the price front, cost burdens faced by French service providers continued to increase. However, the rate of inflation eased to the softest since August 2017 and was historically subdued. Where companies recorded an increase in input prices, they often mentioned higher wages and fuel costs.

Firms were able to pass on increased costs to their clients with a rise in average output charges during June. Although only marginal overall, the rate of inflation ticked up from May.

Finally, businesses remained optimistic towards the business outlook in June. However, the degree of positivity fell to the weakest level for 31 months.
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. The Composite Output Index posted at 52.7 in June, up from 51.2 in May. The latest reading pointed to the fastest increase in private sector output since November 2018.

The expansion in overall activity was driven by increases in both the manufacturing and service sectors. Good producers registered a moderate rise, which was their first for four months. Meanwhile, service providers recorded their quickest growth since last November.

The rise in total business activity was supported by a solid increase in sales during June. Moreover, the third successive rise in new orders was the quickest for seven months. At the sub-sector level, manufacturers recorded their first increase since February, while services firms saw the sharpest growth since last November.

Private sector firms in France continued to increase their staff numbers in June, extending the current sequence of workforce expansion to 32 months. The rate of job creation accelerated for the third month in a row, reaching the quickest since last October. The latest rise in employment was broad-based at the sector level.

Finally, although input prices continued to increase at the end of the second quarter, the rate of inflation eased to the softest since August 2017. The slowdown was primarily driven by a sharp deceleration in the manufacturing sector.

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

“The French service sector registered another strong performance at the end of the second quarter. Firms recorded the quickest rise in output since last November, underpinned by the sharpest new order growth in the same period. The latest data point to a further recovery in demand following disruptions at the start of the year, and growth indicators are now moving back up towards the average rates recorded in the second half of 2018.”
June 2019 data were collected 12-25 June 2019. From time to time as appropriate which will affect the seasonally adjusted data series. Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised but is not comparable with the headline manufacturing PMI figure. According to official GDP data. The Composite Output Index may be referred to as the ‘Composite PMI’ Business Activity Index. The weights reflect the relative size of the manufacturing and service sectors to as the ‘Services PMI’ but is not comparable with the headline manufacturing PMI figure. 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. June 2019 data were collected 12-25 June 2019.

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.

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