Manufacturing output falls amid weaker demand

KEY FINDINGS

Slight contraction in factory production
Fastest decline in new orders since December 2018
Quickest deterioration in vendor performance for a year

The latest PMI data revealed a contraction in French manufacturing output, resulting in the first deterioration in business conditions for seven months. The fall in production stemmed from a decline in new orders, which was the quickest since December 2018. Meanwhile, supplier delivery times lengthened to the greatest extent for 12 months amid widespread reports of coronavirus-related disruptions.

The seasonally adjusted IHS Markit France Manufacturing Purchasing Managers’ Index® (PMI®) – a single figure measure of developments in overall business conditions – fell to 49.8 in February, down from 51.1 in January. The reading pointed to a fractional deterioration in business conditions, the first for seven months.

A key factor driving the downturn was a fall in new orders placed with French manufacturers. The result represented a renewed decline after January’s recovery and the rate of decrease was the fastest for over a year. When explaining the reduction, panellists cited the prolonged discontinuation of Boeing 737 Max production, slowing demand in the automotive sector and coronavirus disruptions.

Weighing on aggregate demand was a fall in international sales midway through the first quarter. The solid reduction was the strongest since last March, with some survey respondents mentioning the COVID-19 outbreak.

Amid softer demand conditions, French goods producers cut output during February. Though only marginal overall, the contraction ended a four-month sequence of expansion.

Vendor performance faced by manufacturers deteriorated sharply in February. In fact, delivery times lengthened to the greatest extent for a year. Many panellists associated supply-side disruptions with the coronavirus outbreak.

Meanwhile, despite a decline in new business, falling output led to an accumulation of backlogs in the latest survey period. The rate of expansion was faster than that registered during January, but broadly in line with the historical average.

On the cost front, there was a renewed increase in input prices faced by French manufacturers. Though slight overall, the rise was only the second in the past six months. Anecdotal evidence pointed to higher costs for a variety of products including chocolate, pork, buckwheat and steel.

Despite higher input costs, firms opted to reduce average output charges in February. The rate of decrease was the fastest for three-and-a-half years, albeit modest overall. Some panellists suggested that lower prices were required to retain existing clients.

Finally, firms remained optimistic towards the one-year business outlook, but the degree of positivity eased as some panellists cited fears regarding the spread of coronavirus.
**COMMENT**

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

"The impact of the coronavirus outbreak crept into the French manufacturing sector during February, with some panellists mentioning it as a reason for fewer new orders. However, this was by no means the sole cause of negativity for goods producers, with respondents continuing to cite the slowdown in autos and others mentioning the discontinuation of Boeing 737 Max production.

"However, the impact on the supply-side of the sector was more severe. When explaining delivery delays, many firms blamed coronavirus disruption, and the Suppliers' Delivery Times Index hit its lowest for a year."

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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 410 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.

February 2020 data were collected 12–21 February 2020. 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. ihsmarkit.com/products/pmi.html

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