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IHS Markit France Business Outlook

Business activity optimism unchanged in February

Key findings:

- Expectations for activity growth remain at lowest since October 2016
- Hiring intentions unchanged again
- Cost inflation set to soften

Data collected February 12-25

The latest IHS Markit Business Outlook survey points to stable confidence levels among French private sector firms from October. February's results show unchanged optimism towards the 12-month outlook for both business activity and employment. However, lower net balances of firms anticipate increases in profit and capital expenditure, and inflation expectations are softer.

A net balance of +29% of panellists foresee a rise in business activity over the next 12 months, in line with the figure for October. Anecdotal evidence suggests that fears of a global economic slowdown have been offset by confidence derived from fewer protests. Optimism towards future business activity remains above the global (+24%) and eurozone (+25%) averages.

At the sector level, both manufacturers and service companies record unchanged optimism from October. As has been the case since October 2015, service providers are more positive than their manufacturing counterparts.

Corporate Earnings

Despite stable sentiment towards activity expansion, private sector firms have lower confidence in future profitability. At +9% in February, the net balance of firms forecasting a rise in profits is down to its lowest level since October 2014. Positivity is in line with the average recorded across the eurozone, but has fallen below the global average (+15%).

France business activity expectations



Source: IHS Markit.

Both goods producers and services firms are less confident regarding profits than in October. Manufacturers are their least optimistic for four years, while the degree of positive sentiment for service providers is the weakest since February 2016.

Employment & Investment Plans

In line with the trend for business activity, the net balance of firms planning to take on additional staff over the coming year is consistent with that in October. Confidence levels have now been constant in two successive surveys, driven by broad-stability in the service sector. In the same period, manufacturers have seen hiring plans fluctuate, and in February a higher net balance expect jobs to be created than in October.

In contrast, predictions of an increase in capital expenditure over the next year have softened. A net balance of +10% forecast a rise in investment, signalling a weaker degree of optimism than in October (+20%), but one that remains above the long-run average (+7%). However, positive sentiment is lower than the global average (+12%) for the first time since June 2016. At the sector level, this is driven by lower confidence at service providers, while a higher net balance of manufacturers foresees greater capex compared to the previous survey period.

Inflation Expectations

French private sector firms continue to expect rising non-staff costs over the coming year. However, the net balance is lower than in October, when the reading was at its highest since June 2011 (+26%). Some panellists believe that prices will be driven up by higher fuel costs and increased road tolls. A net balance of +29% also anticipate an increase in wage payments.

With softening cost pressure expectations, a lower net balance of firms is set to raise their output prices over the next 12 months. In fact, inflation looks set to ease to the slowest since June 2017.

Comment:

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

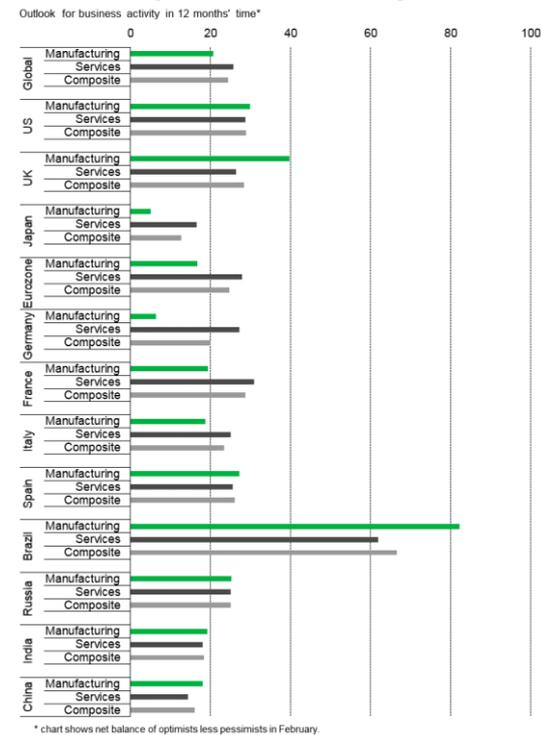
“Confidence towards activity growth in the French private sector is unchanged from October. In France, downward pressure on optimism, driven by anticipation for a global economic slowdown, has been counterbalanced by a boost to sentiment as the ‘gilets jaunes’ protest have eased. This sees the degree of optimism register higher than the global and eurozone averages.”

“The stabilisation in growth expectations in France has led to hiring plans remaining unchanged and a weaker degree of positive sentiment towards investment. Moreover, although inflation expectations are softer, the number of firms forecasting higher profits less those anticipating a fall is at its lowest since October 2014.”

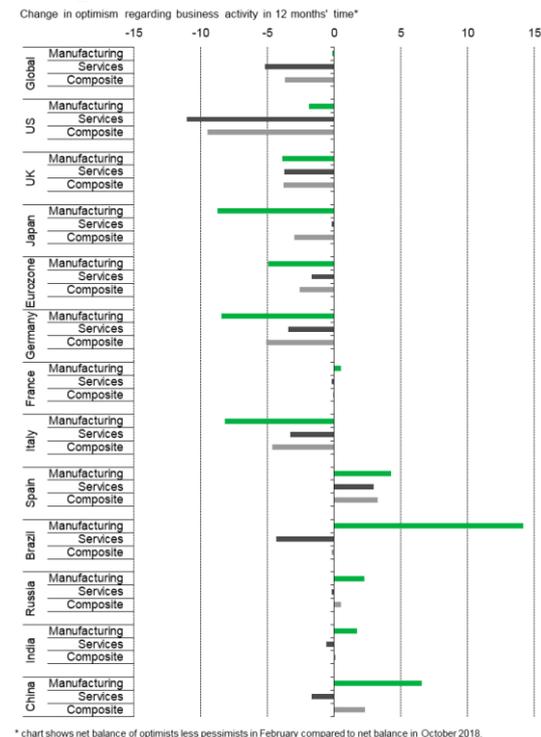
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Full data available on request from economics@ihsmarkit.com

Business optimism in February



How business activity expectations have changed since last 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 0.0 signalling a neutral outlook for the coming twelve months. Values above 0.0 indicate optimism amongst companies regarding the outlook for the coming twelve months while values below 0.0 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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