

Embargoed until 0950 CEST (0750 UTC) 5 October 2020

IHS MARKIT FRANCE SERVICES PMI®

INCLUDING IHS MARKIT FRANCE COMPOSITE PMI®

First contraction in service sector business activity for four months

KEY FINDINGS

Solid reduction in activity driven by COVID-19 infections

Fastest decline in new business since May

Employment falls for seventh month running

Data collected 11-25 September

Latest PMI® data pointed to a solid contraction in French service sector business activity during September. The result came amid a fresh decline in new business and a sharp rise in coronavirus disease 2019 (COVID-19) infection rates. Consequently, employment continued to fall and firms cut their average output charges sharply. However, looking forward, companies were still optimistic towards the one-year business outlook.

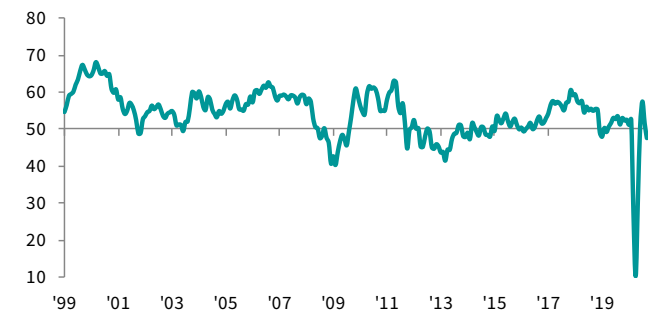
The headline seasonally adjusted IHS Markit France Services Business Activity Index – which is based on a single question asking respondents to report on the actual change in business activity at their companies compared to one month ago – registered 47.5 in September, down from 51.5 in August. The latest reading pointed to the first contraction in service sector business activity since May. When explaining the reduction in activity, panellists frequently mentioned disruption related to rising COVID-19 infection rates. Underlying data revealed challenging conditions in five of the six monitored sub-sectors, with the exception being a sharp output expansion in the Financial Intermediation category.

The downturn in business activity was accompanied by a fresh decline in new business at the end of the third quarter. Moreover, the rate of reduction was the quickest since May and solid overall. Panellists suggested that their clients were hesitant to commit to work amid uncertainty surrounding the COVID-19 pandemic.

In line with the renewed deterioration in demand conditions, service providers continued to reduce their staff numbers

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

in September. The result extended the current sequence of workforce contraction that began in March. Sub-sector data indicated that the decrease in employment was most severe at Hotels & Restaurants.

Despite firms employing fewer staff, the downturn in new business saw backlogs of work continue to fall in September. That said, the latest decrease was softer than that seen in August and modest overall. Across the six monitored sub-sectors, outstanding business fell most sharply at Hotels & Restaurants.

On the cost front, input prices rose for the fourth month running. However, the rate of inflation eased to the softest since June and was modest overall. Some survey participants mentioned higher expenditure on personal protective equipment.

Despite increased input prices, firms opted to cut their average output charges in September. In fact, the pace of reduction was the quickest for four months and sharp overall. Some panellists cited efforts to support sales amid subdued demand conditions.

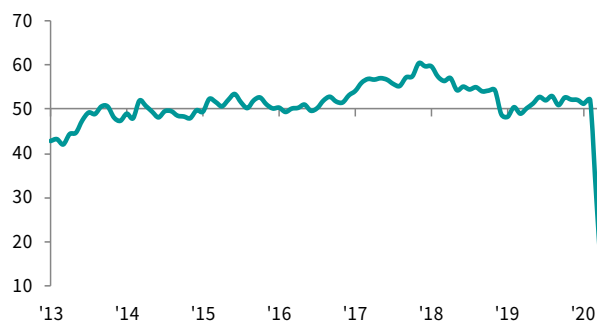
Finally, firms remained confident regarding the 12-month outlook for business activity. Positivity was supported by expectations for the effects of the COVID-19 pandemic to gradually subside. Moreover, the degree of optimism was slightly stronger than in August.

IHS MARKIT FRANCE COMPOSITE PMI®

Private sector activity falls for first time in four months

Composite Output Index

sa, >50 = growth since previous month



Source: IHS Markit

The France Composite Output Index* fell to 48.5 in September, down from 51.6 in August. The latest reading signalled the first decline in private sector activity since May, albeit one that was modest overall.

At the sub-sector level, the downturn was solely driven by services, where activity fell solidly as business conditions were hindered by the recent rise in COVID-19 infections. Meanwhile, manufacturing output rose at a faster pace than in August.

On the demand front, aggregate new business fell for the first time since June. The rate of reduction was modest overall, but the quickest for four months. Similar to the trend for activity, there were contrasting results at the sub-sector level. New orders at manufacturers rose for the second month running while service providers registered a solid decline.

Employment in the French private sector continued to decrease at the end of the third quarter. The result extended the current sequence of workforce contraction to seven months. Both monitored sub-sectors registered a solid decrease in staff numbers, although the reduction at manufacturing firms was the quicker of the two.

Looking forward, firms were optimistic towards the 12-month business outlook, with both sub-sectors recording stronger sentiment than in August. Service providers were more confident than manufacturers.

* 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.

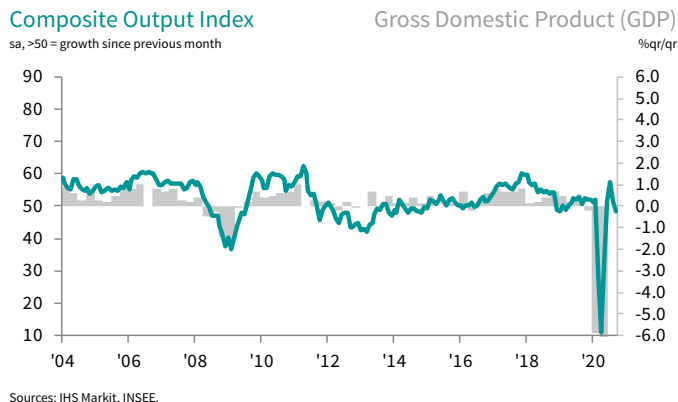
COMMENT

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

"Rising COVID-19 infection rates contributed to a downturn in private sector business activity at the end of third quarter. Panellists commented that their clients were hesitant to commit to future work while the prospect of tightening restrictions loomed large.

"The impact of the recent outbreak was, however, felt very differently across the two monitored sub-sectors, with manufacturers posting a solid expansion in output and service providers recording a decline in activity. This is somewhat unsurprising given the client-facing nature of many service sector professions, but given the interdependence of two sub-sectors, we may see a slowdown in manufacturing in the months ahead.

"For now, businesses remain optimistic towards the one-year business outlook, but should infection rates remain on their current trajectory, sentiment will likely soften going forward."



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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

September 2020 data were collected 11-25 September 2020.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

Flash vs. final data

Flash services data were calculated from 91% of final responses. Flash composite data were calculated from 94% of final responses.

Since January 2006 the average difference between final and flash Services Business Activity Index values is -0.2 (0.5 in absolute terms). Since January 2006 the average difference between final and flash Composite Output Index values is -0.1 (0.4 in absolute terms).

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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.
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