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IHS MARKIT FRANCE SERVICES PMI®

INCLUDING IHS MARKIT FRANCE COMPOSITE PMI®

First services activity decline for two-and-a-half years

KEY FINDINGS

Strongest decline in business activity since November 2014

First new business contraction for 34 months

Rate of job creation at 20-month low

French service providers saw output fall for the first time in two-and-a-half years during December, amid disruption due to the recent 'gilets jaunes' protests. The demonstrations also led to the first decline in new business since February 2016, which partly reflected a contraction in new exports. Lower demand led to softer growth in outstanding business, despite the weakest pace of hiring for 20 months. Meanwhile, confidence towards the business outlook fell for the third month in a row to reach its lowest level since November 2016.

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 - fell to 49.0 in December, down from 55.1 in November. The result pointed to a first decline in business activity for two-and-a-half years. Although contraction was only marginal overall, it contrasted with the strong growth recorded throughout 2018. Panellists often suggested that the recent 'gilets jaunes' protests had negatively impacted the economy.

In line with the trend for output, new orders fell for the first time in 34 months. Moreover, the decline was the strongest registered since November 2014. Survey respondents again suggested that the downturn was driven by the recent demonstrations. New export business also fell at the end of the fourth quarter. The contraction was the first since August 2017 and the fastest for two years. That said, the decline was only moderate overall.

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

With output and new orders falling, French services firms increased staff levels at the softest pace for 20 months in December. At the sector level, the weakest performers were financial intermediation and 'other' services firms.

Despite weaker employment growth, lower demand led to softer expansion in backlogs of work. Although volumes of outstanding business increased for the thirty-fourth month in a row, December's rise was the slowest since August 2016.

Meanwhile, input cost inflation accelerated to the fastest pace seen throughout the fourth quarter in December. Some panellists suggested that the latest rise in costs was due to an increase in salaries and fuel prices.

French services firms were able to raise output charges, despite business activity falling at the end of the fourth quarter. In fact, the rate of increase was the strongest for six months. Survey participants explained that the moderate rise was to account for higher input costs.

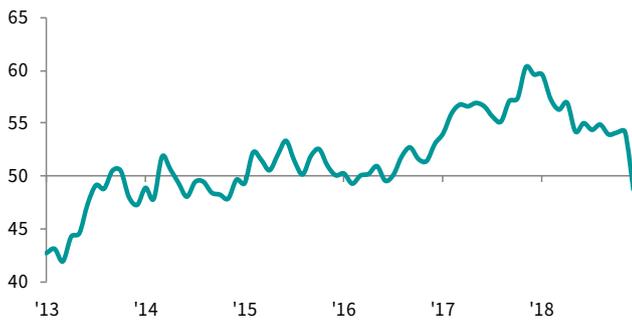
Finally, December saw confidence towards the business outlook fall to the lowest level in just over two years. Although sentiment remained positive overall, panellists often mentioned fears that social unrest could blight the economy in the coming year.

IHS MARKIT FRANCE COMPOSITE PMI®

First output contraction for two-and-a-half years

Composite Output Index

sa, >50 = growth since previous month



Source: IHS Markit

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 48.7 in December, a drastic fall from 54.2 in November. The result signalled a moderate contraction in output amid widespread reports of disruptions due to the recent 'gilets jaunes' protests. The decline was the first for two-and-a-half years.

Both manufacturers and service providers reported decreases in output during December. Although manufacturers also recorded a fall in production during October, the latest contraction was the quickest since April 2015. Meanwhile, the marginal fall in activity registered by service providers was in stark contrast to the strong growth seen throughout 2018.

New business fell for the first time since June 2016. While manufacturers had recorded a marginal decline in November, this was the first contraction reported by service providers since February 2016. Panellists across both sectors mentioned that the recent protests had adversely affected the economy.

Meanwhile, employment growth eased to its slowest pace since April 2017. This was driven by service providers, who registered their softest workforce expansion in that period.

Finally, contraction in output and new orders saw positive sentiment towards the business outlook fall to its lowest level since August 2016.

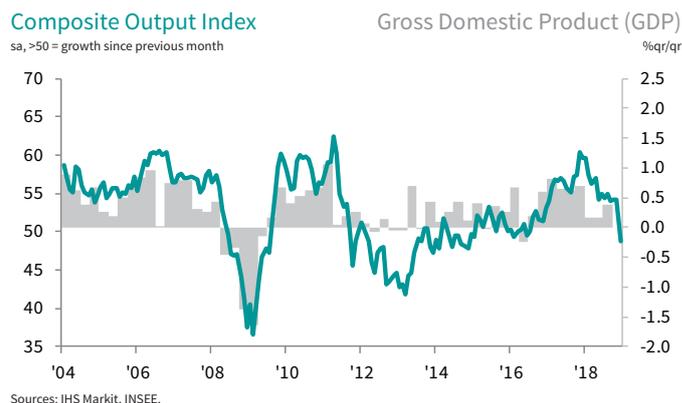
COMMENT

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

"The disruption caused by the 'gilets jaunes' movement had a drastic impact on the French service sector in December. The decline in services business activity saw composite output slip into contraction for the first time since June 2016.

"The protests added to the growing list of problems faced by Emmanuel Macron, and could delay his long-promised labour market reforms.

"The unexpected downturn due to the social unrest represents significant downside risk to Q4 growth prospects. The French economy had been set to post respectable growth, following strong service sector performance in October and November."



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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.

December 2018 data were collected 5-18 December 2018.

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

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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. To learn more go to ihsmarkit.com/products/pmi.html.

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