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IHS MARKIT FRANCE SERVICES PMI®

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COVID-19 lockdown restrictions lead to sharpest decline in activity since May

KEY FINDINGS

Service sector activity declines markedly in November

Sharp drop in new orders amid contraction in exports

First reduction in input prices for six months

Data collected 12-25 November

Latest PMI® data pointed to a sharp contraction in French service sector activity during November. The accelerated decline came amid new national lockdown restrictions designed to stem the spread of coronavirus. Similarly, new orders fell at the quickest pace for six months, partially driven by weaker international demand as tighter measures were introduced across a number of European countries. Meanwhile, input costs fell for the first time since May.

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 38.8 in November, down from 46.5 in October. The latest reading pointed to the quickest contraction in service sector activity for six months, and one that was marked overall. Anecdotal evidence suggested that decline in output was primarily driven by the fresh coronavirus disease 2019 (COVID-19) lockdown. Sub-sector data indicated that the reduction was most severe at Hotels & Restaurants.

November data also pointed to a sharp decline in new business received by French service providers. The latest reduction extended the current sequence of decline to three months and was the sharpest since May. That said, the rate of decrease remained softer than when similar COVID-19 restrictions were in place during the spring.

Contributing to the overall drop in demand was a further fall in new export orders. Moreover, the rate of decline accelerated to the quickest for six months and was marked

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

overall. When explaining reductions in foreign sales, some panellists cited the recent increase in COVID-19 infections across Europe.

In line with softer demand conditions, firms continued to cut their staff numbers in November. However, the rate of workforce contraction eased to the softest in the current nine-month sequence. Four of the six monitored sub-sectors registered a decline in employment in the latest survey period.

On the cost front, input prices fell midway through the fourth quarter. Although fractional overall, the result marked the first decline for six months. Some panellists associated lower costs with a reduction in hours worked and a subsequent decrease in wage expenditure.

Reduced input costs enabled firms to offer discounts through a decline in average output prices during November. In fact, the latest decrease in charges was the quickest since May and marked overall.

Looking ahead, French service providers remained optimistic towards the outlook for activity over the next 12 months. The degree of positivity strengthened from October's five-month low, although it remained historically subdued. When explaining confidence, some panellists mentioned anticipation for a COVID-19 vaccine.

IHS MARKIT FRANCE COMPOSITE PMI®

Sharpest decline in private sector activity for six months

Composite Output Index

sa, >50 = growth since previous month



Source: IHS Markit

The France Composite Output Index* fell to 40.6 in November, from 47.5 in October. The latest reading pointed to the quickest contraction in private sector activity for six months, as France faced a fresh round of COVID-19 lockdown restrictions.

At the sub-sector level, the contraction was primarily driven by a sharp decline in the service sector that was the quickest since May. Meanwhile, the manufacturing sector posted its first decrease in production for six months, albeit one that was modest overall.

November data also revealed a sharp deterioration in demand conditions across the French private sector. New orders fell markedly, with both manufacturers and service providers recording the quickest reductions since May. Underlying data indicated that the decline in sales was partially driven by a softer inflow of export orders.

In line with subdued demand conditions, firms continued to cut their staff numbers in November, extending the current sequence of workforce contraction to nine months. That said, the latest reduction was the softest in that run and modest overall. Service providers recorded a slightly quicker decline in employment than their manufacturing counterparts.

Looking forward, firms were confident towards the 12-month business outlook, albeit with the degree of positivity remaining historically subdued.

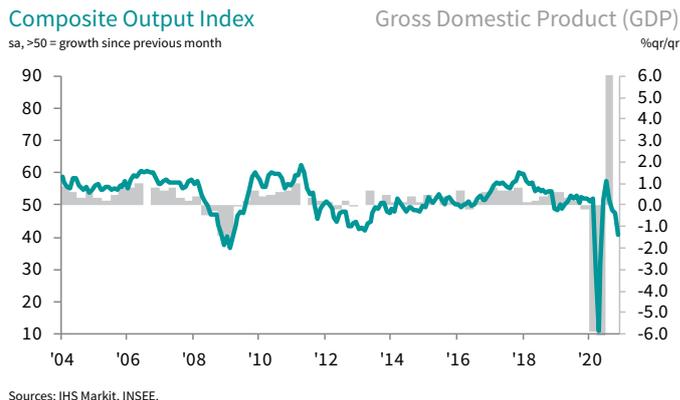
* Composite PMI indices are weighted averages of comparable manufacturing and services PMI indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The France Composite Output Index is a weighted average of the France Manufacturing Output Index and the France Services Business Activity Index.

COMMENT

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

"The latest release of PMI data once again highlighted the detrimental impact that lockdown restrictions have on the private sector economy. The measures imposed at the end of October to stem the rate of COVID-19 infections saw activity and new orders fall sharply during November. That said, the rate of job shedding softened from the previous month, suggesting that firms are now better equipped to operate under restrictions without needing to release large numbers of their employees."

"Similar to the trend when lockdown measures were imposed during the spring, activity fell most sharply at services firms, with Hotels & Restaurants experiencing a particularly steep decline. That said, manufacturers also saw a decline in production, suggesting that subdued demand conditions are hampering a wide range of private sector companies."



CONTACT

IHS Markit

Eliot Kerr
Economist
T: +44-2031-593-381
eliot.kerr@ihsmarkit.com

Katherine Smith
Public Relations
T: +1-781-301-9311
katherine.smith@ihsmarkit.com

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

November 2020 data were collected 12-25 November 2020.

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

Flash vs. final data

Flash services data were calculated from 90% of final responses. Flash composite data were calculated from 92% 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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