

IHS Markit France Manufacturing PMI®

Output growth remains strong despite further supply chain woes

Key findings

Production growth remains strong, but slows in July

Supplier performance continues to deteriorate substantially

Input prices rise at fastest rate since March 2011

Data were collected 12-23 July 2021.

French manufacturers were in expansion mode once again during July, according to the latest PMI survey, with key measures of economic health such as output, demand and employment all rising when compared with the previous month. However, momentum was tapered as rates of expansion slowed in all three cases.

Meanwhile, intense supply chain pressures remained apparent in July amid strong input demand and scarce material supply. Consequently, backlogs of work increased and input costs rose further.

The seasonally adjusted IHS Markit France Manufacturing Purchasing Managers' Index® (PMI®) – a single-figure measure of developments in overall business conditions – posted 58.0 in July, compared to 59.0 in June. By historical comparison, this represented a sharp monthly improvement in the health of the manufacturing sector. However, the rate of growth slowed for a second successive month and was the weakest since February.

The loss of growth momentum can be attributed to the headline PMI's two principal components, new orders and output, which showed softer rates of increase in July. In both cases, expansions were strong overall and according to anecdotal evidence, robust underlying demand conditions helped sustain new work inflows and production growth. However, both sub-indices signalled their softest rises in five months. By sub-sector, all three groups registered higher new orders in July, but production growth at intermediate and consumer goods makers contrasted with contraction at investment goods producers.

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France Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Commenting on the latest survey results, Joe Hayes, Senior Economist at IHS Markit, said:

"Despite some strong supply-side challenges for goods producers, the France Manufacturing PMI survey showed strong growth in output during July. France has now enjoyed an unchecked period of production growth that began in February, but the survey raises a number of things to remain wary over.

"While strong demand is keeping order books healthy, building up backlogs of work and encouraging recruitment, firms are currently dealing with rapidly deteriorating supplier performance and intense input price inflation. Anecdotal evidence tells us that firms are expecting these issues to persist and are taking precautions such as safety stock building. Furthermore, the higher prices firms are paying to secure inputs is being passed on to output charges, which rose at a record rate in July.

"Firms don't seem to have such a problem paying more for their inputs because demand is so strong and they can pass this through to their clients. These are the perfect conditions for rising consumer price inflation and could soon make uncomfortable viewing for policymakers."

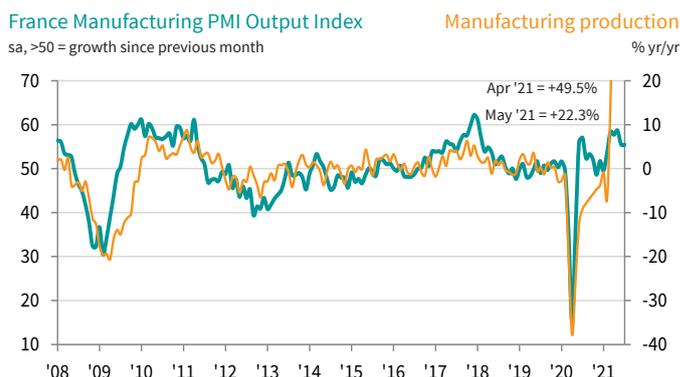
In line with strong demand growth, additional staff were hired to boost output potential. Nevertheless, firms' ability to process their orders in a timely fashion dwindled, as evidenced by a rise in outstanding workloads. July saw the eighth successive month in which backlogs of work have risen and the rate of accumulation was sharp overall.

Some firms mentioned that shortages of key inputs had also affected their production schedules. Latest survey data showed a further intensification of supply chain pressures, with input lead times lengthening to a substantial extent. Worsening vendor performance was linked to poor transport availability, as well as scarce supply of materials.

Nevertheless, input purchasing increased in July. Many firms expanded their buying activity in line with higher production requirements, although there were some that were looking to build safety stocks in anticipation of further material shortages and higher prices.

Input cost inflation remained on an upward trajectory during July, hitting its highest rate since March 2011. According to panel comments, a variety of inputs were sources of rising price pressures, including electronic components, foodstuff, fuel and metals. Consequently, output charges were increased at the fastest pace in the near 19-year series history.

Lastly, businesses remained firmly optimistic that output would grow over the coming 12 months as the global economic recovery gathers pace. That said, the level of positive sentiment fell to a six-month low.



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Survey 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 400 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.

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

Survey dates and history

Data were collected 12-23 July 2021.

Data were first collected April 1998.

Flash vs. final data

Flash data were calculated from approximately 94% of final responses. Since January 2006 the average difference between final and flash Manufacturing PMI values is 0.1 (0.3 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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