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IHS MARKIT FRANCE CONSTRUCTION PMI®

Further marginal increase in French construction activity

KEY FINDINGS

Rate of activity expansion softens slightly from December

Both new order and employment growth slows

Input prices rise sharply

French construction firms recorded another marginal increase in activity during January, with the rate of expansion easing slightly from December. The slowdown came amid softer rises in both new orders and employment, as well as a marked increase in cost burdens. Meanwhile, purchasing activity continued to grow modestly and confidence hit a six-month high.

The headline France Construction Purchasing Managers' Index® (PMI®) – which is based on a single question asking respondents to report on the actual change in their total construction activity compared to one month ago – fell to 50.4 in January, down from 50.9 in December. The reading pointed to another marginal rise in French construction activity that was slightly slower than that recorded in the previous survey period.

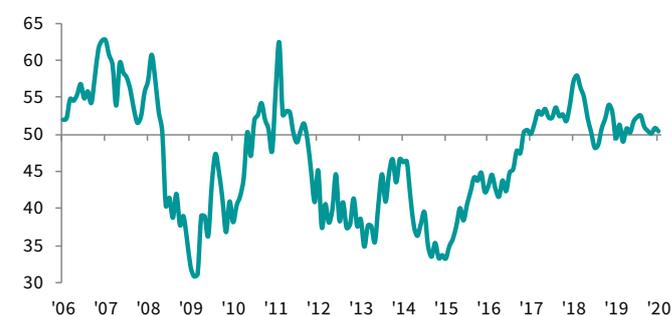
At the sub-sector level, growth owed exclusively to another modest expansion in commercial activity. Meanwhile, there were further declines in both home building and civil engineering. The former recorded only a slight decrease, while the latter registered the quickest contraction for 18 months.

New orders placed with French construction companies continued to increase at the start of 2020. However, the rate of growth eased to the softest in the current nine-month run of expansion.

Similar to the trend in new business, firms increased their staff numbers in January, but the rate of job creation decelerated to the slowest recorded since last March. The marginal rise in employment nevertheless extended the current run of workforce expansion that began in June 2017.

On the price front, cost burdens faced by building companies in France continued to rise. Moreover, the rate of inflation

Total Activity Index
sa, >50 = growth since previous month



Source: IHS Markit.

accelerated to the sharpest for seven months and was marked overall. When explaining higher input prices, panellists mentioned elevated recycling and fuel costs.

Meanwhile, purchases of raw materials and other construction inputs grew moderately in January. The latest increase stretched the current run that began in November 2017, with the rate of expansion little-changed from December.

Vendor performance faced by firms in the French construction sector deteriorated further in the latest survey period. However, the extent to which delivery times lengthened was the least marked for nine months and modest overall.

Despite softer activity growth, firms increased their use of sub-contractors for the first time in three months. The result coincided with a decline in sub-contractor availability.

Finally, firms remained optimistic towards the 12-month outlook for activity. Notably, the degree of confidence increased to the strongest for six months and was historically marked.

COMMENT

Eliot Kerr, Economist at IHS Markit, which compiles the survey:

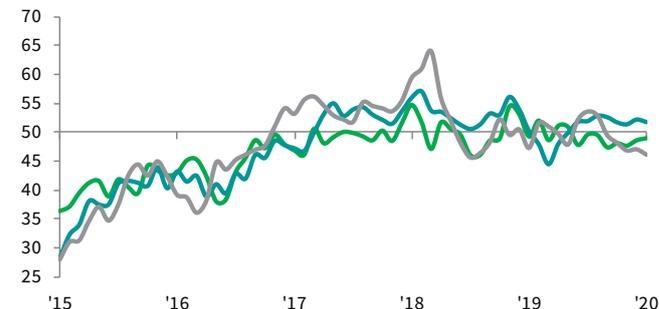
"The French construction sector registered a subdued performance in January. Activity growth remained sluggish, even decelerating slightly from December, new order growth eased to the slowest pace for nine months, and firms increased their staff numbers only marginally. Business conditions were also made more difficult by a sharp increase in cost burdens that will put pressure on profit margins.

"At the sub-sector level, the marginal expansion in activity was propped up by the commercial category. Home building and civil engineering work continued to decline, with the latter recording its quickest reduction for 18 months.

"More positively, firms were their most optimistic for six months, in a sign that the current slowdown may be short-lived."

Activity Index by construction category
Housing / Commercial / Civil Engineering

sa, >50 = growth since previous month



Source: IHS Markit.

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Methodology

The IHS Markit France Construction PMI® is compiled by IHS Markit from responses to questionnaires sent to purchasing managers in a panel of around 150 construction companies. The panel is stratified by 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 Total Activity Index. This is a diffusion index that tracks changes in the total volume of construction activity compared with one month previously. The Total Activity Index is comparable to the Manufacturing Output Index and Services Business Activity Index. It may be referred to as the 'Construction 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.

January 2020 data were collected 13-31 January 2020.

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

About PMI

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](https://www.ihsmarkit.com/products/pmi.html).

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