February PMI® data pointed to a re-acceleration of activity growth in the French service sector. The solid expansion was supported by quicker new order growth and a sharp rise in employment. Amid improving demand conditions, firms were able to increase average output charges at the fastest rate for eight-and-a-half years. Meanwhile, positivity towards the 12-month business outlook rose to strongest level for ten months.

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 at a four-month high of 52.5 in February, up from 51.0 in January. The latest reading pointed to an acceleration in the rate of business activity growth after January’s nine-month low. At the sub-sector level, the upturn was supported by expansion in five of the six covered categories, with Financial Intermediation the exception.

Rising output came amid a further improvement in demand conditions during February. Moreover, the rate of growth in new business was quicker than that registered in January and solid overall. Underlying data revealed increases in four of the six monitored sub-sectors.

The rise in overall new business was supported by a rebound in international sales during February. That said, the expansion was marginal overall, with only two of the six covered sub-sectors recording an increase.

Stronger total demand enabled firms to continue increasing their average output charges in latest survey period. The result extended the current run of inflation to a year. Moreover, the latest rise was the fastest since August 2011.

On the cost front, input prices faced by French service providers increased further during February. However, the rate of inflation eased to the softest for two-and-a-half years. At the sub-sector level, the softer rise was partly driven by a cost reduction in Financial Intermediation.

French service providers continued to increase their staff numbers midway through the first quarter, extending the current sequence of workforce expansion that began in January 2017. Moreover, the rate of job creation accelerated to the quickest since October 2018 and was sharp overall. Despite higher worker numbers in February, the further increase in new business saw backlogs continue to grow. Volumes of outstanding business have now expanded in each of the past ten months. That said, the latest increase was the softest since last October and moderate overall.

Finally, service sector firms were more optimistic towards the one-year business outlook in February, supported by expectations for further demand growth. Notably, the degree of positivity strengthened to a ten-month high.
The latest Composite Output Index* pointed to a modest rise in business activity across the French private sector in February. At 52.0, up from 51.1 in January, the reading indicated a slight acceleration in the rate of expansion.

At the sub-sector level, the acceleration in overall growth was driven by service providers, who registered a solid rise in activity. The result represented the quickest services expansion since last October. Meanwhile, following four months of growth, there was a renewed decline in manufacturing production during February.

Similar to the trend for output, there was an uptick in the pace of private sector new order growth during February. Though modest overall, the rise extended the run of increase to nearly a year. The aggregate expansion was supported by solid growth at services firms, which more than offset a modest reduction at manufacturers.

Amid strengthening demand, French businesses added additional workers in February. Moreover, the rate of job creation accelerated to the fastest since October 2018 and was historically marked. This came despite the quickest reduction in manufacturing employment for nearly three-and-a-half years.

Looking forward, positivity towards the one-year business outlook strengthened to a ten-month high in February, as improved confidence at service providers outweighed weaker sentiment among 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.
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.

February 2020 data were collected 12-25 February 2020.

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.

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