IHS Markit Flash France PMI®

Economic recovery stumbles as supply shortages hit goods producers

Key findings:

- Flash France Composite Output Index(1) at 54.7 in October (55.3 in September), 6-month low.
- Flash France Services Activity Index(2) at 56.6 in October (56.2 in September), 3-month high.
- Flash France Manufacturing Output Index(3) at 46.2 in October (51.3 in September), 17-month low.
- Flash France Manufacturing PMI(4) at 53.5 in October (55.0 in September), 9-month low.

Data collected 12-21 October.

Supply chain issues were a key feature once again during the October Flash France PMI® survey, as intense shortages of critical inputs caused manufacturing production to slip into contraction for the first time since January. Notwithstanding this, overall output levels across France continued to increase, owing to a strong and accelerated expansion in services activity.

The Flash France Composite PMI Output Index fell to 54.7 in October, its lowest level in six months and down from 55.3 in September. Despite weakening, the headline figure was still indicative of a solid rate of economic growth, but was solely driven by the service sector as manufacturing output declined at the sharpest rate since May 2020 when stringent virus-related restrictions on activity in place.

Services activity growth hit a three-month high during October. The expansion was strong overall and among the quickest seen over the last three-and-a-half years. According to firms, demand conditions remained supportive of higher activity levels. Incoming new business rose at a quickened pace amid reports of new client wins, especially from overseas as looser travel restrictions boosted tourism.

That said, positive demand-side factors were confined to the service sector as a considerable drag on order books came from the manufacturing sector in October. Surveyed goods producers mentioned that severe delays on input deliveries had caused customers to cancel or postpone their orders. There were also mentions of a slowdown in the automotive sector.

Indeed, there was evidence of worsening problems on the supply side in October, with manufacturing input delivery times lengthening to a sharper extent. The deterioration in supplier performance was the second-worst in record, surpassed only by that seen in April 2020. Low availability of shipping containers, widespread shortages of materials and logistic issues were all cited as contributing factors.

Consequently, inflationary pressures grew stronger in October, particularly for goods producers. The overall rate of input cost inflation hit a 17-year high, with many firms attributing this to higher material prices. Greater costs for fuel and staff were also reported. Increased expenses were passed on to clients in many cases, with output charges rising for an eighth successive month, albeit at a slightly slower rate when compared to September.

Meanwhile, private sector employment across France increased, as has been the case in each month throughout 2021 so far. The rate of jobs growth was the fastest for almost four years amid stronger recruitment efforts at both manufacturers and service providers. Anecdotal evidence suggested that increased hiring activity was necessary to process new and outstanding orders.

Nevertheless, backlogs of work continued to build during October. Component shortages, as well as a lack of staff, were mentioned by firms experiencing capacity pressures. That said, the rate of accumulation in work-in-hand slowed to a six-month low.

Lastly, output expectations strengthened during October to reach their most optimistic in four months. Increased positive sentiment reflected bullish
projections towards demand, investment and company expansions plans, as well as expectations of supply-side and pandemic-related constraints easing.

Comment

Commenting on the Flash PMI data, Joe Hayes, Senior Economist at IHS Markit said:

“Responsibility for France’s economic recovery was placed firmly on the shoulders of the service sector in October, as latest PMI data showed manufacturing output falling for the first time since January. The overall rate of expansion slowed to a six-month low as the supply-side issues hurting manufacturers the most offset a faster expansion in services activity. Of the medley of letters that an economic recovery can look like, France’s growth profile is currently akin to a “K”.

“While until recently, the effects of inputs shortages have been most apparent on prices, we’re now seeing them have a noticeable impact on production levels and order books as firms simply lack the stocks to produce their goods, and customers are having to cancel or postpone their orders. A number of firms suggested that some parts of the economy, like the automotive sector, are really struggling.

“That said, there are still some positives which are keeping the economy ticking. Order books at service providers expanded at a sharper and healthy pace. Looser travel restrictions has helped lift tourism, and firms are recruiting extra staff to facilitate higher levels of activity. Nevertheless, the service sector’s sensitivity to virus-related policy means risks from the pandemic cannot be ignored and we remain set for a challenging winter ahead.”

-Ends-
Final October data are published on 2 November for manufacturing and 4 November for services and composite indicators.

The France PMI (Purchasing Managers' Index) is produced by IHS Markit and is based on original survey data collected from a representative panel of 750 companies based in the French manufacturing and service sectors. The flash estimate is based on around 85% of total PMI survey responses each month and is designed to provide an accurate advance indication of the final PMI data.

The average differences between the flash and final PMI index values (final minus flash) since comparisons were first available in January 2006 are as follows (differences in absolute terms provide the better indication of true variation while average differences provide a better indication of any bias):

<table>
<thead>
<tr>
<th>Index</th>
<th>Average difference</th>
<th>Average difference in absolute terms</th>
</tr>
</thead>
<tbody>
<tr>
<td>France Composite Output Index(1)</td>
<td>-0.1</td>
<td>0.4</td>
</tr>
<tr>
<td>France Manufacturing PMI(3)</td>
<td>0.1</td>
<td>0.3</td>
</tr>
<tr>
<td>France Services Business Activity Index(2)</td>
<td>-0.1</td>
<td>0.5</td>
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</tbody>
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The Purchasing Managers’ Index (PMI) survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries (including the European Central Bank) use the data to help make interest rate decisions. PMI surveys are the first indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

Notes
1. The Composite Output PMI is a weighted average of the Manufacturing Output Index and the Services Business Activity Index.
2. The Services Business Activity Index is the direct equivalent of the Manufacturing Output Index, based on the survey question “Is the level of your business activity at your company higher, the same or lower than one month ago?”
3. The Manufacturing Output Index is based on the survey question “Is the level of production/output at your company higher, the same or lower than one month ago?”
4. The Manufacturing PMI is a composite index based on a weighted combination of the following five survey variables (weights shown in brackets): new orders (0.3); output (0.25); employment (0.2); suppliers’ delivery times (0.15); stocks of materials purchased (0.1). The delivery times index is inverted.

IHS Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from IHS Markit. Please contact economics@ihsmarkit.com.

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