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IHS MARKIT FRANCE MANUFACTURING PMI®

First deterioration in operating conditions for 27 months

KEY FINDINGS

PMI below 50.0 for the first time since September 2016

Fastest output contraction for 44 months

Solid fall in new orders

December data pointed to a deterioration in French manufacturing operating conditions for the first time since September 2016. The poor performance was underpinned by a second output contraction in three months and an acceleration in the decline of new orders. Employment and new work from abroad also fell further at the end of the fourth quarter, the latter at the fastest pace since April 2016.

The headline IHS Markit France Manufacturing Purchasing Managers' Index® (PMI®) - a single figure measure of developments in overall business conditions - fell to 49.7 in December, down from 50.8 in November. This signalled the first deterioration in business conditions for 27 months.

The downturn was driven by the fastest fall in output since April 2015. The latest contraction was the second decline in the past three months and was partially blamed on the recent 'gilets jaunes' demonstrations.

In line with the trend for output, new orders fell solidly during December. French manufacturers recorded the fastest decline in new business since August 2016 amid panellist reports of weak automotive sector demand and disruptions as a result of the recent protests.

New export orders also contracted at the end of the fourth quarter. The latest fall was the fourth in a row and the quickest recorded since April 2016.

Amid output contraction, manufacturers opted to cut jobs for the second month in a row during December. That said, the reduction in employment was softer than in November and only marginal overall. Some panel members cited weak

Manufacturing PMI
sa, >50 = improvement since previous month



demand conditions.

Even with less staff, manufacturers saw no growth in backlogs of work for the second month in a row. Volumes of incomplete business were unchanged again in December following November's stagnation. That said, there were contrasting reports at the sector level, as consumer goods companies registered an increase, while intermediate and investment goods producers saw falls.

Meanwhile, input prices continued to rise sharply at the end of the fourth quarter. That said, the latest increase represented a softening of input cost inflation to the weakest pace in seven months. Where panellists reported an increase in prices, they often cited higher raw material and fuel costs.

Output price inflation also eased in December, despite remaining solid overall. The latest increase was the slowest in the past five months, although many panellists reported that they had to pass on the higher costs of raw materials.

Optimism towards the business outlook fell to the lowest level since April 2016 in December. Some panellists noted expectations for soft demand, particular in the automotive sector.

COMMENT

Eliot Kerr, Economist at IHS Markit, which compiles the France Manufacturing PMI® survey, said:

"The downward trajectory seen throughout Q4 continued into December, as business conditions moved into deterioration territory. The first decline since September 2016 was driven by further automotive sector weakness and the recent 'gilets jaunes' protests.

"Output stabilisation in November was short-lived as December data revealed a solid contraction in manufacturing production. Elsewhere, faster new order decline was driven by the quickest fall in new export orders for 32 months."

Output Index

sa, >50 = growth since previous month

Manufacturing production

sa, %yr/yr



Source: IHS Markit, INSEE.

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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.

December 2018 data were collected 5-14 December 2018.

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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