

Purchasing Managers' Index[®]
MARKET SENSITIVE INFORMATION
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IHS Markit Flash France PMI[®]

Sharper decline in private sector activity amid rise in COVID-19 cases

Key findings:

- Flash France Composite Output Index⁽¹⁾ at 47.3 in October (48.5 in September), 5-month low
- Flash France Services Activity Index⁽²⁾ at 46.5 in October (47.5 in September), 5-month low
- Flash France Manufacturing Output Index⁽³⁾ at 51.0 in October (53.3 in September), 5-month low
- Flash France Manufacturing PMI⁽⁴⁾ at 51.0 in October (51.2 in September), 2-month low

Data collected October 12-22.

French business activity fell at a quicker rate in October as a number of major cities imposed curfews due to a rise in COVID-19 cases.

The reduction in output was the second in as many months, following September's modest decline. In the latest survey period, the rate of contraction accelerated to the quickest since May and was solid overall. Underlying data continued to signal contrasting results at manufacturers and service providers, with the former recording an output expansion for the fifth month in a row, while the latter saw a second successive monthly reduction.

The further contraction in aggregate business activity came amid a marked deterioration in demand. New orders fell for the second month running and at the quickest pace since May. Similar to the trend for output, service providers posted a sharp reduction in new work, while goods producers registered marginal growth for the third month in a row. Anecdotal evidence indicated that the service sector downturn was predominantly driven by the recent surge in COVID-19 cases.

Export orders received by French private sector firms continued to fall at the start of the fourth quarter, extending the current sequence of decline seen throughout 2020 so far. Moreover, the rate of reduction accelerated to the quickest since July and was historically marked. A sharp decline in the

service sector was the primary cause of the latest reduction, although foreign sales at manufacturers also moved into contraction territory after September's moderate rise. Panellists often commented that international clients were hesitant to place orders while the COVID-19 outlook remained uncertain.

In line with softer demand conditions, private sector companies continued to cut their staff numbers in October. Employment has fallen continuously since March, although, the rate of reduction eased for the second month running to the slowest in the current sequence. Both manufacturers and services firms posted weaker contractions than in September.

Backlogs of work at French businesses fell for the third month in a row during October. That said, the latest reduction was the slowest in that sequence and marginal overall. The continued reduction in outstanding business was driven by a further decline at services companies, albeit a softer one than registered in September. Meanwhile, manufacturers saw backlogs rise for the fifth month running, although the rate of growth was the softest since June.

On the cost front, input prices continued to rise. Panellists often mentioned input shortages related to COVID-19 and higher prices for hygiene products. However, the rate of cost inflation eased for the second month in a row to the softest since June. Both covered sectors reported higher input prices in October, but the increase at manufacturers was sharper compared to service providers.

Despite facing higher input costs, private sector firms opted to continue cutting their average output prices in October. The result marked the second successively monthly decrease in charges, although the rate of reduction eased slightly from September. Underlying data suggested that lower prices at service providers more than offset an increase at manufacturers.

Looking forward, French private sector firms remained optimistic towards the 12-month business outlook. However, the degree of optimism softened to the weakest since expectations were last negative during May. The decline in confidence was solely driven by the service sector, with sentiment among manufacturers strengthening slightly.

Comment

Commenting on the Flash PMI data, Eliot Kerr, Economist at IHS Markit said:

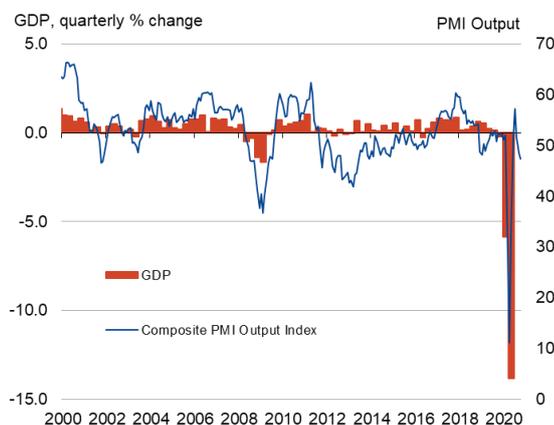
“The latest release of PMI data delivers more disappointing news for French businesses. The results suggest that the recent rise in COVID-19 cases and subsequent tightening of restrictions has had a notable negative impact on business conditions. The rate of private sector output contraction accelerated in October, with service providers posting another marked reduction. Meanwhile, although manufacturers managed to record a rise in production, growth momentum faltered and the latest increase was only marginal overall.

“Private sector firms must now hope that the latest set of restrictions are effective in tempering the spread of the virus. At present, firms’ clients are unwilling to commit to large-scale projects while the trajectory of infection rates is steepening.

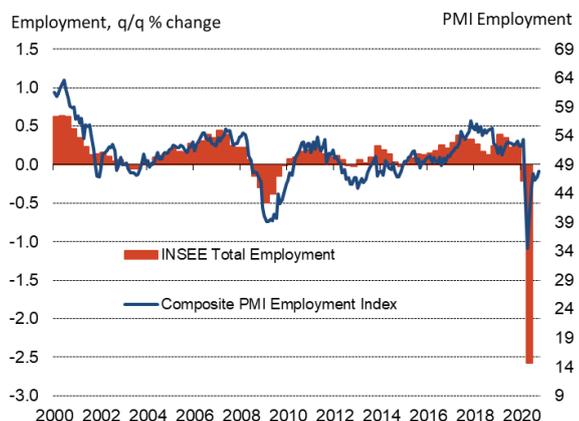
“However, with the European winter fast approaching, the prospect of a sharp drop in new positive cases and a full reopening of the economy seems unlikely. The festive period, usually so important for wide range of business, is set to be a difficult one.”

-Ends-

Economic Output



Employment



Sources: IHS Markit, INSEE via Datastream

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Note to Editors:

Final October data are published on November 2nd for manufacturing and November 4th 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):

Index	Average difference	Average difference in absolute terms
France Composite Output Index ⁽¹⁾	-0.1	0.4
France Manufacturing PMI ⁽⁴⁾	0.0	0.3
France Services Business Activity Index ⁽²⁾	-0.2	0.5

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 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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