Services activity growth eases to five-month low in September

September data pointed to a softer rise in business activity at French service sector firms. The latest expansion was only marginal overall and the slowest for five months. Similarly, the pace of new business growth decelerated and firms increased their staff numbers at the softest pace since April. Moreover, although backlogs of work continued to grow, the latest increase was only slight overall.

On the cost front, input prices rose further, but the rate of inflation eased to the softest for just over two years. Firms passed on some of these higher costs to their clients with a fractional increase output charges.

The headline seasonally adjusted IHS Markit France Services Business Activity Index – which is based on a single question asking respondents to report on their actual change in business activity at their companies compared to one month ago – posted 51.1 in September, down from 53.4 in August. The result indicated the slowest expansion in service sector activity since April, and one that was only marginal overall. Growth was recorded in five of the six monitored sub-sectors, with the exception being Hotels & Restaurants.

Similar to the trend in business activity, there was a softer increase in total new business at French service providers. Although the latest rise extended the current sequence of growth to six months, it was the slowest since May and modest overall.

Underlying data suggested that the slowdown in overall new order growth was in part driven by a decline in international sales during September. The reduction in exports was the first for four months, with reductions in each covered sub-sector apart from Financial Intermediation.

Meanwhile, firms in the French service sector continued to increase their staff numbers during September, extending the current run of workforce expansion that began in January 2017. However, the rate of job creation eased from August to reach the softest since April.

Capacity pressures remained evident at services firms in France during September, as volumes of outstanding business grew for the fifth month in a row. That said, the rate of expansion decelerated to the slowest in the current sequence of expansion and was only slight overall.

Elsewhere, input prices faced by French service providers continued to rise at the end of the third quarter. Though solid overall, the rate of inflation eased to the softest for just over two years. Anecdotal evidence suggested that the latest increase in cost burdens was driven by higher purchasing prices. Firms were able to pass on some of these costs to clients, with a fractional rise in output charges.

Finally, service providers remained optimistic towards the business outlook, supported by expectations for a rise in new work. The degree of positivity was slightly stronger than in August, but remained historically subdued.
The Composite Output Index* signalled a further expansion in French private sector business activity during September. However, the reading of 50.8, down from 52.9 in August, pointed the slowest pace of growth since April.

The overall rise in activity was driven by an expansion in the service sector. That said, the rate of increase recorded by service providers was the softest for five months and only marginal overall. Meanwhile, manufacturers posted a renewed decline in production.

New orders placed with firms in the French private sector continued to rise in September, extending the current run of growth to six months. However, the pace of expansion decelerated to the slowest since May. A marginal increase at service providers more than offset a contraction in manufacturing. Underlying data suggested the rise in composite new orders was driven by the domestic market, as new export business slipped into contraction territory during September.

Meanwhile, French businesses continued to increase their staff numbers, but the rate of job creation eased to a five-month low amid a broad-based slowdown at the sector level.

Finally, business sentiment in the private sector improved as stronger confidence in services more than offset fractionally weaker positivity in manufacturing.

* 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.

September 2019 data were collected 12-25 September 2019.

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