News Release

Embargoed until 0950 CEST (0750 UTC) 3 June 2020

IHS MARKIT FRANCE SERVICES PMI®
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Service sector activity declines further in May

KEY FINDINGS

Another sharp contraction in business activity
New orders continue to fall substantially
Firms cut staff numbers again

Data collected 12-26 May

The latest PMI® data pointed to a further contraction in French service sector activity during May, with many firms remaining closed amid coronavirus disease 2019 (COVID-19) restrictions. Meanwhile, firms that began resuming operations faced dire demand conditions as uncertainty surrounding the longevity of the pandemic continued to stifle new business. In line with falling workloads, service providers continued to cut staff numbers.

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 31.1 in May, up from a record low of 10.2 in April. The latest reading pointed to another marked contraction in service sector activity, albeit one that was softer than that recorded in the previous survey period. Anecdotal evidence suggested that the decline in activity was driven by a further evaporation of demand.

Deteriorating demand conditions were exemplified by another sharp reduction in new business midway through the second quarter. Although far softer than April’s record decline, the latest reduction was quicker than any registered prior to the coronavirus pandemic.

Demand weakness was partially driven by subdued conditions in international markets during May. New export orders fell substantially for the third month running, as key export partners remained under coronavirus-related restrictions. That said, the rate of decline eased from April.

Faced with another fall in new work, French service providers continued to reduce staff numbers in May. The rate of workforce contraction was sharp, albeit softer than seen in April. Some panellists mentioned utilising the 'partial unemployment' scheme in order to maintain staffing levels.

Outstanding business at French service providers fell for the third month in succession during May, with panellists often citing a lack of new business. The latest decrease in backlogs was slower than that recorded in April, but remained steep.

On the cost front, French services firms saw another decrease in input prices. The rate of reduction eased from April, however, and was only slight overall. When explaining lower costs, firms mentioned decreases in both fuel and wage expenditure.

As has been the case in each of the past three months, firms opted to pass on some cost reductions to their clients. Average output charges fell sharply for the third month in a row, although the latest decrease was much weaker than that seen in April.

Despite the ongoing coronavirus crisis, French service providers were optimistic towards the 12-month business outlook in May. The result marked the first - albeit marginal - show of positivity since February.
Softer but sharp contraction in private sector activity

May’s Composite Output Index* reading of 32.1 pointed to another sharp reduction in private sector activity across France. Although the rate of contraction eased since April (11.1) to the softest for three months, it remained among the fastest since data collection began just over 22 years ago. Panellist comments indicated that many businesses remained closed, while those that started to reopen faced dire demand conditions.

Manufacturers fared better than their service providing counterparts, but both sub-sectors recorded substantial contractions for the third month running.

There was further evidence of deteriorating demand in May, with new orders placed with private sector firms falling markedly for the third month in a row. The rate of decline was softer than April’s survey record, but remained sharper than any seen prior to the COVID-19 crisis. At the sub-sector level, the reduction was broad-based, although slightly faster at services firms.

In line with a further reduction in new work, private sector firms continued to cut staff numbers in May. Although the rate of workforce contraction eased from that record in April, it remained sharp overall.

Looking forward, French businesses remained pessimistic towards the one-year outlook for activity. However, the degree of negativity eased, partially driven by positive forecasts at services firms.

*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), travel, 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.

May 2020 data were collected 12-26 May 2020.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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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. ihsmarkit.com/products/pmi.html.

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Contact

IHS Markit

Eliot Kerr
Economist
T: +44-2031-593-381
eliot.kerr@ihsmarkit.com

Katherine Smith
Public Relations
T: +1-781-301-9311
katherine.smith@ihsmarkit.com