Private sector recovery stutters with first decline in activity since May

Key findings:
- Flash France Composite Output Index(1) at 48.5 in September (51.6 in August), 4-month low
- Flash France Services Activity Index(2) at 47.5 in September (51.5 in August), 4-month low
- Flash France Manufacturing Output Index(3) at 53.0 in September (52.3 in August), 2-month high
- Flash France Manufacturing PMI(4) at 50.9 in September (49.8 in August), 2-month high

Data collected September 11-22.

French business activity fell for the first time in four months during September amid widespread reports from panellists of renewed disruption related to the coronavirus disease 2019 (COVID-19) pandemic. The fresh downturn was predominantly driven by a solid reduction in activity at services firms, while manufacturers recorded a slightly faster output expansion than in August.

The contraction in aggregate business activity came amid a modest reduction in new work. The result marked the first deterioration in demand for three months, with the rate of decline accelerating to the quickest since May. New orders fell in both monitored sectors, albeit at a quicker pace among service providers.

Underlying data suggested that the decrease in new orders was partially caused by weaker international demand, with new export orders received by French private sector companies falling for the ninth month in succession. That said, the rate of reduction eased to the softest since January as manufacturers posted a modest increase in foreign sales. Service firms, meanwhile, saw a marked decline for the seventh month in a row.

The recent surge in COVID-19 cases led to another fall in employment during September. Some panellists commented that they were hesitant to hire additional staff due to fears of a second prolonged lockdown period. That said, the rate of workforce contraction eased from August and remained far softer than seen at the height of the crisis in April. Sub-sector data pointed to a broad-based reduction at both manufacturers and service providers.

Despite reducing staff numbers further, a fall in new orders led to another decrease in backlogs of work at private sector firms. The latest decline was slightly softer than in August, but again predominantly driven by the service sector. Manufacturers saw volumes of outstanding business rise for the fourth month running, although September's increase was the slowest since June.

On the cost front, input prices faced by French businesses continued to rise at the end of the third quarter. However, the rate of inflation decelerated from August's seven-month high and was modest overall. Anecdotal evidence suggested that increased costs were related to additional hygiene measures and higher prices for raw materials such as palm oil, cereals and cement.

Despite the further rise in input costs, there was a renewed decrease in output prices at private sector firms in September. Moreover, the rate of reduction was the sharpest for four months and solid overall. Some panellists commented that they cut charges in an attempt to drive new business higher. Sub-sector data revealed contrasting results, with services companies reducing output prices sharply, while manufacturing recorded an increase for the second month running.

Looking forward, French private sector firms remained optimistic towards the 12-month business outlook. In fact, the degree of positivity was stronger in both monitored sub-sectors compared to August, with confidence supported by hopes of improved demand conditions as the world continues to adapt to the challenges created by the COVID-19 outbreak.
Comment

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

“The sharp rise in COVID-19 cases recorded across France during September helped to explain the first fall in business activity since May. August data had already pointed to a slowdown in the recovery but now the path towards pre-coronavirus levels of activity has gone into reverse. The rise in case numbers has been accompanied by fresh restrictions, but has also caused hesitancy among businesses due to fears of a second round of temporary business closures.

“For now, at least, firms remain optimistic towards the year ahead outlook, but should the current trajectory of infection rates persist, that confidence is likely be tested in the coming months.”

-Ends-

Sources: IHS Markit, INSEE via Datastream
Final September data are published on October 1st for manufacturing and October 5th 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>0.0</td>
<td>0.3</td>
</tr>
<tr>
<td>France Services Business Activity Index(2)</td>
<td>-0.2</td>
<td>0.5</td>
</tr>
</tbody>
</table>

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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.

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