Slight deterioration in operating conditions during July

July data pointed to a marginal decline in business conditions faced by French manufacturing firms. The deterioration was driven by renewed falls in both output and new orders, as well as the first contraction in employment during 2019 so far. Meanwhile, purchasing activity was reduced at the quickest pace for nearly three years, which led to a solid decrease in stocks of purchases.

On the cost front, input prices fell for the first time in over three years, albeit modestly overall. This relieved pressure on profit margins, as goods producers continued to raise output charges.

The seasonally adjusted IHS Markit France Manufacturing Purchasing Managers’ Index® (PMI®) – a single figure measure of developments in overall business conditions – fell to 49.7 in July, down from 51.9 in June. The reading signalled a slight deterioration in operating conditions faced by manufacturers in France, following improvements in both May and June.

A key factor behind the deterioration in the health of the sector was a renewed contraction in production. Although the rate of decrease was only marginal overall, it was the fastest for three months. Panellists commonly associated the reduction with a softening demand environment.

Similar to the trend for output, new orders placed with French manufacturing firms fell at the start of the third quarter. The rate of decline was the quickest since April, albeit only slight overall.

The deterioration in overall new business was partially driven by a return to contraction in international sales. Some survey participants linked the latest decrease to the ongoing slowdown in the automotive sector.

Despite lower output and new order volumes, capacity pressures remained evident in the French manufacturing sector during July. That said, the rate of growth in outstanding business was slower than in June and historically subdued. July data also revealed a decline in purchasing activity at goods producers in France. The reduction was the forth in the past five months. The pace of contraction was the quickest for almost three years, but moderate overall.

Meanwhile, costs burdens faced by French manufacturers fell at the start of the third quarter. The result represented the first decrease in input prices since May 2016, with some panellists noting lower raw material costs. This helped ease pressure on profit margins, as firms continued to lift output charges in July.

Finally, goods producers remained optimistic towards the business outlook, supported by expectations for a rise in new orders. However, the degree of confidence was unchanged from June’s six-month low.
COMMENT

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

“The latest PMI data showed a renewed deterioration in business conditions faced by French goods producers, which comes as a disappointment after the recovery in June. The manufacturing sector continues to be the weak point in French economy, with both output and new orders falling at the start of the third quarter. Moreover, with purchasing activity contracting at the fastest pace for almost three years and firms cutting staff numbers for the first time in 2019 so far, it is clear that manufacturers don’t foresee an imminent recovery.”

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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.

July 2019 data were collected 12-24 July 2019.

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

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

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