Sharpest decline in business activity for nearly five years

Service providers in France recorded a second successive monthly contraction in business activity during January. Moreover, the pace of decline accelerated to its quickest for almost five years. New business also fell faster in January, driven by the sharpest decrease in new work from abroad since November 2016. Meanwhile, employment growth softened to its weakest rate for two years, and outstanding business fell for the first time in 35 months. However, despite deterioration in key indicators, confidence towards the business outlook was broadly unchanged.

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 – fell to 47.8 in January, down from 49.0 in December. The result represented the second consecutive monthly contraction in business activity at French service providers, with the pace of decline accelerating compared to December. Some panellists blamed January’s moderate decrease on a weak demand environment.

New business also fell for the second month in a row at the start of 2019. The rate of contraction accelerated to its fastest for just over five-and-a-half years, with three of the six covered sub-sectors recording declines.

Contributing to the quicker reduction in overall new business was a solid fall in new business from abroad. French service providers recorded their fastest decline for 34 months, with panellists citing the disruption caused by the ‘gilets jaunes’ movement and softer foreign demand.

Meanwhile, businesses increased their staff numbers at the weakest rate for two years in January. Following a third successive deceleration in the rate of job creation, firms registered only marginal employment growth overall. Backlogs of work fell for the first time for almost three years during January. Moreover the pace of decline was the strongest since May 2013, driven by a sharp fall in the 'Other' Services sub-sector.

On the price front, input cost inflation eased to the softest rate for nine months. That said, the latest rise in operating expenses was sharp overall. Some panellists suggested that the increase was primarily caused by wage pressures.

In contrast to the slower rise in input costs, French service providers increased their output charges at the quickest pace since June 2018. However, the rate of inflation in output prices was only moderate overall.

Finally, confidence towards the business outlook among French service providers was broadly unchanged from December’s 25-month low. When expressing positivity, some survey respondents cited new product development initiatives aimed at increasing business activity.

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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. The Composite Output Index posted at 48.2 in January, a decline from 48.7 in December. The result signalled a moderate contraction in output that was the fastest since November 2014.

At the sector level, and in contrast to the trend seen throughout the most of 2018, manufacturers outperformed service providers. Although both sectors recorded contractions, good producers saw only a fractional reduction in output, while services firms registered a moderate decline.

Inflows of new orders fell for the second month in a row during January, and at a quicker rate than in December. In fact, the latest decrease in new business was the fastest reported for 50 months. Similar to the trend for output, service providers registered the faster decline. They reported a solid contraction overall, while manufacturers recorded only a fractional fall.

The rate of job creation eased to its softest pace in two years during the first month of 2019. The weaker workforce expansion was driven by a slowdown in services hiring. Meanwhile, manufacturers increased staff numbers for the first time since October 2018.

With confidence among manufacturers rising to its highest since July 2018 and broadly-unchanged optimism among service providers, positive sentiment towards the business outlook hit a three-month high in January.

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

"January data pointed to an even faster decline in service sector activity than in protest-hit December. Output fell at the quickest pace since February 2014, despite the intensity of the 'gilets jaunes' protests easing throughout January. It seems the key driver of the latest contraction was on the demand-side, with panellists reporting a slowdown in orders from clients.

"The results are worrying for a French economy that was propped-up by service sector strength for the majority of 2018. Although the fall in manufacturing production eased in January, a rebound in that sector would not necessarily be enough to support economic growth if the downward momentum in services continued."
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.

January 2019 data were collected 11-28 January 2019.

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