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IHS Markit France Business Outlook

Business sentiment hits six-and-a-half year high in October

Key findings:

- Brighter outlook seen in both manufacturing and service sectors
- Capex plans upgraded to record high
- Inflationary pressures expected to intensify

Data collected October 12-26

The IHS Markit Outlook survey points to improving optimism among private sector firms in France, with confidence levels regarding activity, profitability and capex all rising since June. Firms predict sharper cost inflationary pressures, although, these are set to be partially offset by increases in average selling prices amid strong demand forecasts.

With a net balance of +38% of respondents anticipating an expansion in business activity, confidence across the French private sector is at a six-and-a-half year high in October. Firms generally attribute their optimism to an improvement in economic conditions in France and across Europe.

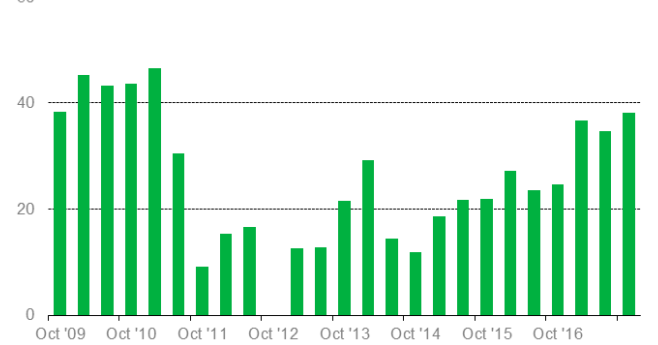
The improvement is broad-based across both the services and manufacturing sectors, with the degree of optimism marked in each instance. Business sentiment has improved to a greater extent at manufacturers than at their service sector counterparts.

Corporate earnings

New business wins are expected to support activity growth, alongside higher business revenues and profitability. Indeed, the degree of confidence in these two metrics is among the sharpest recorded in the last six-and-a-half years. Companies suggest that a more robust economic environment is set to boost household consumption and by extension client demand.

France business activity expectations

% of companies expecting an increase in next 12 months minus % expecting a decline



Source: IHS Markit.

Employment & Investment Plans

Positive sentiment concerning activity and new business supports predictions of rising employment levels. The degree of optimism remains robust, but is down from the survey record seen in June.

The decline is driven by a drop in confidence in the service sector, with the net balance of service providers forecasting an increase in staffing numbers dropping to +19% in October from +25% in June. In contrast, manufacturing firms are more optimistic than they were in the prior survey period.

Contrary to employment expectations, firms forecast a stronger rise in capital expenditure over the coming 12 months. Indeed, at +22% the net balance for capex is the strongest recorded since combined manufacturing and services data were first available in October 2009, and second (behind Ireland) in the global rankings.

Inflation Expectations

Private sector companies in France anticipate higher cost burdens over the course of the coming year. A further depreciation of the euro against the US dollar combined with higher raw material prices is foreseen to cause prices to increase.

At +30% in October, the net balance for input costs is at its highest since June 2011, but substantially less below the eurozone average. Firms look set to offset cost inflation by raising their average charges.

Comment:

Commenting on the France Business Outlook survey data, **Alex Gill**, Economist at IHS Markit, said:

“The latest outlook data indicate a rise in confidence among French private sector companies, with the degree of business optimism hitting a six-and-a-half year high. Although shy of the EU average, business sentiment is more positive than in the UK, thereby moving France off the bottom of the EU country rankings for the first time since June 2012.

“A number of survey respondents attribute their confidence to strong economic conditions in France, Europe and globally, which is reflected by expectations of a marked rise in new orders.

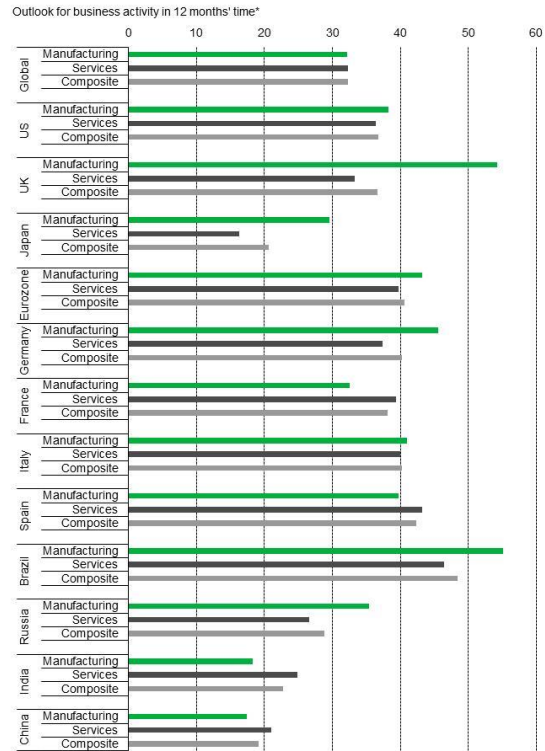
“Encouragingly, robust demand looks set to further boost capital expenditure, with the degree of optimism for this metric hitting a survey record high. Investment therefore looks well placed to support employment growth over the coming year. Indeed, the latest data suggests firms expect to further expand their workforces, albeit to a weaker extent than predicted in June.

“On the price front, panellists expect a sharper rise in input prices, with a number anticipating a further depreciation of the EUR/USD exchange rate and increasing raw material costs. Firms, however, expect greater costs burdens to be partially offset via higher charges, facilitated by strong client demand.”

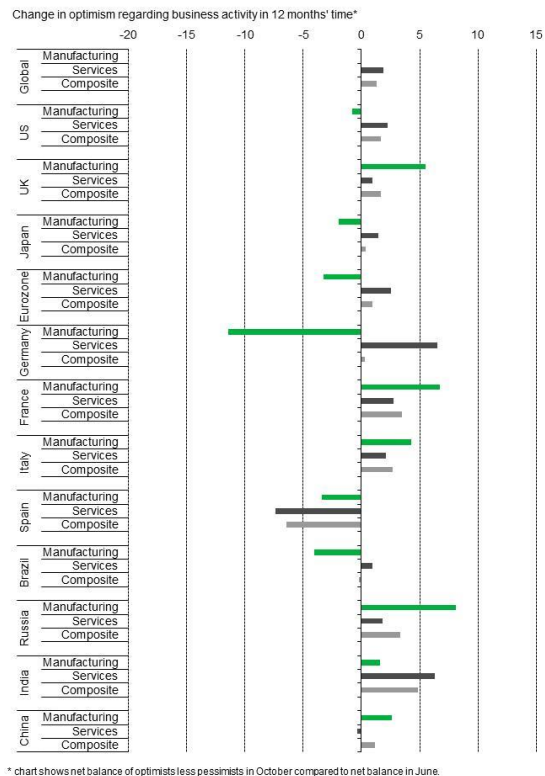
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Full data available on request from economics@ihsmarkit.com

Business optimism in October



How business activity expectations have changed since June



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Notes to Editors:

The Global Business Outlook Survey for worldwide manufacturing and services is produced by IHS Markit and is based on a survey of around 12,000 manufacturers and service providers that are asked to give their thoughts on future business conditions. The reports are produced on a tri-annual basis, with data collected in February, June and October. The latest survey was conducted between October 12 and 26.

Interest in the use of economic surveys for predicting turning points in economic cycles is ever increasing and the Business Outlook survey uses an identical methodology across all nations covered. It gives a unique perspective on future business conditions from Global manufacturers and service providers.

The methodology of the Business Outlook survey is identical in all countries that IHS Markit operates. This methodology seeks to ensure harmonization of data, and is designed to allow direct comparisons of business expectations across different countries. This provides a significant advantage for economic surveillance around the globe and for monitoring the evolution of the manufacturing and services economies by governments and the wider business community.

Data collection is undertaken via the completion of questionnaires three times a year at four-month intervals. A combination of phone, fax, website and email are used, with respondents allowed to select which mechanism they prefer to use.

The Business Outlook survey uses net balances to indicate the degree of future optimism or pessimism for each of the survey variables. These net balances vary between -100 and 100, with a value of 0.0 signalling a neutral outlook for the coming twelve months. Values above 0.0 indicate optimism amongst companies regarding the outlook for the coming twelve months while values below 0.0 indicate pessimism. The net balance figure is calculated by deducting the percentage number of survey respondents expecting a deterioration/decrease in a variable over the next twelve months from the percentage number of survey respondents expecting an improvement/increase.

Questionnaires are sent to a representative panel of around 12,000 manufacturing and services companies spread across the global economy in the countries mentioned above. Companies are carefully selected to ensure that the survey panel accurately reflects the true structure of each economy in terms of sectoral contribution to GDP, regional distribution and company size. This panel forms the basis for the survey. The current report is based on responses from around 7,000 firms.

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