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Markit France Business Outlook

French business sentiment highest in six years

Key findings:

- Brighter outlook seen in both manufacturing and service sectors
- Employment expectations strongest since February 2011
- Capex plans upgraded

Data collected February 10-23

Business confidence in France has improved markedly during the latest outlook period. Markit's Business Outlook survey shows that a net balance of +37% of companies expect higher activity over the coming 12 months, up from +25% in the previous survey conducted in October. That said, the latest reading remains the lowest of all major European countries (EU average +45%). By comparison, the global average is at +31%.

The rise in sentiment is underpinned by the dominant service sector, where the net balance of firms anticipating growth of activity is up to +39%, from +27% last autumn. The degree of optimism is also stronger in the manufacturing sector, with the net balance of companies expecting activity growth up to +26%, its highest level in one-and-a-half years.

The upturn in confidence regarding activity growth reflects an expected expansion of new business growth over the next year. The net balance for new orders is at +30%, up from +23% in the previous survey period. Concurrently, optimism with regard to business revenues has also increased, and hit its highest level in six years (net balance up to +27%, from +19%).

Panel members anticipate that the main opportunities over the coming 12 months will include exports growth, lower or stable labour costs and favourable government policies following the outcome of the presidential elections.

France business activity expectations



Those factors deemed among the main threats include the withdrawal of the UK from the EU, higher interest rates, rising raw material prices and a potentially lower level of consumption following the election results.

Employment across the French private sector is expected to rise over the next 12 months. At +17%, the net balance is at a six-year peak.

Capex plans improve

Capital expenditure by private sector firms in France is set to rise over the coming year. At +12%, the net balance is up from +10% in the previous outlook period and points to the strongest degree of optimism in 17 survey periods.

Profits expected to increase despite strong inflationary pressures

At +28% in February, expectations regarding input price inflation among French companies are stronger than they were in October (+21%). Both manufacturers and service providers foresee stronger inflationary pressures than in the previous survey period.

Output prices are expected to rise over the next 12 months, with the net balance registering +14%. This points to the sharpest projected increase in firms' selling prices in almost five-and-a-half years. Goods

producers and service providers alike are set to raise their charges, with the respective net balances at +15% and +14% (from +4% and +11%).

Meanwhile, the net balance for profits has climbed to +19% in February. Services firms are more optimistic than manufacturers. The former records the joint-highest profit expectations since June 2011.

Comment:

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

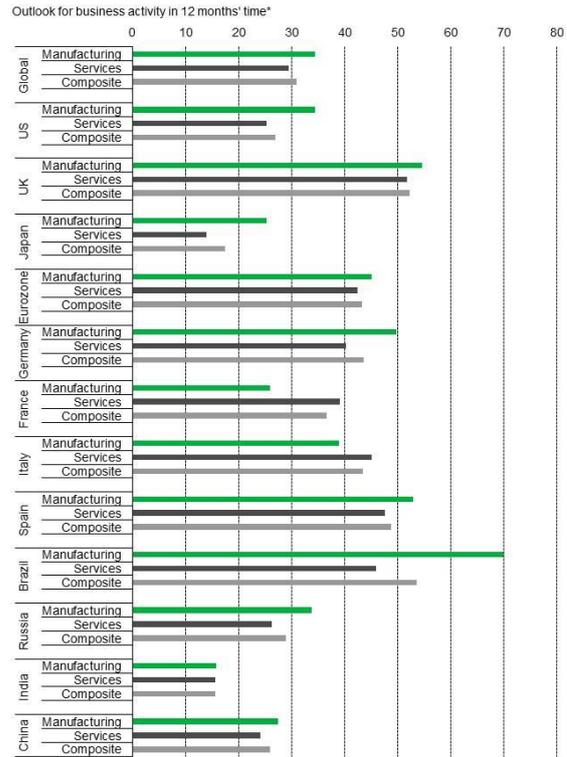
“The latest data suggest a marked improvement in optimism among French private sector firms towards their prospects for growth over the coming 12 months. That said, the net balance for activity remains the lowest seen across the major eurozone economies. This partly reflects political uncertainty in the run-up to May’s presidential elections.”

“Overall, the data paint a positive picture of the French private sector over the coming year. The standout figure from the latest results was the sharpest degree of confidence toward jobs growth in six years. This is encouraging news for France as higher levels of unemployment are likely to boost demand growth in the year ahead.”

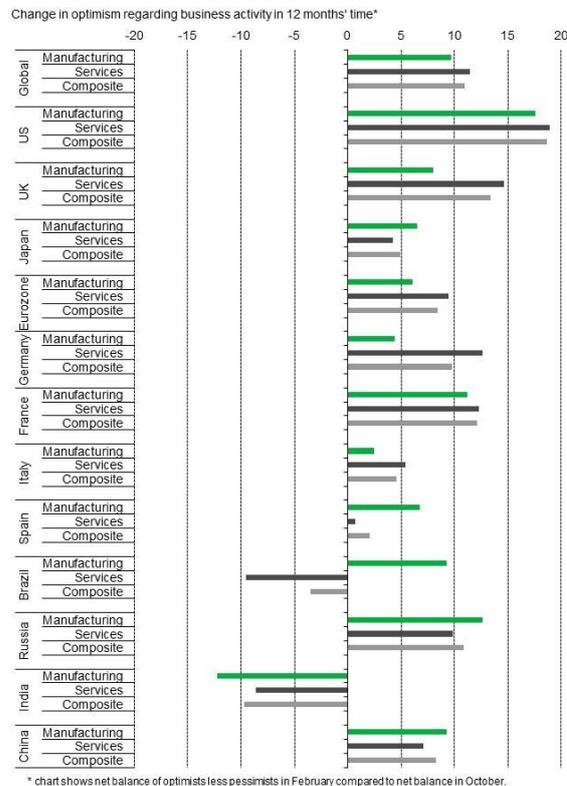
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Full data available on request from economics@ihsmarkit.com

Business optimism in February



How business activity expectations have changed since October



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Notes to Editors:

The Global Business Outlook Survey for worldwide manufacturing and services is produced by 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 February 10 and 23.

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 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 6,600 firms.

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