

News Release

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S&P Global France Services PMI®

Strong activity growth continues in May amid resilient demand for services

Key findings

Activity growth eases slightly but remains sharp overall

Sustained boost to orders from removal of COVID-19 restrictions

Output price inflation hits new record rate amid surging costs

The French service sector continued to grow at a sharp pace in May as activity levels were buoyed by strong demand conditions. According to surveyed firms, the resumption of public events and projects previously placed on hold boosted workloads.

New orders rose markedly in May, while backlogs of work increased further as operating capacities were stretched. Efforts to expand were seen through an increase in employment, with jobs growth accelerating to a seven-month high.

That said, there was a further surge in input costs amid supply issues, as well as rising wage bills and energy costs. Output prices were raised to the greatest extent on record in May.

The seasonally adjusted S&P Global France Services PMI® Business Activity Index posted 58.3 in May, down slightly from April's 51-month high of 58.9, but still indicative of a sharp expansion in service sector output that was the second-fastest since January 2018.

According to anecdotal evidence, demand conditions remained supportive of higher activity levels. Some survey respondents attributed growth to the recovery from the pandemic, with the resumption of projects previously placed on hold, public events and trade shows all mentioned.

New business received by French services companies rose midway through the second quarter. Stronger sales performances helped lift new order intakes, according to some survey respondents, while others highlighted a sustained boost to demand from the recent removal of COVID-19 restrictions. Although the expansion was strong overall, it was the slowest in three months.

Part of the weaker growth trend in new business was explained by foreign client demand in May. New export orders rose only marginally and at the softest rate over the current four-month growth sequence. However, of the companies that registered an increase in overseas new business, the re-opening of economies was cited.

S&P Global France Services Business Activity Index

sa, >50 = growth since previous month



Source: S&P Global.

Data were collected 12-26 May 2022.

Comment

Joe Hayes, Senior Economist at S&P Global Market Intelligence, said:

"Final PMI data for May confirmed what we had earlier seen in the flash numbers – we have a two-speed economy within France. While services activity growth remains strong and is still being buoyed by the removal of COVID-19 restrictions, the manufacturing sector is in a rut, growing only at a sluggish pace.

"The direction of travel for the French economy appears to be critically dependent on what happens in the service sector, given the notable range of headwinds facing goods producers at present.

"In the near-term, survey indicators suggest that economic growth is likely to continue. Both new business intakes and backlogs of work have been increasing at rates well-in-excess of their long-term averages. Employment also rose at its sharpest pace for seven months, while there was a continued pick-up in business confidence following March's recent low. All in all, there appears to be enough activity in the service sector to sustain wider economic growth for now.

"Nevertheless, we must remain mindful of the downside risks at play. Sooner or later, the boost from fewer COVID-19 restrictions will begin to peter out. Spillover risks from manufacturing weakness, as well as output price inflation, which hit a new series peak in May, also pose sizeable threats to demand for services."

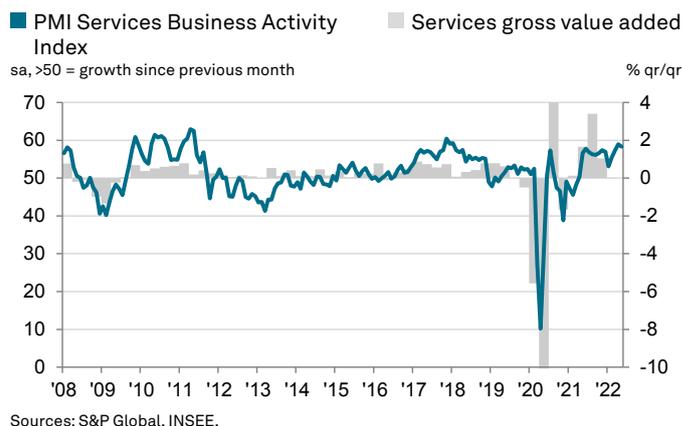
There was evidence of growing capacity pressures across the French service sector in May as backlogs of work rose. The rate of accumulation in outstanding business was strong and well above its long-run average, but it slowed to a seven-month low.

In a bid to not only clear unfinished workloads, but also to accommodate for greater intakes of new business, French services firms hired extra staff in May. The rate of job creation was sharp overall and the fastest since October last year. Trainees were reportedly recruited, as well as staff on fixed-term contracts.

Stronger employment growth also coincided with an improved outlook among French service providers in May. Overall, firms were optimistic of an increase in activity over the next 12 months, with the degree of positivity strengthening to a three-month high.

Meanwhile, prices data pointed to substantial inflationary pressures across the French service sector in May. Panel members reported soaring costs relating to raw materials, wages, energy and fuel. Input prices rose at the second-quickest pace on record, surpassed only by that registered in March.

Prices charged for the provision of services in France were subsequently increased, and to the sharpest extent in the series history, as firms sought to counter margin pressures.



S&P Global France Composite PMI®

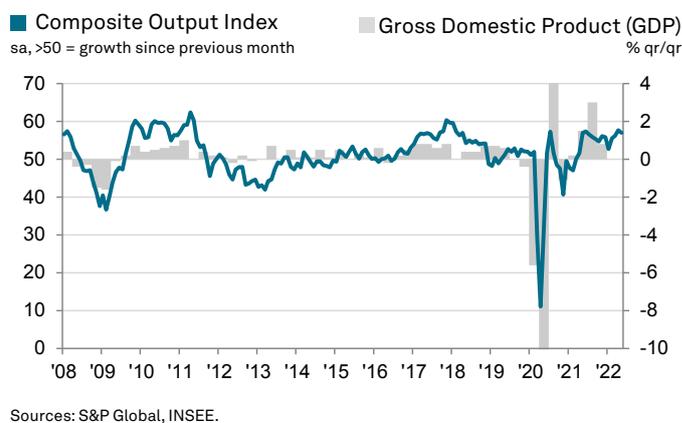
Service sector drives growth in May as manufacturing malaise persists

The S&P Global France Composite PMI Output Index* fell narrowly in May to 57.0, from April's 51-month high of 57.6. Nevertheless, the latest reading was consistent with strong growth in private sector business activity across France midway through the second quarter.

That said, further evidence emerged of a two-speed economy as the latest expansion was primarily driven by services activity. Manufacturing output continued to rise, but the expansion was weak overall and lagged behind that seen across services by a considerable margin.

A similar pattern was seen in new orders data as demand for manufactured goods rose only marginally in May. By comparison, new business at services companies rose strongly, albeit at a weaker pace. Overall new order growth slowed to a four-month low.

However, composite employment growth quickened to a four-and-a-half-year high, while the rate of backlog accumulation slowed. Meanwhile, a near-record surge in input costs was accompanied by a new survey peak in output price inflation.



*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.

■ Manufacturing PMI Output Index
 ■ Services PMI Business Activity Index
 sa, >50 = growth since previous month



Source: S&P Global.

France Services PMI Input Prices Index

sa, >50 = inflation since previous month



Source: S&P Global.

Survey methodology

The S&P Global France Services PMI® is compiled by S&P Global 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. Data collection began in May 1998.

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.

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

Flash vs. final data

Flash services data were calculated from 82% of final responses. Flash composite data were calculated from 85% of final responses.

Since January 2006 the average difference between final and flash Services Business Activity Index values is -0.1 (0.5 in absolute terms). Since January 2006 the average difference between final and flash Composite Output Index values is -0.1 (0.4 in absolute terms).

About PMI

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