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IHS MARKIT FRANCE SERVICES PMI®

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Strong growth continues into third quarter

KEY FINDINGS

Robust demand supports strong activity growth

Backlogs rise at joint- fastest pace since April 2011

Output price inflation hits decade high

Data collected 12-27 July

The French service sector started the third quarter with a strong rise in activity, latest PMI data showed, marking a fourth consecutive month of expansion. Sharp growth in new orders played a key role in supporting higher activity, encouraging firms to bolster their workforce numbers yet again. However, operating capacities were strongly tested, causing backlogs of work to increase at the quickest rate in over ten years.

Meanwhile, price pressures intensified further. Output charge inflation accelerated to a decade high amid a sharp rise in input costs.

The headline seasonally adjusted IHS Markit France Services Business Activity Index – which is based on a single question asking respondents to report on the actual change in business activity at their companies compared to one month ago – recorded 56.8 in July, compared to 57.8 in June. Overall, the latest figure was consistent with a strong expansion in service sector activity, albeit one that was slightly weaker than in June. Nevertheless, it was among the fastest expansions seen for just over three years and marked a fourth straight month in which activity has risen.

The demand-side of the economy continued to provide strong support to businesses in July. This was evidenced by another sharp month-on-month increase in new orders. With the exception of May and June, it was the joint-fastest expansion in sales since January 2018. Order books were reportedly boosted by an increasing number of companies fully reopening their operations following pandemic-related

France Services PMI Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

restrictions. Intakes of new work from overseas clients also increased in July, with the exports rising at a pace previously unseen since comparable data were first published in September 2014.

To cope with surging demand, service sector firms expanded their workforce numbers in July. The rate of employment growth quickened to a four-month high and extended the current period of job creation which began in January. However, this failed to prevent a further accumulation in outstanding business, with backlogs of work rising for a fourth month in a row and to the joint-quickest degree since April 2011.

That said, panel members expect the recent trends in demand to persist and support activity growth over the coming 12 months. Business confidence remained strongly positive in July as firms were buoyed by looser virus-containment measures. However, the level of optimism dipped slightly to its lowest since March.

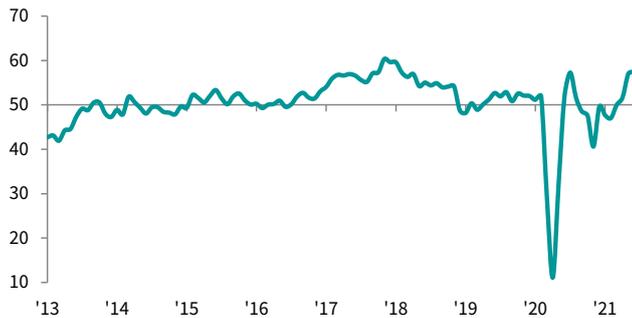
Lastly, inflationary trends remained on a firm upward trajectory during July. Input costs rose at the fastest pace in just shy of three years, which firms linked to higher supplier fees. Firms took advantage of strong demand and passed on higher costs to their customers. Output price inflation hit a decade high in July, although the rate of increase in costs outpaced that seen in charges.

IHS MARKIT FRANCE COMPOSITE PMI®

Resurgent service sector activity continues to drive broad

France Composite PMI Output Index

sa, >50 = growth since previous month



Source: IHS Markit

The Composite* Output Index signalled another month-on-month expansion in private sector business activity in July, posting 56.6. This was slightly lower than June's 41-month high of 57.4, but consistent with sharp expansion when compared with those seen over the past three-and-a-half years. The service sector provided the impetus to growth, recording a faster rise than that seen at manufacturers for the second month running.

Manufacturers and service providers alike signalled strong new order growth during July, although the increase lost momentum when compared to June. Combined new business inflows have risen in each month since March.

To boost operating capacities, employment across the French private sector was lifted, extending the job creation trend which started at the beginning of the year. A faster increase in staffing numbers at service providers contrasted with a slower rise at goods producers.

Nevertheless, backlogs of work increased as businesses in both sectors failed to process orders in a timely fashion. In fact, the overall level of incomplete work rose at the fastest pace since April 2011.

Survey data showed inflation accelerating once again in July, with manufacturers recording the most acute price pressures. Both input costs and output prices increased at the fastest rates for just over ten years.

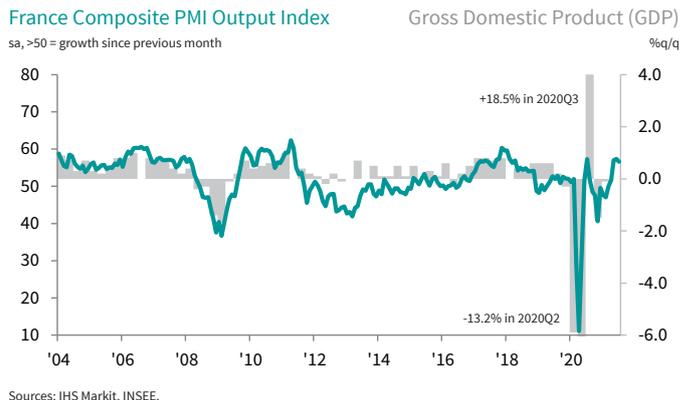
* Composite PMI indices are weighted averages of comparable manufacturing and services PMI indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The France Composite Output Index is a weighted average of the France Manufacturing Output Index and the France Services Business Activity Index.

COMMENT

Commenting on the PMI data, Joe Hayes, Senior Economist at IHS Markit said:

“Although the headline PMI dipped slightly, the data is consistent with activity growing at a strong pace, much like we saw in the previous two months since pandemic-related restrictions have been peeled back. Pent-up demand is considerable, and firms are struggling to meet it, as evidenced by one of the strongest increases in backlogs of work for a decade. This is a good thing in the short-term as it means the economic recovery will have legs to continue through the third quarter and hopefully beyond.

“That said, current conditions have handed businesses an incredible amount of pricing power. While inflationary pressures are not quite as alarming as they are in the manufacturing sector, there’s clear spillover effects from the severe supply chain disruptions, as firms cited this as a reason behind July’s 34-month high in input costs. In response, firms upped their fees to the greatest extent in a decade. If the price rises we’re seeing remain sticky, inflation will no longer be transitory.”



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Methodology

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.

July 2021 data were collected 12-27 July 2021.

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

Flash vs. final data

Flash services data were calculated from 91% of final responses. Flash composite data were calculated from 92% 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).

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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.
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