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IHS Markit France Construction PMI®

Construction activity downturn gathers pace in July

Key findings

Building activity falls at fastest rate since February

Input price inflation accelerates to new survey high

Supply chain issues encourage strong purchasing activity

Data were collected 12-30 July 2021.

The French construction sector slipped deeper into negative territory during July, according to the latest PMI data. Activity fell at the fastest pace since February amid a drop in the level of incoming new work, although intense supply chain disruptions led firms to bolster their purchases of materials and other building products to protect against further delays. Consequently, high input demand and dwindling supply led to a record rate of input cost inflation.

Concurrently, French constructors raised staffing levels in July and business confidence remained well above its historical average.

The headline France Construction Purchasing Managers' Index® (PMI®) – which is based on a single question asking respondents to report on the actual change in their total construction activity compared to one month ago – decreased to 48.5 in July, from 48.9 in June, the second month running in which the headline figure was below 50.0 and thereby signalling back-to-back decreases in building activity across France. Furthermore, the pace of decline accelerated and was the quickest since February. With the exception of May, activity has fallen in 12 of the past 13 survey periods.

The reduction in building activity was broad-based across the three monitored categories for the first time in five months, and led by civil engineering. Commercial and residential building fell modestly from June.

The faster drop in construction activity coincided with the first reduction in new work intakes since February. The decrease in

continued...

France Construction Total Activity Index
sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Commenting on the latest survey results, Joe Hayes, Senior Economist at IHS Markit, said:

"The French construction sector remained a weak link in the country's recovery from the COVID-19 pandemic, as building activity declined for the twelfth time in the past 13 months, contrasting starkly with robust expansions in the manufacturing and service sectors.

"While these two sectors are still benefiting from the easing of lockdown restrictions, the release of pent-up demand and spillover effects from improving economic conditions elsewhere around the globe, the construction PMI signalled a reduction in new orders for building work. This came off the back of just four successive months of demand growth, so if the latest dip into negative territory is to persist, it's unlikely that the sector will be able to sustain a meaningful period of growth as the recent trend in demand will have been insufficient to grow a pipeline of project work."

demand was modest, but softer than earlier in the year.

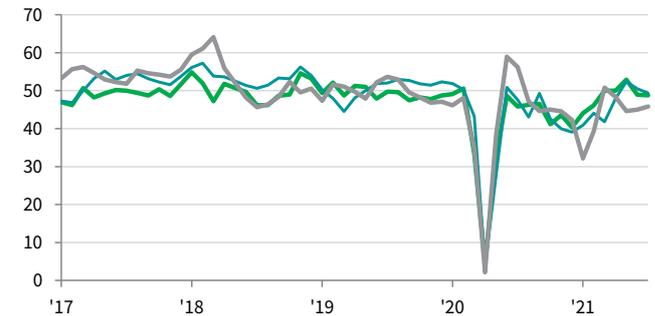
That said, despite lower volumes of new orders, French constructors expanded their purchases of raw materials and other building products in July. The rate of increase softened to a three-month low, but the latest data marked a fifth successive rise in buying levels. Panel members attributed the expansion to stock-building efforts.

Attempts to increase safety stocks reportedly stemmed from intense supply chain disruptions, which was evidenced by lengthening input lead times during July. With the exception of April 2020, the deterioration in vendor performance was the sharpest ever recorded in the survey. There were widespread mentions of low stock levels at suppliers.

As a consequence of these supply constraints, French construction firms observed surging input prices during July. The rate of cost inflation jumped up to a fresh survey high as an overwhelming majority of respondents (78%) reported greater operating expenses.

Lastly, future activity expectations remained positive during July. Furthermore, the level of business confidence was firmly above its historical average and supported by forecasts of strong demand over the coming 12 months. The optimistic outlook coincided with the joint-fastest rise in employment since February 2020.

Activity Index by sector
Residential / Commercial / Civil Engineering
sa, >50 = growth since previous month



Sources: IHS Markit.

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Survey methodology

The IHS Markit France Construction PMI® is compiled by IHS Markit from responses to questionnaires sent to purchasing managers in a panel of around 150 construction companies. The panel is stratified by 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 Total Activity Index. This is a diffusion index that tracks changes in the total volume of construction activity compared with one month previously. The Total Activity Index is comparable to the Manufacturing Output Index and Services Business Activity Index. It may be referred to as the 'Construction 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.

Survey dates and history

July data were collected 12-30 July 2021.

Survey data were first collected September 2000.

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About PMI

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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