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IHS MARKIT FRANCE CONSTRUCTION PMI®

Sharpest contraction in French construction activity since last May

KEY FINDINGS

Broad-based reduction in activity

New business falls sharply

Rate of job shedding accelerates

Data collected 12-29 January

Amid ongoing coronavirus disease 2019 (COVID-19) restrictions, French construction companies recorded the quickest decline in activity for eight months during January. Meanwhile, demand conditions remained subdued, with new orders falling at a marked rate. Consequently, firms cut their staff numbers at the fastest pace since last May. On the supply-side, input delivery times continued to lengthen and cost burdens rose sharply.

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 – fell to 39.5 in January, from 40.5 in December. The latest reading pointed to the sharpest decline in French construction activity since May 2020, when firms faced tight restrictions after the initial COVID-19 lockdown.

At the sub-sector level, the contraction in activity was broad-based. The most severe downturn was seen in civil engineering, where firms registered the quickest reduction for nine months. Work on both home building and commercial projects also fell sharply, but at softer rates compared to December.

January data pointed to a further deterioration in demand conditions faced by French construction companies, as new orders continued to fall. The result extended the current run of decline to a year. Panellists often commented that the COVID-19 pandemic had reduced the number of calls for tender.

In line with another deterioration in demand conditions, construction firms continued to pare back their staff number

Total Activity Index
sa, >50 = growth since previous month



Source: IHS Markit.

in January. In fact, the rate of job shedding accelerated to the quickest for eight months and was marked overall.

Similar to the trend for employment, purchasing activity fell markedly in the opening month of the year. However, the rate of decline eased from December and remained far softer than those registered during the previous COVID-19 lockdown last spring.

Meanwhile, suppliers' delivery times continued to lengthen during January. Moreover, the rate at which vendor performance deteriorated was the sharpest for five months and marked by historical standards. Some panellists noted that additional hygiene protocols had contributed to delays.

Cost burdens faced by French construction firms rose in January, extending the current run of inflation that began in April 2016. Notably, the latest increase was the fastest since last February and sharp overall. Some survey participants noted higher steel prices when explaining a rise in costs.

Looking forward, construction companies were confident of a rise in activity during 2021. The result marked the first optimistic reading for future activity since last July. Positivity was supported by expectations of a recovery in demand conditions as vaccination programmes continue to advance.

COMMENT

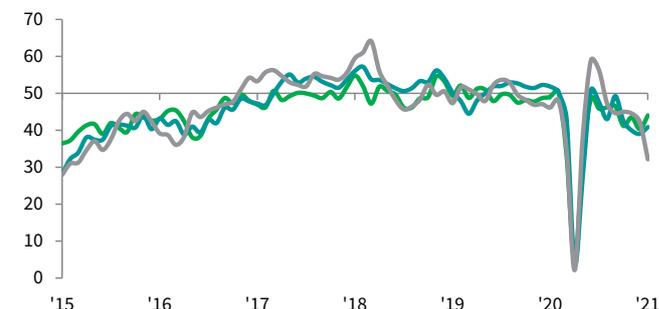
Eliot Kerr, Economist at IHS Markit, which compiles the survey:

"The latest PMI data suggested that French construction companies continued to struggle amid COVID-19 restrictions, as activity fell at an even quicker pace in January. In addition, there was little sign of an imminent recovery, with new business also declining at a sharper rate, prompting firms to cut staff numbers again.

"There was, however, one bright spot in the latest survey period. Sentiment towards future activity moved back into positive territory for the first time since July, with optimism supported by expectations of widespread vaccination later this year. Although that scenario is still some way off, firms will be working towards that period when demand conditions will likely improve."

Activity Index by construction category Housing / Commercial / Civil Engineering

sa, >50 = growth since previous month



Source: IHS Markit.

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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.

January 2021 data were collected 12-29 January 2021

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

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.

ihsmarkit.com/products/pmi.html

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