# France: Why you shouldn't worry too much about lower March PMIs

Despite the decline, PMIs remain well above their long-run and Eurozone average and to us, this appears more of a consolidation than a real sign of weakness and consistent with further growth acceleration in particular in corporate investments

Source: Shutterstock

56.3

Final Composite Output Index for March

Aggregate PMI (manufacturing and services)

Better than expected

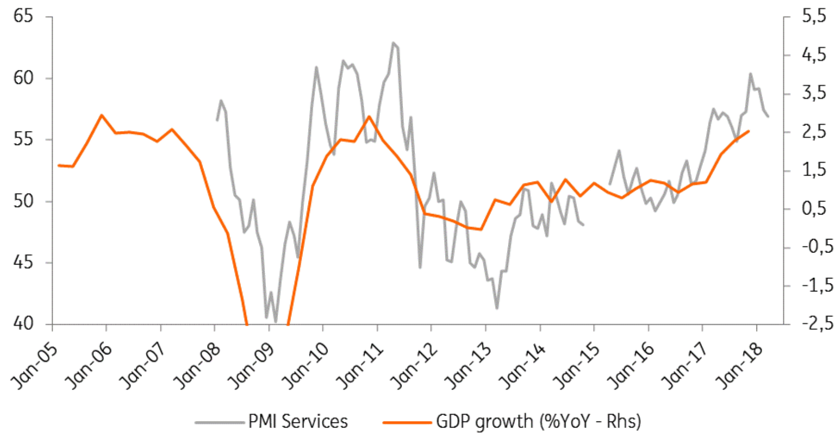
## Service PMI levels still above Eurozone average

The French service sector PMI declined from 57.4 to 56.9 in March. This is still above the Eurozone average - something that was not seen previously when the French sector was lagging behind other countries.

It also remains consistent with a high rate of activity expansion in services. The new business creation component of the survey registered its 25th month of increase while job creation remained well above its long-run average in March, which indicates that the current decline in the unemployed population should continue in the coming months.

However, the fact that this is the lowest figure in seven months shows that activity has been a bit lower than expected in the first quarter, with companies pointing notably to higher input costs. We don't think that the recent downward trend is a reason to revise current growth forecasts downwards. As we show below, the current normalisation in PMI's still leaves room for growth improvements in the coming months.

## Current PMI levels show there is potential for higher GDP growth in 2018




Source: Bloomberg

## Unfinished work continues to accumulate despite the strong euro

The French manufacturing PMI index went down from 55.9 to 53.7, its lowest level in a year.

It seems that the strength of the euro is beginning to impact exporting manufacturers who saw their order books decline more than others. If trade war fears were to materialise for European firms on top of the currency strength, this trend could amplify.

However, the index is still showing solid activity expansion, and even if order books are somewhat lower, it seems that unfinished work or the backlog continued to accumulate, reaching levels unprecedented this decade.

This confirms that capacity utilisation is high (INSEE figures showed utilization at 85.7% in Q1, the highest level in 10 years), which remains consistent with the current strong growth of corporate investments.

All in all, all these elements lead us to maintain our current 2.2% GDP growth forecast for 2018.