

## French PMI: beware of overinterpretation

In France, PMI indicators continued to show an impressive rebound in activity in July. However, recent business surveys show that this optimism should be taken with a pinch of salt



The first estimate of July's PMI indices shows a high degree of optimism: at 52 in manufacturing and 58 in services, these indices are at their highest since 2018. The small drop in the manufacturing PMI in July looks like a slight adjustment. However, activity expectations are very high several weeks after the end of the lockdown. This week's INSEE surveys, while pointing in the same direction (expected activity is high), revealed other weaknesses that should temper any euphoria.

In the manufacturing sector in particular, order books saw only marginal improvement in July, especially foreign orders. The weakness of foreign trade and the postponement of private business investment plans has left little hope in this respect. The gap between order books and the current state of inventories does not really lead us to expect a very dynamic recovery beyond the natural catch-up due to the reopening of production lines. We therefore remain cautious when interpreting companies' intentions regarding their own production: the July survey shows that level at a two-year high, which does not seem to be in line with the high level of inventories.

In the service sector, while both PMI indicators and business surveys show high levels of activity expectations, confidence overall is only just above its worst level of 2009 in the midst of the financial crisis. Businesses' opinions on their own situation barely improved between May and July

and is still way below previous lows (this survey component was -52 in July against -57 in May and -30 at the worst of the financial crisis). This still shows how their financial position was largely jeopardised by the weeks of inactivity, despite the lockdown ending.

After several weeks of economic unlocking, it is only natural that there are more positive than negative respondents in activity surveys. The INSEE surveys show us a deeper unease, beyond the "restart" of activity, about the prospects for recovery. This supports the scenario of a recovery in two phases: a V-shaped first recovery phase, followed from 4Q20 onwards by a slower recovery that will only bring activity back to pre-crisis levels at the end of 2022. To find out more about these prospects, click here to read [our economic quarterly update](#).

[France: Looking for a second wind](#)