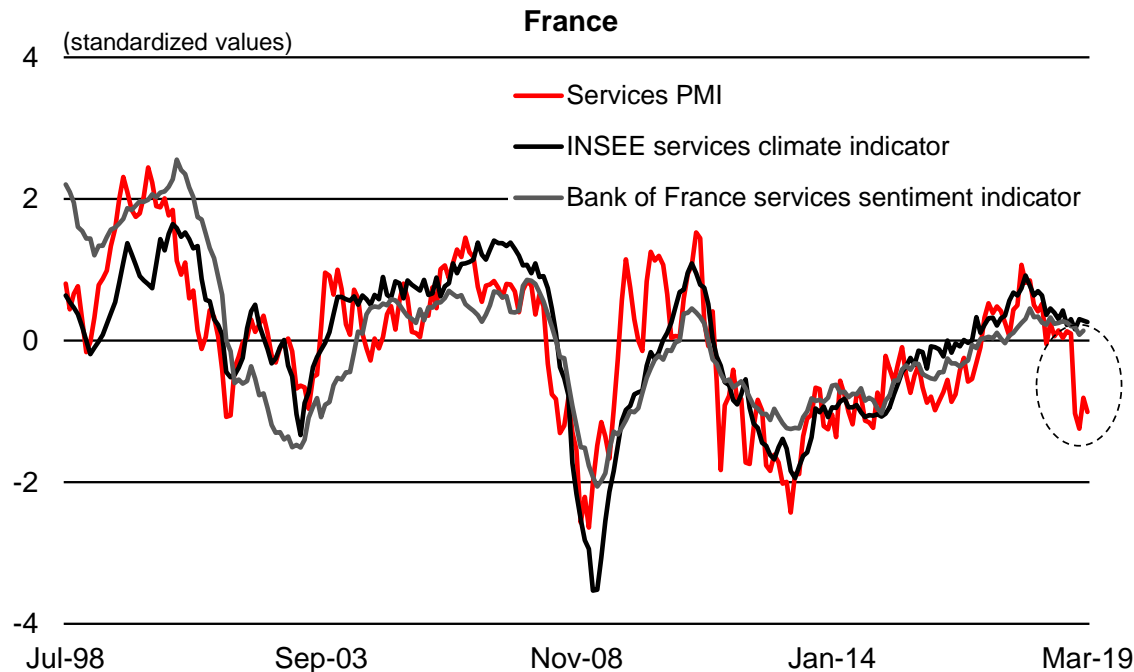


## French services activity: which survey has it right?



Source: Bank of France, INSEE, Markit, UniCredit Research

- Our previous Chart of the Week highlighted the unusually large gap between the services PMI (resilient) and its manufacturing counterpart (in free fall) for the eurozone. France is a notable exception to this trend: the French services PMI has tumbled from 55.1 in November 2018 to 49.1 in March, and now lies below its manufacturing counterpart, below its long-term average, and below the threshold of 50, which, in theory, marks no change in activity. In stark contrast, however, other surveys of services activity by the INSEE and the Bank of France have remained resilient (see chart), which raises the question of which one is right.
- A statistical inspection of the historical relationship between these various surveys and French services output shows that the PMI has the greatest explanatory power. Moreover, the services PMI tends to lead national surveys, and each time the gap between the PMI and the other two surveys reached a size comparable to the current one, it then turned out that the PMI was pointing in the “right” direction. It is worth noting that this has occurred despite the fact that the PMI is based on a sample of firms that is significantly smaller than those surveyed by the INSEE and the Bank of France.
- Therefore, the PMI weakness is reason for caution. However, its practical implications are probably not as bad as they seem at first sight. A simple regression shows that the current below-50 level of the services PMI remains consistent with moderate growth in services output, at an annualized pace of more than 1%. Therefore, barring further deterioration, the services sector should still serve as a buffer to counter intensifying manufacturing weakness, thereby keeping France on a path of moderate expansion.

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