

# France

## GDP rebound clouded by rising prices and weak job creation

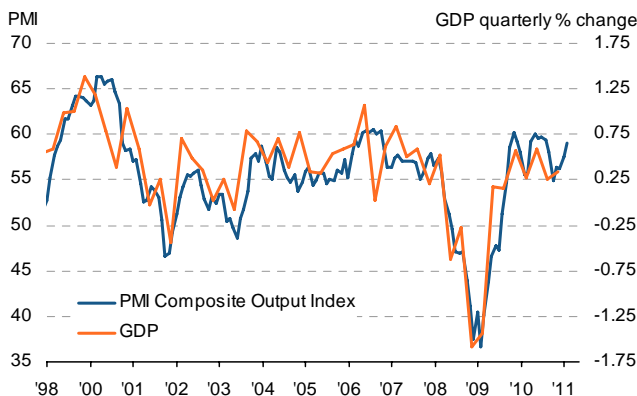
- **GDP set to rise 0.7-0.9% in Q1.**
- **New orders growth highest since dot-com boom.**
- **Employment growth remains subdued as price indices hit new highs.**

Buoyant flash PMI data for March indicate that the French economy expanded strongly in Q1, but also point to rising price pressures and disappointing job creation. Rising costs may be discouraging recruitment as firms seek to boost productivity and protect profit margins, but this may be about to change.

### GDP rebound

French GDP looks set to rebound from the sluggish (protest and weather affected) 0.3% increase seen in the final quarter of 2010, expanding by approximately 0.7% in Q1 according to the PMI. There's some upside risk to this, however, as the PMI signalled a 0.5% rise for Q4, so GDP may show a stronger Q1 rebound, rising by perhaps as much as 0.9%.

### French GDP



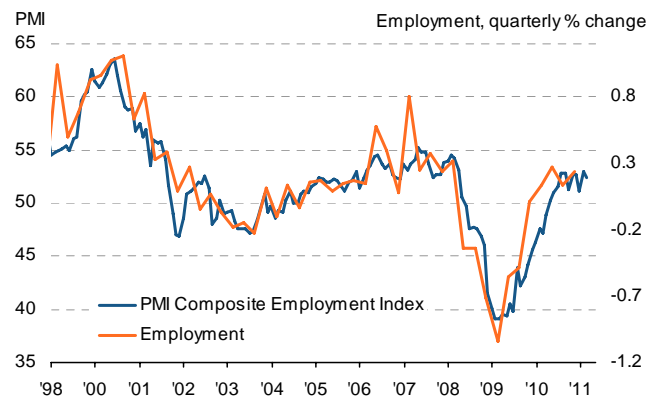
The survey data also augur well for coming months. Encouragingly, with the all-sector PMI rising to an eight-month high in March, the French economy appears to have finished Q1 on a particularly strong footing. Furthermore, new order inflows measured across both manufacturing and services rose in March at the fastest

pace since September 2000, and business confidence in the services economy regarding the outlook for the year ahead rose to a six-month peak, all of which bodes well for Q2 growth.

### Employment growth remains weak

Disappointingly, however, the PMI's all-sector Employment Index has remained subdued relative to order book and output growth. Although hitting a 34-month high in February, the index fell back slightly in March to signal a Q1 increase in employment of less than 0.3%.

### French employment



Although manufacturing jobs were added at the fastest rate since October 2000, only a modest increase was seen in services. A recent upturn in growth of service sector new business to the highest since October 2006 may therefore encourage firms to take on more staff in coming months. However, there is some evidence to suggest that companies are seeking to offset sharply higher input prices with cost-saving labour productivity gains.

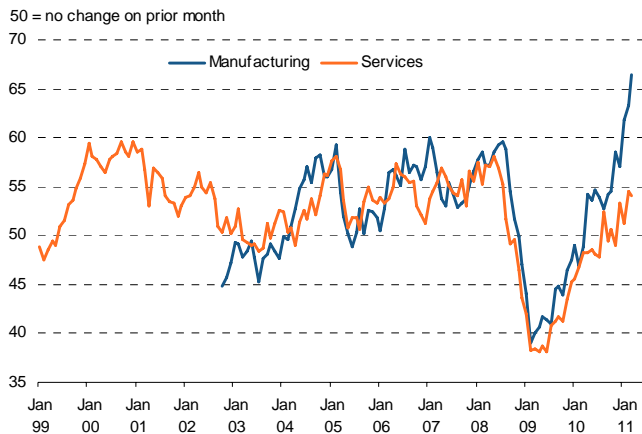
### Price pressures rise

While the growth spurt in recent months has failed to induce the desirable side-effect of higher employment, it has certainly been accompanied by an increase in price pressures. It must be noted, however, that these stem from global factors in many cases – notably higher food and oil prices, and do not necessarily reflect an excess of demand compared to supply in the domestic economy,

which would be more worrying from a longer-run inflation perspective.

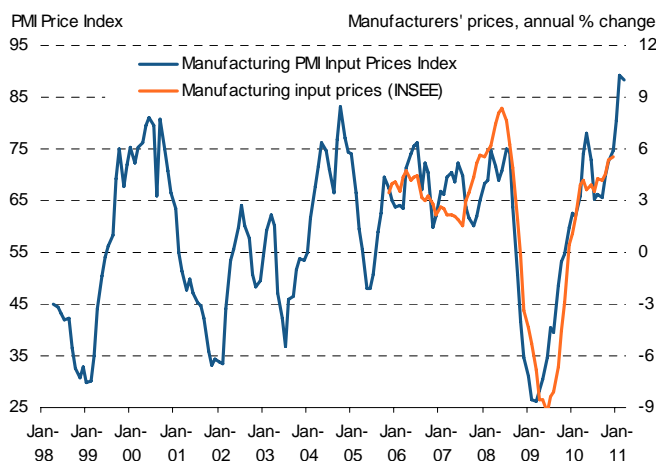
Manufacturers reported the strongest increase in their input costs ever seen in the 13-year history of the survey in February, and a similar rise in March. Meanwhile service providers reported the largest monthly rise since September 2008. These higher cost pressures are being pushed on to customers in many cases. Manufacturers' selling prices showed the largest rise in the history of the survey by a wide margin in March, though the increase in services was far more muted. Nevertheless, the March survey showed that average selling prices for both goods and services showed the largest rise since May 2008.

### PMI Prices Charged Indices



Official data on services costs are not available, but a comparison with manufacturing input price data suggest that the official data look set to spike higher, possibly showing a double-digit rate of inflation compared to a year earlier.

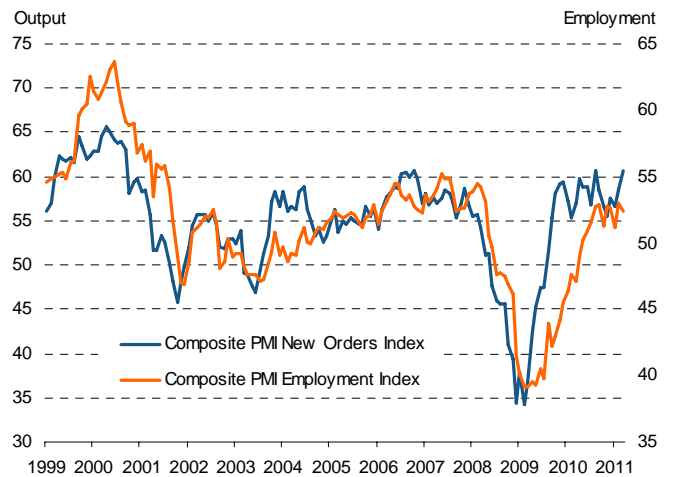
### Manufacturing input prices



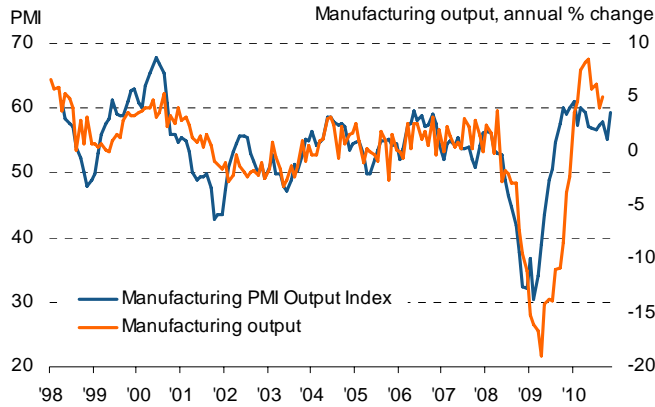
### Productivity gain

There is therefore evidence to suggest that firms, especially in the service sector, are delaying the hiring of staff as they await a clearer picture of the economic outlook and especially future cost increases. Most importantly, firms in the travel and transport sectors in particular will be concerned about the recent increase in oil prices following the unrest in the Middle East and North Africa. Until the picture becomes clearer, hiring may remain subdued, although the recent upswing in new business growth may tip the balance in favour of hiring at more companies in April.

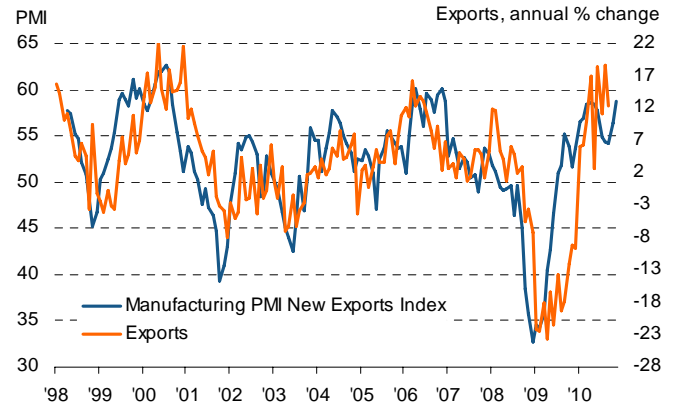
### New orders and employment



**Manufacturing output**



**Manufacturing exports**



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