

News Release

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S&P Global France Services PMI®

Service sector activity levels fall again in December as demand remains weak

Key findings

French service sector output falls for second month in a row

Demand weakens as client purchasing power deteriorates

Input cost inflation remains stubbornly elevated

The French service sector closed off 2022 with another monthly decline in business activity, following on from the first reduction in over a year-and-a-half in the previous survey period, as higher interest rates and inflation dented demand conditions. Subsequently, businesses were concerned about the outlook for the sector, with confidence remaining historically subdued.

Meanwhile, operating costs rose at a slightly faster rate during December amid generally high inflation across the market. That said, there were signs that companies were softening their pricing strategies as output price inflation eased to a four-month low.

The seasonally adjusted S&P Global France Services PMI® Business Activity Index posted 49.5 in December, little-changed from November's 49.3 and indicative of a further contraction in business activity across France's service sector. Although the rate of contraction was only marginal, the latest data rounded off the worst quarter for the French service sector since the start of 2021.

According to survey respondents, output levels were constrained by weak sales performances. Some companies also commented on the adverse impact of rising interest rates, with activity at clients in the real estate industry reportedly falling as a result.

The level of new incoming work received by French service providers decreased in December, the second month running in which this has been the case. The rate of decline was among the quickest seen for almost two years. Weak client purchasing power was mentioned as a drag on total sales.

For a seventh successive month, new business received from international clients fell. The rate of reduction was stronger than the equivalent for overall new business, although it did ease from the previous month.

Despite the drop in new business intakes, the latest survey data showed a slight uplift in backlogs of work at French service providers, a contrast to the previous month when incomplete order volumes fell for the first time in 20 months.

S&P Global France Services Business Activity Index

sa, >50 = growth since previous month



Source: S&P Global.

Data were collected 06-20 December 2022

Comment

Joe Hayes, Senior Economist at S&P Global Market Intelligence, said:

"2022 ended with a second successive monthly decline in services activity across France. Overall, the latest survey data round off the worst quarterly performance in the sector since early-2021 and will fuel the calls of an impending recession in the euro area's second-largest economy.

"The biggest drag on the performance of the service sector in December was demand. Higher interest rates are slowing activity in sectors sensitive to changes in borrowing costs such as real estate, while persistent inflation continues to squeeze real incomes and is eroding purchasing power.

"Inflation in services is certainly staying a lot stickier than in manufacturing, with services input costs rising at a slightly quicker rate in December. That said, companies appear to be absorbing more of the burden than they have been recently as customers become resistant to price hikes. We subsequently saw the rate of output price inflation ease in December.

"Overall, the latest survey data highlight underlying fragility within the French economy. With interest rates set to rise further in the coming months, and inflation remaining stubbornly elevated for the time being, this fragility can be expected to continue."

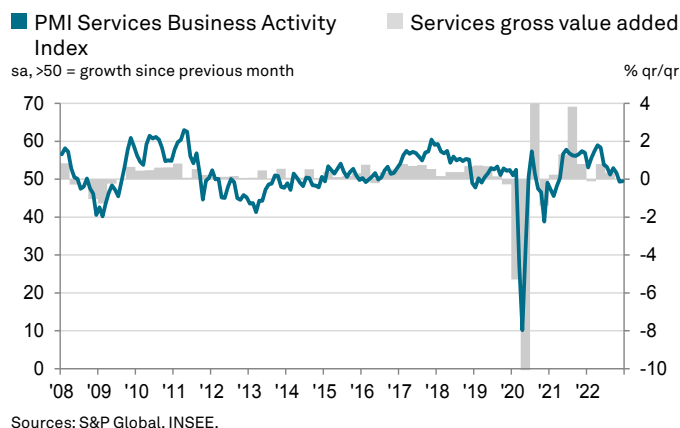
That said, the accumulation was fractional and weaker than the historical trend.

French service providers continued to add to their payroll numbers at the end of 2022. Overall, employment levels have risen continuously on a monthly basis for two years. Where job creation was reported, this was often reflective of company expansion. The increase in staffing levels was slightly stronger than in the prior month, but was slower than seen on average over the aforementioned sequence.

Sustained hiring activity contributed to a further increase in service sector operating expenses in December. The latest survey data signalled elevated cost pressures, with the overall rate of input price inflation even accelerating slightly. Where higher cost burdens were mentioned, companies linked it to greater wage pressures, energy prices and increased interest rates.

Conversely, output prices were increased at a slower pace during December. The rate of inflation, albeit still sharp and well above its historical average, was the weakest in four months.

Finally, French services companies were optimistic towards 2023 prospects. However, the level of business confidence was historically subdued overall. Persistently high inflation, as well as concerns of a possible recession, weighed on sentiment.



S&P Global France Composite PMI®

French private sector contracts for second successive month in December

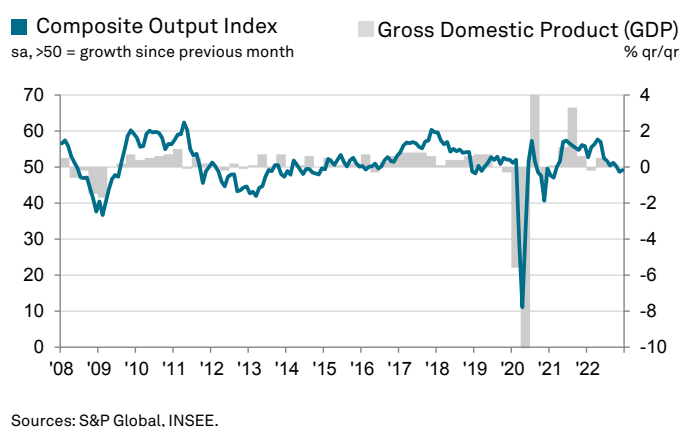
The S&P Global France Composite PMI Output Index* posted 49.1 in December, up marginally from 48.7 in November. Nevertheless, it marked a second successive month in which the index has posted below the 50.0 mark which separates growth from contraction.

Both manufacturing and services recorded contractions in output during December, although the decline remained sharper among the former.

Overall new order intakes fell at the end of the year, marking a fifth successive monthly decline. As was the case with output, demand for goods declined more rapidly than demand for services.

Backlogs of work were unchanged in December as a fractional rise in capacity pressures at services firms offset falling incomplete business levels at manufacturers. Nevertheless, private sector employment continued to rise.

Input cost inflation accelerated slightly, although output charges rose at the weakest rate in four months.



*Composite PMI indices are weighted averages of comparable manufacturing and services PMI indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data.

■ Manufacturing PMI Output Index
■ Services PMI Business Activity Index
 sa, >50 = growth since previous month



Source: S&P Global.

France Services PMI Input Prices Index

sa, >50 = inflation since previous month



Source: S&P Global.

Survey methodology

The S&P Global France Services PMI® is compiled by S&P Global from responses to questionnaires sent to a panel of around 400 service sector companies. The sectors covered include consumer (excluding retail), transport, information, communication, finance, insurance, real estate and business services. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP. Data collection began in May 1998.

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 Services Business Activity Index. This is a diffusion index calculated from a question that asks for changes in the volume of business activity compared with one month previously. The Services Business Activity Index is comparable to the Manufacturing Output Index. It may be referred to as the 'Services PMI' but is not comparable with the headline manufacturing PMI figure.

The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index. The weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Composite Output Index may be referred to as the 'Composite 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.

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

Flash vs. final data

Flash services data were calculated from 82% of final responses. Flash composite data were calculated from 85% of final responses.

Since January 2006 the average difference between final and flash Services Business Activity Index values is -0.1 (0.5 in absolute terms). Since January 2006 the average difference between final and flash Composite Output Index values is -0.1 (0.4 in absolute terms).

About PMI

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