

NEWS RELEASE
MARKET SENSITIVE INFORMATION
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HCOB France Services PMI®

French services economy remains in contraction, but confidence hits 20-month high

Key findings:

Business activity falls further as weak demand conditions persist
Hopes of a recovery in 2024 drive confidence to 20-month high
Input cost and output price inflation rates little-changed

Data were collected 12-25 March

Activity levels within France's service sector continued to shrink at the end of the first quarter, latest HCOB PMI® data from S&P Global showed, as sustained weakness in the broader economy weighed on sales performances. That said, contractions in output and new orders remained considerably softer than those seen in the second half of 2023 as anecdotal responses suggested some improvement in underlying conditions compared to the previous quarter.

Positively, firms' growth expectations jumped sharply since February to their most optimistic in over a year-and-a-half. Jobs were also expanded, with employment rising at the fastest pace in five months.

As for prices, inflationary pressures remained stubborn, with increases in output charges and input costs both remaining above their long-term averages.

The seasonally adjusted **HCOB France Services PMI® Business Activity Index** – which measures changes in the volume of business activity compared with one month previously – nudged a fraction lower in March to 48.3, from 48.4 in February. Overall, this signalled a further modest contraction in service sector output across France at the end of the first quarter. That said, the rate of decline broadly matched that seen previously, which was the weakest seen since the current sequence of decline began in June last year.

Economic weakness and inflation were cited as reasons for lower business activity in March, although some firms commented on a relative improvement in underlying market conditions, particularly when compared with the end of last year. New business continued to decline in the final month of the first quarter, and to a slightly quicker extent than in February, but the contraction was only moderate overall and among the slowest over the current 11-month demand slump.

Sales to non-domestic clients presented a fresh headwind in March, with new export business falling at the fastest rate in three months after marginally improving in February.

However, amid expectations of a pick-up in broader economic conditions later this year, latest survey data indicated a marked monthly improvement in French service sector business confidence. Growth expectations were at their strongest since July 2022.

Employment across France's service sector remained in expansion territory during March. In fact, survey respondents signalled the fastest net gain in workforce numbers since October last year. Where jobs growth was recorded, expectations of higher activity were mentioned.

Increased staff capacity, in tandem with a further drop in sales volumes, led backlogs of work to retreat in March. The rate of depletion was only modest, however, and the weakest seen across the current eight-month sequence of decline.

Turning to prices, although input cost pressures subsided fractionally during March, they remained steep by historical

standards. Reports of higher salary and energy costs were mentioned by survey respondents. Nevertheless, the overall pace of increase in operating expenses was the slowest since August 2021.

Little movement was also seen regarding the rate of service sector output charge inflation in France. Overall, hikes in selling prices were stronger than seen across the survey history and broadly in line with those seen in February. However, the previous monthly increase was the weakest since May 2021.

Comment

Commenting on the PMI data, Norman Liebke, Economist at Hamburg at Hamburg Commercial Bank, said:

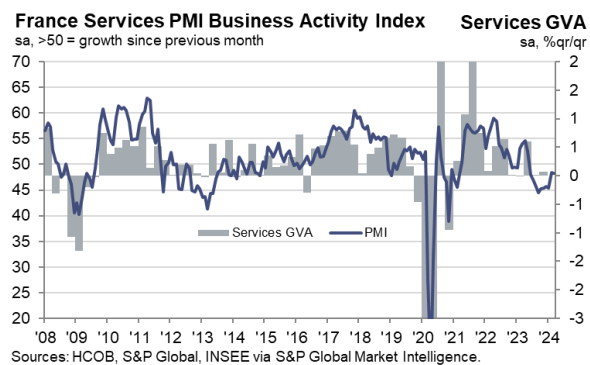
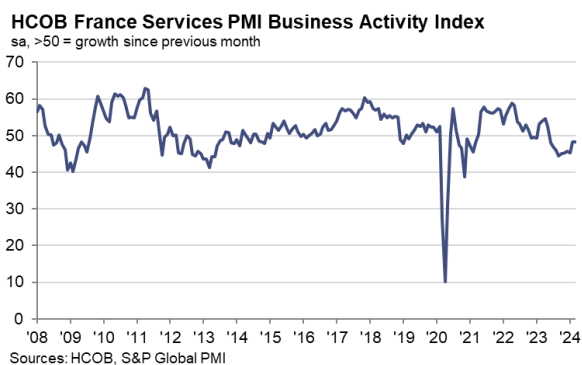
"The French economy's recovery is delayed until at least Q2. Hiring activity increased, new business declined at a much slower rate than seen in Q4 and companies are more optimistic about the future – this is a good setting for the coming months. Although business activity slowed again, it was only a modest decline. According to anecdotal evidence, service providers reported weak economic conditions, high interest rates and inflation as drags on business activity.

"The global demand slump hampers French services. Surveyed service providers reported that new export business declined in March, particularly due to lower demand from Asia. If demand increases in the coming months, there is not much that stays in the way of a recovery of the French economy.

"French service providers are optimistic about the future. Output expectations increased to their highest level in almost two years due to expectations of better economic conditions. They also mentioned hopes of increasing activity due to planned hiring.

"Growing wages are generating inflationary pressures, however. The latest HCOB PMI figures show that the labour-intensive services sector is still dealing with increasing input and output prices due to salaries. However, the Prices Charged Index is approaching the threshold of 50 more and more. According to the HCOB Nowcast, France's consumer price inflation is closing in on the 2% target rate."

-Ends-



HCOB France Composite PMI[®]

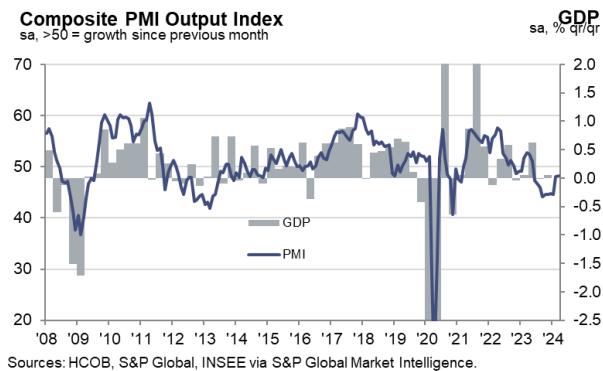
French private sector downturn eases further in March

The **HCOB France Composite PMI[®] Output Index** – a weighted average of the HCOB France Manufacturing Output Index and HCOB France Services Business Activity Index – rose for a second month running in March. At 48.3, the index was up from 48.1 in February to signal the least marked reduction in private sector business activity over the current ten-month downturn.

A softer fall in output contrasted with the trend in total new business, however, as overall sales volumes fell at a stronger pace. Both manufacturers and service providers registered a faster drop in demand in March.

Backlogs of work continued to decrease, albeit to the softest extent since July last year. As was the case in February, service sector job creation drove a marginal uptick in private sector employment. Sustained hiring growth was supported by business confidence jumping to a 20-month high.

Inflationary trends were broadly stable in March, with another sharp month-on-month rise in input costs coinciding with only a fractional slowdown in the rate of output price inflation.



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Note to Editors

The HCOB 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.

Flash services data were calculated from 78% of final responses. Flash composite data were calculated from 84% 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).

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

Hamburg Commercial Bank AG

Hamburg Commercial Bank (HCOB) is a private commercial bank and specialist financier headquartered in Hamburg, Germany. The bank offers its clients a high level of structuring expertise in the financing of commercial real estate projects with a focus on Germany as well as neighboring European countries. It also has a strong market position in international shipping. The bank is one of the pioneers in European-wide project financing for renewable energies and is also involved in the expansion of digital and other areas of important infrastructure. HCOB offers individual financing solutions for

international corporate clients as well as a focused corporate client business in Germany. The bank's portfolio is completed by digital products and services facilitating reliable, timely domestic and international payment transactions as well as for trade finance.

Hamburg Commercial Bank aligns its activities with established ESG (Environment, Social, and Governance) criteria and has anchored sustainability aspects in its business model. It supports its clients in their transition to a more sustainable future.

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S&P Global (NYSE: SPGI)

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