

News Release

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S&P Global France Business Outlook

Business confidence at two-year low amid energy cost surge and recession fears

Key findings

Businesses at their least optimistic since October 2020

Manufacturers foresee production cuts, with profitability also expected to decline sharply

Inflation expectations hit new survey high

The S&P Global France Business Outlook survey signalled a further decline in confidence among French private sector businesses in October. Having started 2022 with one of the strongest levels of optimism since data became available in 2009, the latest Business Outlook data showed confidence sliding to a two-year low.

The net balance of firms that anticipated business activity growth over the coming 12 months fell once again in October, down from +19% in June to +17%. Albeit still in positive territory, and therefore indicative of optimism, it marked the lowest level of confidence since October 2020.

Data split by sector showed notable differences in expectations across France. Although confidence at services firms diminished, survey data indicated still-positive expectations. Meanwhile, goods producers registered their most pessimistic outlook in 11 years.

That said, in comparison to the other monitored eurozone nations, only Ireland registered a stronger level of confidence in October. A net balance of just +4% of companies expected activity growth over the coming 12 months at the broad eurozone level.

Inflation Expectations

The expectation among French private sector companies in October was for more increases in output prices and costs over the next 12 months. Survey respondents were especially concerned about the outlook for energy costs, although the potential for further raw material price hikes, as well as increased expenses relating to transportation, were

France Business Activity expectations



Source: S&P Global.
Data were collected 12-27 October 2022.

Comment

Commenting on the France Business Outlook survey data, Joe Hayes, Senior Economist at S&P Global Market Intelligence, said:

"Business confidence across France took another step down in October, latest Business Outlook survey data from S&P Global showed. Concerns remain particularly prevalent across our manufacturing survey panel, with firms here expecting production levels to fall over the coming 12 months. The energy crisis in Europe is a major worry for French factories, although weak customer purchasing power due to high inflation and geopolitical tensions are also expected to weigh on demand.

"We are seeing some resilience at service providers, which is helping to keep the overall level of business confidence in positive territory. Another reason for cautious optimism was seen in employment prospects data, which showed robust hiring intentions. If companies can retain staffing levels through challenging business conditions, this could provide much-needed support for consumer spending.

"However, inflation expectations intensified in October and reached new survey records, suggesting that companies are planning to pass on rising cost burdens to their clients. This won't come without consequences, as shown by the outlook for corporate earnings sliding deeper into negative territory."

also anticipated by some businesses. A net balance of +62% of companies predicted non-staff costs to rise over the coming 12 months, a marginal uptick from +61% previously and a fresh series record.

Similarly, labour costs at French private sector companies were expected to increase in the year ahead. A net balance of +57% of surveyed businesses foresee greater staff expenses, up from +54% in June to its highest since the series began in February 2019.

In anticipation of higher operating costs, French private sector companies signalled intentions to raise selling charges in the coming 12 months. In fact, price-setting behaviour looks set to be more aggressive than previously predicted, with the net balance of companies reporting plans to raise their charges up from +38% in June to +44%, a fresh survey high.

Employment & Investment

October Business Outlook data showed hiring intentions across France's private sector in the coming year. A net balance of +15% of companies noted their plans to employ additional workers in the next 12 months. Although the lowest since February 2021, the overall level of sentiment it remained stronger than its survey average.

Hiring intentions were almost exclusively driven by service providers as a net balance of just +1% of manufacturers signalled plans to recruit new staff.

Meanwhile, there was a softening of capital spending plans compared to the June Business Outlook survey. A net balance of +9% of companies cited expectations of greater capital investment, the lowest figure since February 2021. French private sector companies were downbeat on R&D spending, as evidenced by the respective net balance dipping into negative territory.

Corporate Earnings

Expectations regarding business profitability worsened further during October. After falling into negative territory in June for the first time since late-2020, forecasts for corporate earnings were even more pessimistic in the final Business Outlook survey of 2022. At -7%, the net balance was at its lowest for two years. Both monitored sectors saw profitability expectations decline, although manufacturers were the most downbeat (net balance of -20%, versus -5% at service providers).



Source: S&P Global.



Source: S&P Global. Full data available on request from economics@ihsmarkit.com.

Survey methodology

The Global Business Outlook Survey for worldwide manufacturing and services is produced by S&P Global and is based on a survey of around 12,000 manufacturers and service providers that are asked to give their thoughts on future business conditions. The reports are produced on a tri-annual basis, with data collected in February, June and October.

Interest in the use of economic surveys for predicting turning points in economic cycles is ever increasing and the Business Outlook survey uses an identical methodology across all nations covered. It gives a unique perspective on future business conditions from Global manufacturers and service providers.

The methodology of the Business Outlook survey is identical in all countries that S&P Global operates. This methodology seeks to ensure harmonization of data and is designed to allow direct comparisons of business expectations across different countries. This provides a significant advantage for economic surveillance around the globe and for monitoring the evolution of the manufacturing and services economies by governments and the wider business community.

Data collection is undertaken via the completion of questionnaires three times a year at four-month intervals. A combination of phone, website and email are used, with respondents allowed to select which mechanism they prefer to use.

The Business Outlook survey uses net balances to indicate the degree of future optimism or pessimism for each of the survey variables. These net balances vary between -100 and 100, with a value of 0 signalling a neutral outlook for the coming 12 months. Values above 0 indicate optimism amongst companies regarding the outlook for the coming 12 months while values below 0 indicate pessimism. The net balance figure is calculated by deducting the percentage number of survey respondents expecting a deterioration/decrease in a variable over the next twelve months from the percentage number of survey respondents expecting an improvement/increase.

Questionnaires are sent to a representative panel of around 12,000 manufacturing and services companies spread across the global economy in the countries mentioned above. Companies are carefully selected to ensure that the survey panel accurately reflects the true structure of each economy in terms of sectoral contribution to GDP, regional distribution and company size. This panel forms the basis for the survey. The current report is based on responses from around 8,000 firms.

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