

NEWS RELEASE
MARKET SENSITIVE INFORMATION
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HCOB France Construction PMI®

New construction orders fall at sharpest rate since February 2021

Key findings:

Construction activity drops again as new work falls sharply

Employment declines for second successive month

Input price inflation remains steep but slows to 26-month low

Data were collected 12–28 April 2023.

Construction sector activity across France continued to decrease at the beginning of the second quarter, latest HCOB® PMI survey data showed, extending the current contraction sequence to almost a year. Strong decreases were seen in residential and commercial building activity, while civil engineering stabilised.

Notably, the volume of new work received by French constructors fell at the sharpest rate in over two years, prompting firms to reduce workforce numbers. Overall operating costs continued to rise at a steep pace, although the rate of inflation eased to a 26-month low.

The headline HCOB France Construction PMI Total Activity Index – which measures month-on-month changes in total industry activity – posted below the critical 50.0 threshold which separates growth from contraction in April for an eleventh consecutive month. At 46.0, the headline index signalled a solid decrease in overall construction activity across France at the beginning of the second quarter. That said, this was up from 45.3 and indicated the softest decline in three months.

The latest survey data showed considerable declines in activity in residential and commercial construction during April. The decline in commercial building work was the sharpest in four months, while the drop in work undertaken on housing projects was the softest since last August. Meanwhile, civil engineering work stabilised in April after back-to-back monthly reductions.

According to surveyed companies, activity levels fell due to falling intakes of new business. The latest survey data signalled a sharp and accelerated decrease in new orders at the start of the second quarter. Survey respondents that reported a reduction commented on a lack of interest from clients. The deterioration in demand was the strongest since February 2021.

Amid lower activity and falling new orders, the latest survey data showed construction sector employment levels falling during April, the second successive month in which this has been the case. That said, the decrease in staffing levels was modest overall and slower than in March.

Nevertheless, compared with the previous month, business sentiment improved as the outlook towards the next 12 months went from pessimistic to neutral. While companies linked their concerns towards uncertainty in the investment environment over the next 12 months, this was offset by hopes of an improvement in demand at others.

Some expectations of an uplift in new project work supported higher purchasing activity during March, although the expansion was only marginal. Supplier delivery times continued to lengthen nonetheless, but the extent to which vendor performance worsened was the weakest in just over two-and-a-half years.

Meanwhile, average input prices continued to rise substantially in April. This was despite the overall rate of inflation easing to a 26-month low. In addition to reports of higher material prices, the latest survey data showed a sharp rise in subcontractor rates.

French construction firms reduced their usage of subcontractors amid falling activity. Pressure on their rates charged came from

the supply side, with subcontractor availability falling further in April.

Comment

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

"Construction activity in France has already been weakening since the second half of 2022. In the fourth quarter and the first two months, the index published by INSEE gave hope that the sector could recover. However, the HCOB PMI for April shows that the construction sector continues to face difficult times."

"New orders in particular are a concern for companies, which fell at the fastest pace since February 2021, according to the PMI survey. In particular, the current market environment characterized by high input prices, exacerbated by the ECB's interest rate hikes, caused a decline in demand from customers, according to the companies surveyed."

"Against this background, it is not surprising that companies reduced their staff for the second month in a row. Given the historically low unemployment rate of 7% and increased employment in the manufacturing and service sectors, according to the HCOB PMIs, people who lost their jobs with the right skills should find employment again relatively quickly."

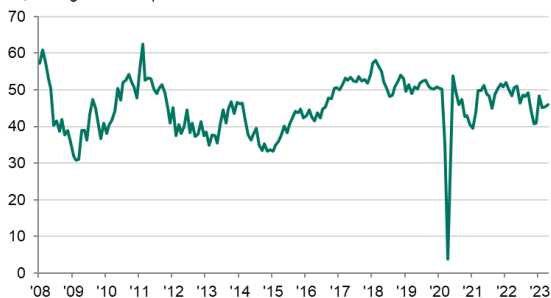
"While supply chains are improving in the manufacturing sector, issues are still present in the construction sector. This is reflected in the HCOB Suppliers' Delivery Times PMI, which, with an increase to 43.0, merely suggests that tensions are building at a slower rate than the previous month."

"Similar to the services sector, construction firms continue to report high persistent input prices. While only about 3% of surveyed firms reported a decrease in their input prices from the previous month, 37% reported an increase in their costs. Meanwhile, rates for subcontractors have risen at a consistently high rate."

-Ends-

HCOB France Construction PMI Total Activity Index

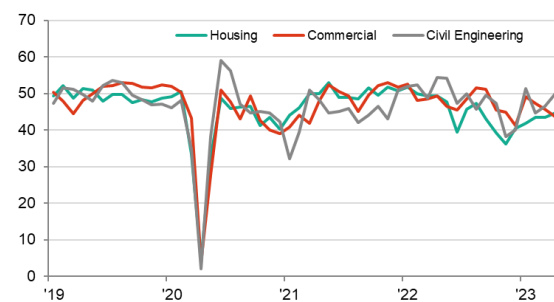
sa, >50 = growth since previous month



Sources: HCOB, S&P Global.

Construction PMI Activity Index by sector

sa, >50 = growth since previous month



Sources: HCOB, S&P Global.

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Note to Editors

The HCOB France Construction PMI[®] is compiled by S&P Global from responses to questionnaires sent to a panel of around 150 construction companies. The panel is stratified by company workforce size, based on contributions to GDP. Survey data were first collected September 2000.

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 Total Activity Index. This is a diffusion index that tracks changes in the total volume of construction activity compared with one month previously. The Total Activity Index is comparable to the Manufacturing Output Index and Services Business Activity Index. It may be referred to as the 'Construction 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.

Hamburg Commercial Bank AG

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