NEWS RELEASE
MARKET SENSITIVE INFORMATION
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HCOB Flash France PMI®

French economy contracts at strongest rate for almost three years in September

Key findings:

HCOB Flash France Composite PMI Output Index(1) at 43.5 (Aug: 46.0). 34-month low.

HCOB Flash France Services PMI Business Activity Index(2) at 43.9 (Aug: 46.0). 34-month low.

HCOB Flash France Manufacturing PMI Output Index(4) at 41.8 (Aug: 45.9). 40-month low.

HCOB Flash France Manufacturing PMI(3) at 43.6 (Aug: 46.0). 40-month low.

Data were collected 08-20 September

The downturn in France's economy gathered pace in September as private sector business activity levels fell at the strongest pace since November 2020. Furthermore, sector data reflected the broad-based weakness of France's economy as declines in both manufacturing and services accelerated markedly since August. Frequent reports from panel members of poor demand conditions, a key factor behind September's steep fall in activity, were corroborated by the latest HCOB PMI data, which showed the quickest decline in new orders since November 2020. The worsening business climate weighed on firms' outlook for the coming 12 months, as growth expectations sank to their weakest since May 2020.

In terms of price developments, September survey data pointed to a further (albeit fractional) slowing of output price inflation across the French private sector. In contrast, upward pressure on firms' input costs intensified for the first time this year, leading the overall rate of increase to quicken to a four-month high.

The headline **HCOB Flash France Composite PMI Output Index** fell by a considerable margin in September to 43.5, from 46.0 in August, taking it further below the critical 50.0 threshold and signalling the sharpest month-on-month fall in French private sector activity levels since November 2020. The latest survey results round off a challenging third quarter for the eurozone's second-largest economy, with accelerated contractions seen in each of the preceding three months.

September's slump in activity reflected faster declines at both manufacturing and services companies. The contraction seen in factory output was the strongest since May 2020, while services activity fell to the greatest extent in nearly three years. There were widespread reports of weak demand conditions by survey respondents in both sectors, with client appetite both domestically and further afield waning. Overall new order intakes fell at the sharpest rate since November 2020 during September.

A dearth of new work drove French companies to turn attention to their backlogs to help sustain activity levels where possible. Volumes of outstanding business decreased for a second successive month in September, with the rate of depletion accelerating to its quickest in almost three years. Nevertheless, private sector employment levels continued to rise at the end of the third quarter as a stronger pace of job creation across the service sector more than offset the quickest rate of factory job losses since August 2020. Service sector businesses that hired extra workers reported the filling of both temporary and permanent job vacancies. The overall rate of employment growth was modest and broadly level with its survey average.

Confidence towards the next 12 months weakened notably in September, however, with sustained hiring activity failing to stimulate activity growth expectations. Albeit still optimistic on balance, deteriorating sentiment across both sectors pulled the overall level of confidence down to its lowest since May 2020. Concerns towards the broader economic outlook, inflation, and deteriorating conditions in other areas of the economy such as construction, were noted by panellists.

On the price front, September survey data showed a continued, albeit only fractional, slowing of output charge inflation across France. The overall rate of increase in selling prices was the weakest for just over two-and-a-half years, edging closer to its long-run series average. Services remained the exclusive source of inflationary pressures as the price of manufactured goods fell for a fourth successive month.

In contrast, there was an accelerated rise in firms' operating expenses during September, the first time this has been the case in the year-to-date. Overall, the rate of input price inflation was sharp and the quickest since May. Again, the services economy was the driver of inflation as manufacturers continued to see their cost burdens decline (albeit at a slower rate).

Comment

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

"The French economy is steering towards some choppy waters. Business activity has fallen sharply in both the service and manufacturing sectors in September, mainly due to a slump in demand for French products and services. As a result, French companies are drawing down their order backlogs.

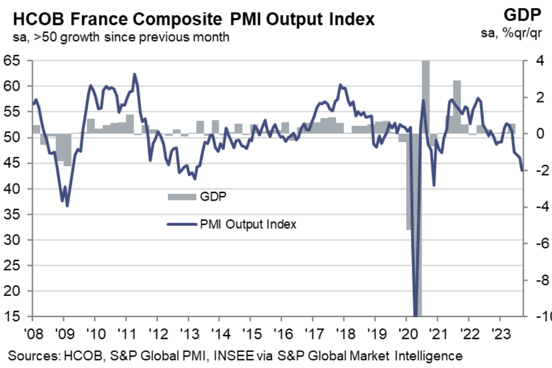
"We think economic growth will be lower in 2024 than previously expected. Although companies in the service sector remain optimistic, they were far more optimistic a month ago. In September, manufacturers are more pessimistic than at any time since the pandemic began as growth expectations fell to their lowest since May 2020. In line with this, the French National Bank has recently revised down its forecast for economic growth in 2024.

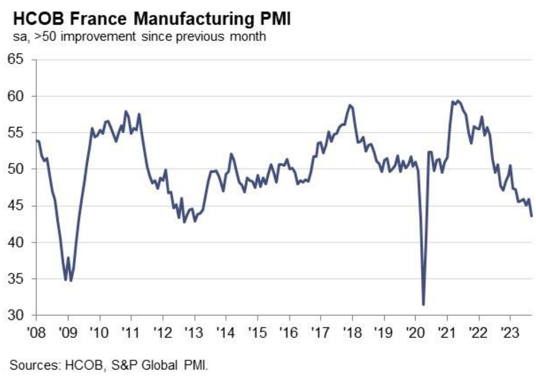
"Economic growth for this quarter steers in the direction of stagnation, with our nowcast model pointing to growth of just 0.2%. It is important to note however that this will be almost entirely driven by the public service sector. The private service sector is expected to fall, according to the nowcast, in line with the signal seen in the PMI survey.

"The employment situation remains tricky. Recently, France has achieved its lowest unemployment rate since 2008. However, manufacturers have reported job cuts for four successive months, while services companies are still hiring more workers. That said, September's sharp decline in business activity in the services sector suggests that employment should fall in the future. Subsequently, unemployment should rise in the coming months, reversing the overall downward trend in unemployment for now.

"Inflation is still lurking, and the latest data shows rising input prices and output charges. This remains entirely services-driven however as prices continue to fall in the manufacturing sector. The French government had decided to impose price caps on certain food products beginning in July, but there is not much sign of an impact, particularly in the PMIs. Finance minister Le Maire announced further food price cuts, so it could well be that prices drop in the months after. We therefore expect overall inflation to have risen further in September to a rate of 5.5% before falling to a lower level."

-Ends-





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Note to Editors

Final September data are published on 2 October for manufacturing and 4 October for services and composite indicators.

The HCOB France PMI (Purchasing Managers' Index) is produced by S&P Global and is based on original survey data collected from a representative panel of around 750 companies based in the French manufacturing and service sectors. The flash estimate is based on around 85% of total PMI survey responses each month and is designed to provide an accurate advance indication of the final PMI data.

The average differences between the flash and final PMI index values (final minus flash) since comparisons were first available in January 2006 are as follows (differences in absolute terms provide the better indication of true variation while average differences provide a better indication of any bias):

Index	Average difference	Average difference in absolute terms
Composite Output Index[1]	-0.1	0.4
Manufacturing PMI[3]	0.1	0.3
Services Business Activity Index[2]	0.0	0.6

The Purchasing Managers' Index® (PMI®) survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries (including the European Central Bank) use the data to help make interest rate decisions. PMI® surveys are the first indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

S&P Global do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from S&P Global. Please contact economics@ihsmarkit.com.

Notes

1. The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index.
2. The Services Business Activity Index is the direct equivalent of the Manufacturing Output Index, based on the survey question "Is the level of business activity at your company higher, the same or lower than one month ago?"
3. The Manufacturing PMI is a composite index based on a weighted combination of the following five survey variables (weights shown in brackets): new orders (0.3); output (0.25); employment (0.2); suppliers' delivery times (0.15); stocks of materials purchased (0.1). The delivery times index is inverted.
4. The Manufacturing Output Index is based on the survey question "Is the level of production/output at your company higher, the same or lower than one month ago?"

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.

The bank's specialists are as experienced as they are pragmatic. They act in a reliable manner and at eye level with their customers. They provide in-depth advice in order to jointly find efficient solutions that are a perfect fit – for complex projects in particular. Tailor-made financing, a high level of structuring and syndication expertise and many years of experience are just as much a hallmark of the bank as are our profound market and sector expertise.

S&P Global (NYSE: SPGI)
S&P Global provides essential intelligence. We enable governments, businesses and individuals with the right data, expertise and connected technology so that they can make decisions with conviction. From helping our customers assess new investments to guiding them through ESG and energy transition across supply chains, we unlock new opportunities, solve challenges and accelerate progress for the world.

We are widely sought after by many of the world's leading organizations to provide credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help the world's leading organizations plan for tomorrow, today.

About PMI
Purchasing Managers' Index® (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. https://www.spglobal.com/marketintelligence/en/mi/products/pmi.html

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