

NEWS RELEASE
MARKET SENSITIVE INFORMATION
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HCOB France Manufacturing PMI[®]

French manufacturers cut their prices in June as industry downturn persists

Key findings:

Factory production levels fall sharply as demand remains weak

Output charges reduced for first time in three years

Business expectations turn negative; employment falls

Data were collected 12-23 June 2023.

France's manufacturing economy remained firmly in contraction during June. According to the latest HCOB PMI[®] survey, new orders weakened markedly as clients refrained from making additional purchases. Goods producers responded by lowering production volumes, input buying and employment. Business confidence also took a considerable hit as firms predict output volumes to fall further over the next 12 months.

Meanwhile, France's manufacturing sector recorded a second successive fall in input costs. Amid reports of increased competitive pressures, lower costs were passed through to clients, leading output charges to be discounted for the first time in three years.

The seasonally adjusted **HCOB France Manufacturing Purchasing Managers' Index[®] (PMI[®])**, compiled by S&P Global, ticked fractionally higher to 46.0 in June, from 45.7 in May. Nevertheless, this signalled another marked worsening in the health of the French manufacturing sector. The headline index has been in sub-50.0 contraction territory in every month since February.

The volume of new orders received by French manufacturers declined sharply again in June. Weak conditions across key client markets, such as the construction industry, reportedly contributed to the latest deterioration in demand. Indeed, the capital goods industry registered the steepest decline in sales of the three major market groups. June survey data also highlighted another marked drop in new orders from overseas.

French factory production was subsequently reduced midway through the year as firms adjusted to weaker sales performances. The contraction in output was sharp and accelerated since May. Sub-sector data showed that production cutbacks were considerably more pronounced in the intermediate and capital goods segments.

Additionally, in line with falling output and new orders, French manufacturers decreased purchasing activity at the strongest pace in four months during the latest survey period. According to anecdotal evidence, firms opted to use up existing stocks where possible. Indeed, holdings of raw materials and other necessary components fell once again during June.

For only the second time since January 2021 (the other being last December), French manufacturing employment levels fell at the end of the second quarter. The decrease was modest, but the strongest in just over two-and-a-half years. Job losses came amid a clear absence of capacity pressures, as evidenced by the seasonally adjusted HCOB Backlogs of Work Index posting well below the 50.0 no-change mark.

Meanwhile, French manufacturing firms saw their input costs fall for a second month in succession during June. Moreover, the decrease was solid and the fastest since March 2016. Notably, sub-sector data revealed that this was exclusively a reflection of input prices in the intermediate goods sector as consumer and investment goods makers registered further, albeit mild, rises in operating expenses.

Similarly, the first reduction in factory gate prices across France for three years was entirely driven by the intermediate goods category. Where discounts were offered, this was reportedly due to competitive pressures and firms passing on cost savings to their customers.

Looking ahead, business sentiment dipped into pessimistic territory for the first time since March. In fact, expectations for output were at their most downbeat in seven months. Concerns towards the outlook for demand weighed on business confidence, according to anecdotal evidence.

Comment

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

"For the fifth month in a row, things are not looking good for the manufacturing sector in France. According to the HCOB PMIs, production continues to decline, new orders at home and abroad are falling and business expectations have also deteriorated significantly. According to INSEE, the manufacturing sector grew in the first quarter, but this will most probably not continue in the second quarter of 2023."

"After today's PMI figures, our nowcast model now signals a 2.4% quarterly contraction in manufacturing for the second quarter, slightly more negative than our previous estimate. Capital goods are the main contributor to the contraction, according to our model."

"For the first time this year, employment in manufacturing declined, with the corresponding HCOB PMI at its lowest level since November 2020. The companies surveyed said that expiring fixed-term contracts were not renewed and jobs were eliminated without replacement. Employment increased in the consumer goods segment but decreased again in the capital goods segment."

"Fundamentally, encouraging signals are being sent from the price front. After the HCOB PMI for input prices in May signalled a decline in prices for the first time since July 2020, the corresponding HCOB PMI for selling prices now follows in June. However, a distinction must be made here according to goods categories. Thus, prices are declining exclusively for intermediate goods. For consumer and capital goods, selling prices continued to rise in June, although the pace at which prices have risen has slowed down."

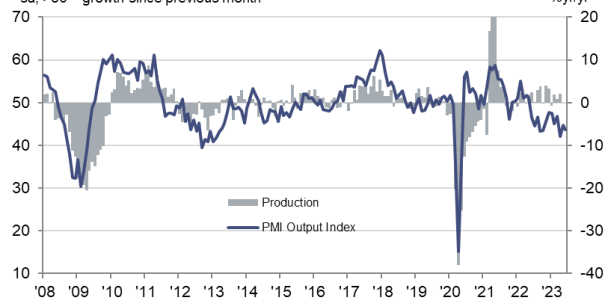
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HCOB France Manufacturing PMI
sa, >50 = improvement since previous month



Sources: HCOB, S&P Global PMI.

PMI Output Index
sa, >50 = growth since previous month



Sources: HCOB, S&P Global PMI, INSEE via S&P Global Market Intelligence.

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Note to Editors

The HCOB France Manufacturing PMI[®] is compiled by S&P Global from responses to questionnaires sent to purchasing managers in a panel of around 400 manufacturers. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP. Data collection began in April 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 Purchasing Managers' Index[®] (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers' Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

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 data were calculated from 92% of final responses. Since January 2006 the average difference between final and flash Manufacturing PMI values is 0.0 (0.3 in absolute terms).

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

Hamburg Commercial Bank AG

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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. www.spglobal.com/marketintelligence/en/mi/products/pmi.html

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