News Release

MARKET SENSITIVE INFORMATION
Embargoed until 0915 CEST (0715 UTC) 22 July 2022

S&P Global Flash France PMI®

French economy heads towards stagnation at start of third quarter

Key findings:

Flash France PMI Composite Output Index(1) at 50.6 (Jun: 52.5). 16-month low.

Flash France Services PMI Activity Index(2) at 52.1 (Jun: 53.9). 15-month low.

Flash France Manufacturing Output Index(4) at 44.0 (Jun: 46.5). 26-month low.

Flash France Manufacturing PMI(3) at 49.6 (Jun: 51.4). 20-month low.

Data were collected 11-20 July

Following June's marked slowdown, July 'flash' PMI data for France signalled a further erosion of growth momentum. A significant drag on the economy was weakening demand conditions, with survey data pointing to the first decline in private sector new business since February 2021. This enabled companies to channel extra resources to tackling their backlogs, which fell in July for the first time in almost a year-and-a-half.

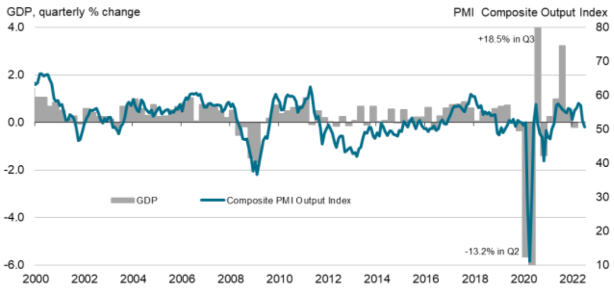
On the price front, there was a fractional uptick in the rate of output price inflation during July, though it remained softer than May's record. On the other hand, input prices rose to the slowest extent in five months, albeit still sharply overall.

The headline **Flash France PMI Composite Output Index** fell for a third month in succession to 50.6 in July, from 52.5 in June. Although the latest data posted above the 50.0 no-change mark and pointed to further growth in output across France, it was indicative of a weak increase that was the slowest in the current 16-month sequence of expansion.

At the sector level, there were notable differences once again as back-to-back reductions in manufacturing output contrasted with a further (but softer) upturn in services activity. Goods production fell at the sharpest rate since during the first phase of COVID-19 lockdown restrictions in May 2020. Services firms meanwhile pointed to the weakest increase in business activity since April 2021. According to firms from both broad sectors, weaker demand was a key factor behind worsening trends.

For the first time since February 2021, new business intakes at French private sector companies declined. Client hesitancy, higher prices, as well as a general deterioration in underlying demand conditions, were mentioned as reasons for the dip in new orders during July. Manufacturers

S&P Global Flash France PMI Composite Output Index



Source: S&P Global, INSEE.

led the downturn, with demand for French goods falling for a second month in a row and at the quickest pace since November 2020. That said, services firms also recorded a drop in the level of incoming new business for the first time in 16 months.

Nevertheless, latest survey data pointed to sustained growth in employment across the French private sector at the start of the third quarter. The rate of job creation was solid overall and above the long-run average, but slowed to a six-month low. Services companies led on hiring activity as manufacturing staffing numbers were broadly unchanged since June. Among the firms that saw workforce numbers decline, reduced output requirements were mentioned.

The subdued trend in new orders also enabled businesses to tackle their outstanding work levels in July. For the first time in close to a year-and-a-half, backlogs of work declined. Both manufacturers and service providers were able to reduce work-in-hand (i.e. orders received but not yet completed). Overall, the rate of depletion in unfinished orders was modest but the quickest since November 2020.

Elsewhere, there was a further easing of cost pressures in July as the rate of input price inflation slowed to a five-month low. Nevertheless, the increase was still among the steepest on record. Higher costs were linked with greater wage bills, rising energy and fuel prices, as well as greater fees charged by suppliers. Greater operating expenses continued to be at least partly shared with customers in July, as evidenced by a further rise in output prices. The rate of selling charge inflation accelerated fractionally since June, but was weaker than May's series peak.

Lastly, output expectations remained positive in July and strengthened slightly from May's 19-month low. There

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continued to be a considerable divergence between the level of confidence at manufacturers and service providers, however, with concerns surrounding inflation and the war in Ukraine weighing more prominently on goods producers.

Commenting on the flash PMI data, **Joe Hayes**, Senior Economist at S&P Global Market Intelligence said:

"July 'flash' PMI data raises further concerns that the French economy is heading towards a recession as data signalled worsening trends across a number of key indicators. The level of output was up only marginally from June and solely reflected activity growth at services firms. The manufacturing sector is already in a steep downturn, with production levels falling at the fastest rate since the initial phase of the COVID-19 pandemic in the first half of 2020. The growth trend in the service sector meanwhile worsened further, and momentum is clearly to the downside here.

"Demand is being adversely impacted by the intense inflationary environment, with clients reluctant to place orders at these elevated prices. Consequently, new business fell for the first time since February 2021. It's difficult to imagine the near-term trend improving when anecdotal evidence from panellists continues to portray a picture of worsening health for demand. This is especially the case for the services economy, which is rapidly losing support from the post-pandemic recovery in consumer spending."

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Note to Editors

Final July data are published on 1 August for manufacturing and 3 August for services and composite indicators.

The France PMI (Purchasing Managers' Index) is produced by S&P Global and is based on original survey data collected from a representative panel of 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]	0.0	0.3
Services Business Activity Index[2]	-0.1	0.5

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 *PMI* 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?"

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