

News Release

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S&P Global France Services PMI®

Service sector growth slows to weakest since January as economic headwinds build

Key findings

Slowest rise in services activity since opening month of the year

New business growth slows to 15-month low

Inflationary pressures soften but remain historically steep

July's PMI® survey indicated another monthly expansion in French services activity at the start of the third quarter, although there was a further slowdown from the recent highs seen earlier in the year as rapid inflation and growing client hesitancy curbed new business intakes. Demand for services rose at the softest pace since April 2021 in July, with this weakness feeding through to other areas of the economy such as employment as some companies scaled back their hiring efforts.

Meanwhile, latest data showed a softening of output price inflation amid a slower rise in operating costs. Nonetheless, increases in both cases remained sharper than anything seen before the 2022 highs.

The seasonally adjusted S&P Global France Services PMI® Business Activity Index posted above the 50.0 no-change mark in July to signal a continued increase in output levels across the French service sector. However, at 53.2, the headline index was down from 53.9 in June and marked a third successive slowdown in the rate of growth. Overall, July's increase was the weakest since January and highlighted a rapid loss of momentum from the upturns seen earlier in the year following the lifting of COVID-19 restrictions.

Over a quarter of surveyed companies registered higher activity levels in July (28%), with many commenting on rising demand for their services. However, a number of panellists reported falling sales as clients became reluctant due to higher prices. Roughly 16% of surveyed companies saw output volumes drop at the start of the third quarter.

Indeed, latest survey data highlighted a continued slowdown in demand growth as new orders rose at the weakest pace since April 2021. Weaker purchasing power among customers due to high inflation reportedly dampened sales performances. Overseas demand conditions were also a drag on new business wins as new incoming workloads from foreign clients fell strongly once again. Overall, the decline matched that seen in June and was therefore the joint-fastest since last December.

S&P Global France Services Business Activity Index

sa, >50 = growth since previous month



Source: S&P Global.

Data were collected 11-26 July 2022

Comment

Joe Hayes, Senior Economist at S&P Global Market Intelligence, said:

"The services economy is clearly on a downward path as growth slumped to its weakest rate since the Omicron disruption at the start of 2022.

"Taking this in tandem with the steep drop in French manufacturing output, the French economy recorded its weakest performance since April 2021 in July. It's clear that high inflation in Europe is damaging demand, with panel comments from both surveys highlighting hesitancy among clients at current price levels.

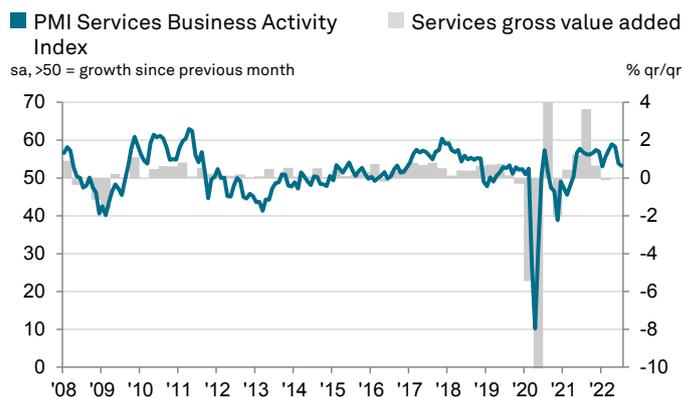
"The outlook for the French economy has been clouded further this past week as risks of an energy supply crisis in Europe grow. Coupled with rising interest rates and stubbornly high inflation, it's difficult to foresee the French economy breaking out of its current downward trajectory."

Nevertheless, French service providers continued to hire extra staff in July to an extent which surpassed that seen over the survey on average. There were reports of companies recruiting temporary workers in an effort to address labour shortages. However, the rate of job creation eased to a five-month low.

Despite a relatively strong increase in employment and a slowing demand trend, backlogs of work continued to increase in July. However, the rate of accumulation in outstanding business was well below that seen on average during 2022 so far and signalled a considerable softening of capacity pressures from those seen immediately following the relaxation of COVID-19 restrictions.

On the prices front, latest survey data signalled a persistence of steep inflationary pressures in July. Both input costs and output prices increased at rates that, aside from in recent months, have never been exceeded in their respective series histories. Higher input prices reportedly reflected rising wage and energy bills, while further hikes in supplier fees were also mentioned. To combat margin erosion, services firms at least partly passed on higher costs to their customers. That said, the increase in charges was the softest since March.

Finally, firms remained optimistic on balance in July. That said, the level of business confidence was below its long-run average as higher interest rates, the war in Ukraine and rampant inflation tempered positivity.



S&P Global France Composite PMI®

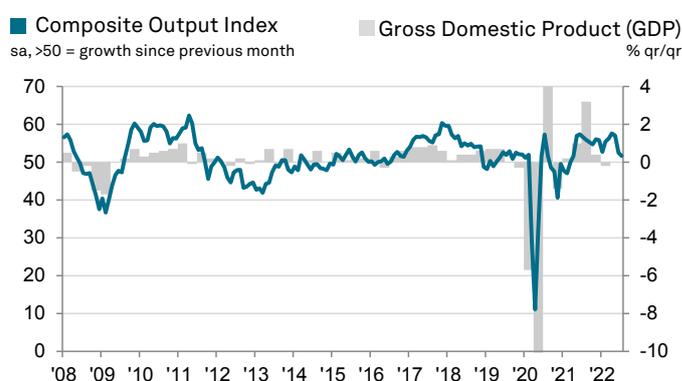
French private sector growth slows to 15-month low

The S&P Global France Composite PMI Output Index* fell for a third successive month in July to 51.7, from 52.5 in June. Although the reading was still indicative of rising business activity levels across the French private sector, it pointed to an expansion that was only modest and the slowest since April 2021.

Sub-sector level data showed deteriorating trends at both manufacturers and services firms, with the former recording the strongest decline in output since May 2020. Services activity continued to rise, albeit at the weakest pace in six months.

The volume of incoming new work meanwhile stagnated as a rapid drop in new manufacturing orders was offset by modest growth in demand for services. Nonetheless, this compared with overall growth in sales at the end of the second quarter.

Employment continued to rise, albeit to the weakest degree in six months. Inflationary pressures meanwhile eased, although both input prices and output charges rose at historically steep rates once again.



*Composite PMI indices are weighted averages of comparable manufacturing and services PMI indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data.

■ Manufacturing PMI Output Index
 ■ Services PMI Business Activity Index
 sa, >50 = growth since previous month



Source: S&P Global.

France Services PMI Input Prices Index

sa, >50 = inflation since previous month



Source: S&P Global.

Survey methodology

The S&P Global France Services PMI® is compiled by S&P Global from responses to questionnaires sent to a panel of around 400 service sector companies. The sectors covered include consumer (excluding retail), transport, information, communication, finance, insurance, real estate and business services. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP. Data collection began in May 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 Services Business Activity Index. This is a diffusion index calculated from a question that asks for changes in the volume of business activity compared with one month previously. The Services Business Activity Index is comparable to the Manufacturing Output Index. It may be referred to as the 'Services PMI' but is not comparable with the headline manufacturing PMI figure.

The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index. The weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Composite Output Index may be referred to as the 'Composite 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.

Flash vs. final data

Flash services data were calculated from 72% of final responses. Flash composite data were calculated from 83% of final responses.

Since January 2006 the average difference between final and flash Services Business Activity Index values is -0.1 (0.5 in absolute terms). Since January 2006 the average difference between final and flash Composite Output Index values is -0.1 (0.4 in absolute terms).

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. ihsmarkit.com/products/pmi.html.

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