

NEWS RELEASE
MARKET SENSITIVE INFORMATION
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HCOB France Manufacturing PMI®

French factory production falls steeply as new orders plummet

Key findings:

Production levels cut sharply amid reports of weak client demand
Employment shrinks as business expectations remain pessimistic
Red Sea attacks lead delivery times to lengthen, but prices fall again

Data were collected 11-24 January 2024.

France's manufacturing sector remained under intense pressure at the beginning of the year as indices for output, new orders and employment remained in deep contraction territory. Retrenchment was also seen via inventory depletion and purchasing activity reductions as firms adjusted to weak demand conditions.

Notably, suppliers' delivery times lengthened to the greatest extent in almost a year following disruption in the Red Sea, but costs continued to fall. Businesses' expectations for the next 12 months remained pessimistic, but confidence did edge up to a six-month high.

The seasonally adjusted **HCOB France Manufacturing Purchasing Managers' Index™ (PMI®)**, compiled by S&P Global, rose to 43.1 in January, from 42.1 in December. While this was a four-month high, it was indicative of another sharp deterioration in the health of France's manufacturing sector.

The latest survey data showed another considerable month-on-month drop in new orders. According to survey respondents, sales performances were adversely impacted by high borrowing costs, hesitancy among clients to spend and falling activity levels in key industries such as construction. New business received from international sources also weakened markedly, albeit with the rate of decline at its softest in seven months.

Falling sales volumes drove a further steep drop in French factory output levels. January's contraction was only marginally slower than that seen at the end of 2023, which was the fastest since May 2020. According to data split by the three main industrial groupings, intermediate and investment goods makers were the primary drags on French manufacturing output.

Volumes of outstanding business fell sharply as a consequence of fewer new orders, extending the current sequence of backlog depletion to a year. Less pressure on capacities led factory employment levels in France to drop, although anecdotal evidence showed this was achieved through the non-replacement of voluntary leavers and non-renewal of temporary contracts.

Notably, anecdotal evidence suggested that weak demand was more influential than heightened supply-chain risks when it came to inventory management in January. Although disruptions to shipping via the Red Sea triggered the worst delays to input deliveries in nearly a year, quantities of purchases fell again at a rapid pace, while holdings of raw materials and other items needed for production fell at the steepest pace since April 2020. In both cases, lower new orders were cited as the principal determinant.

January survey data meanwhile signalled another monthly reduction in French manufacturers' operating expenses. Overall input prices fell for a second successive month and to the greatest extent since last September. Lower oil and energy costs were cited as factors.

Falling input prices provided goods producers with the ability to reduce their own charges. According to firms, cost savings were passed through to clients via discounts, although some companies reduced their charges to boost competitiveness.

Looking ahead, French manufacturers remained pessimistic towards the 12-month outlook, citing their fears of a prolonged slump in demand. That said, the HCOB Future Output Index rose to a six-month high.

Comment

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

"The French manufacturing sector is off to a bad start in the new year. Production has once again fallen at a rapid pace and the employment situation deteriorated further. This is mainly due to sluggish demand, as also shown by the PMI for new orders. Subsequently, our HCOB Nowcast points to a further contraction in the manufacturing sector in the first quarter of 2024.

"The recession in the manufacturing sector is broad-based. All three sectors - consumer, intermediate and capital goods - have been in recession territory for some time and there are no signs of a quick and imminent improvement in any of the sectors. Companies in the intermediate goods segment in particular are experiencing longer delivery times due to the attacks in the Red Sea.

"The attacks in the Red Sea are leaving their mark. In January, the PMI for delivery times deteriorated by almost five points. However, January's level of the index is a far cry from those in 2022. If the Red Sea is avoided as a trade route in the coming months, this could have consequences in the form of price increases. However, we would not recommend overemphasising this possibility as there was little evidence of inflationary pressures arising from the supply-side in the January survey.

"Manufacturers are becoming less pessimistic. The corresponding PMI is still well below the optimism threshold of 50, but has risen for the third month in a row. Some of the companies surveyed cited an improvement in the economic environment as a reason for hope, while others took the poor order book situation as a reason for a pessimistic view of the future."

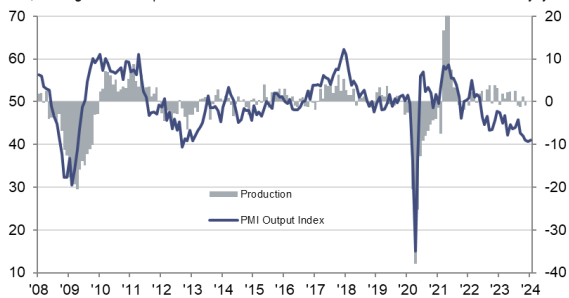
-Ends-

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



Sources: HCOB, S&P Global PMI.

PMI Output Index and **Manufacturing production**
sa, >50 = growth since previous month, %y/y



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 93% of final responses. Since January 2006 the average difference between final and flash Manufacturing PMI values is 0.1 (0.3 in absolute terms).

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

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.

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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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