

NEWS RELEASE
MARKET SENSITIVE INFORMATION
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HCOB France Services PMI®

Services activity declines at quickest pace since January

Key findings:

- Sharpest fall in demand for French services in a year
- Business confidence sinks to four-and-a-half-year low
- Wage pressures push input cost inflation higher

Data were collected 12-26 November

France's service sector recorded its third successive month of decline, latest HCOB PMI® data showed, indicating a sustained deterioration in activity across the sector since the pick-up induced by the Olympic Games over the summer. The decrease in output was the strongest since January, with factors such as weaker client demand, uncertainty and budget constraints reportedly hindering businesses. Notably, growth expectations sank to their lowest in four-and-a-half years, while input price pressures intensified due to greater wage costs.

The seasonally adjusted HCOB France Services PMI® Business Activity Index — which measures changes in the volume of business activity compared with one month previously — posted below the 50.0 no-change threshold for a third month running in November, signalling a sustained contraction in services output across France.

At 46.9, the headline index was down from 49.2 in October, thereby showing a faster rate of decline that was the most pronounced since January.

November's slump in activity coincided with a more rapid deterioration in new business, according to the latest survey results. Weaker demand was cited by respondents, as was a hesitancy among clients to spend, uncertainty and budget constraints. These factors led new business volumes to decrease at the fastest pace in a year during the penultimate month of 2024.

Sales to non-domestic customers were a considerable drag on overall new business levels during November. New export orders posted the most pronounced reduction in exactly four years.

Concerns that the current downward trend in sales would persist contributed to a marked decline in business confidence midway through the final quarter. Off the back of September's 26-month high, the HCOB Future Activity Index fell again in November to register its lowest reading since May 2020. Political uncertainty was also linked with firms' downbeat assessment of the 12-month outlook, anecdotal evidence revealed.

Due to rapidly falling intakes of new business, French service sector companies cleared their backlogs of work again during the latest survey period. The depletion in outstanding orders was marked and the fastest seen in the year-to-date.

Nevertheless, despite November marking a seventh month running in which the level of work-in-hand has fallen, thereby pointing to spare capacity across France's service sector, employment rose. This marked an improvement since October when workforce numbers were broadly unchanged. The rate of job creation was only marginal, however.

As for company operating costs, the latest survey data showed input prices increasing during November. Wage pressures were cited as a source of inflation by panel members. The rise in company costs was the quickest in three months, but weaker than the series average.

Efforts to pass on higher expenses to clients underpinned a second straight monthly rise in prices charged for French services. The extent of the increase was modest overall and little-changed from that seen in October.

Comment

Commenting on the PMI data, Dr Tariq Kamal Chaudhry, Economist at Hamburg at Hamburg Commercial Bank, said:

"The positive signals from the HCOB PMI for the French service sector that were seen over the summer, partly due to the Olympics, are now a thing of the past. This sector is also suffering from political uncertainty. Demand fell sharply in November, sending a negative signal for early 2025. The HCOB PMIs also imply that international order intakes are shrinking more significantly than domestic ones, with demand for French services from abroad seeing the steepest decline in four years in November.

Despite the significant cooling of demand in the fourth quarter, input prices continue to rise. Companies report higher labor costs, which are attributed to both increased employment and salary rises. Union activities, strong worker protections, and a shortage of skilled labor may also be factors at play here. Employment saw a slight uptick in November compared to the previous month, but if the trend of declining demand persists, the employment situation could reverse into layoffs at the beginning of 2025.

The weakness in France does however appear to be somewhat self-inflicted, with the political situation partly to blame for French service companies looking towards the future with little optimism. Since President Macron called the snap elections in June, the HCOB Future Activity Index has fallen by ten points, to stand at its lowest level in four-and-a-half years. This shows how fragile business sentiment is against the backdrop of further political uncertainty should Michel Barnier's minority government end in collapse over the budget deadlock. Coupled with the general economic situation and cooling demand, it is no wonder business confidence is low."

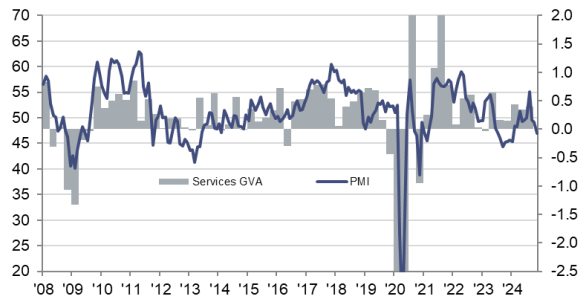
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HCOB France Services PMI Business Activity Index
sa, >50 = growth since previous month



Sources: HCOB, S&P Global PMI.

France Services PMI Business Activity Index and **Services GVA**
sa, >50 = growth since previous month



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

HCOB France Composite PMI[®]

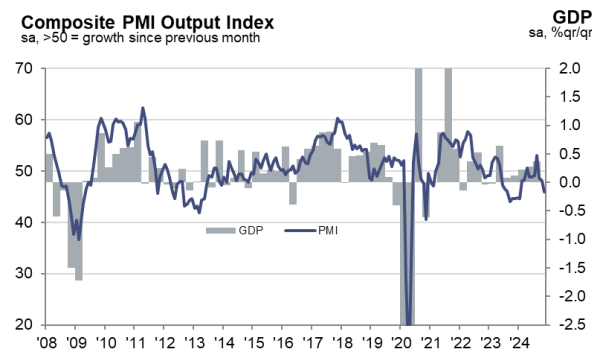
Fastest decline in French economic activity since January

The HCOB France Composite PMI[®] Output Index — a weighted average of the HCOB France Manufacturing Output Index and HCOB France Services Business Activity Index — fell to 45.9 in November, from 48.1 in October, signalling the quickest reduction in private sector activity levels since January.

Both manufacturing and services saw steeper declines in output during November. This was also a trend observed in total new orders, which saw its steepest contraction in four years. International client demand exerted an especially strong drag on overall sales performances, with private sector new export orders falling at the strongest pace since May 2020.

Outstanding work subsequently fell in November, with both monitored sectors making stronger inroads into backlogs. Employment trends diverged, however, with job creation at services companies narrowly offsetting reductions at manufacturers. Private sector employment growth was marginal but the fastest since June. Hiring came despite business confidence sinking to a 54-month low.

The overall rate of input cost inflation ticked up to a three-month high, but there was a slower increase in selling charges.



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Note to Editors

The HCOB 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.

Flash services data were calculated from 78% of final responses. Flash composite data were calculated from 85% 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 0.0 (0.4 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

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