

NEWS RELEASE  
MARKET SENSITIVE INFORMATION  
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# HCOB France Services PMI<sup>®</sup>

## French service sector downturn extends into January, marking its longest period of contraction in over a decade

### Key findings:

French service sector business activity falls for eighth month in a row  
New business intakes shrink, but confidence picks up  
Price pressures intensify

Data were collected 11-26 January

France's service sector saw its downturn extend into the new year, latest HCOB PMI<sup>®</sup> data, compiled by S&P Global showed, as client hesitancy and generally subdued demand conditions reportedly weighed on activity and new business inflows. There were some positive findings in the survey data, however, as business confidence ticked up to a five-month high and employment growth was sustained. However, inflationary pressures intensified.

The seasonally adjusted **HCOB France Services PMI<sup>®</sup> Business Activity Index** – which measures changes in the volume of business activity compared with one month previously – recorded below the 50.0 mark that separates growth from contraction at the start of 2024. At 45.4, the headline index was down from 45.7 in December and indicative of a solid reduction in business activity across France's service sector.

Notably, January's fall in output extended the current decline to an eighth month, its longest in over a decade. Lower activity was linked to weak demand conditions, anecdotal evidence showed.

In line with the trend seen since last May, the level of new business received by French service sector companies fell in January. Generally subdued demand was cited by respondents, although this was reportedly compounded by hesitancy among clients and weak purchasing power. That said, while still marked, the rate of decrease was the softest for five months.

The drag on new business from non-domestic sources also eased at the beginning of the year, as new export sales fell to the weakest extent since June 2023.

The sustained contraction in new business led to a further depletion of backlogs of work in January. French service companies have seen a net decrease in outstanding orders in each of the past six months, with sluggish sales remaining a key factor. Progress through work-in-hand did cool, however, as the rate of reduction was the softest for four months.

Nevertheless, employment growth was sustained at the start of the year for a thirty-seventh month in a row. Efforts to fill vacancies, as well as company expansion, drove workforce numbers higher. That said, the rise in service sector staffing levels was marginal and among the weakest seen over the current upturn.

Looking ahead, French service providers grew slightly more optimistic towards activity prospects in the coming year. Growth expectations were their strongest for five months as firms hoped that lower interest rates and improved sales performances would support greater output volumes. However, confidence remained subdued by historical standards.

French service companies' operating costs rose in January. While the rate of inflation was sharp overall and above the series long-run average, it was only fractionally stronger than December's 28-month low. Wages were a major source of cost inflation, anecdotal evidence showed. Subsequently, the latest survey data revealed an intensification of output price inflation, which rose to a seven-month high.

## Comment

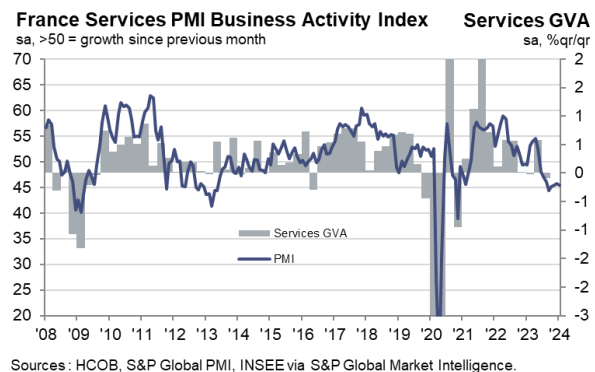
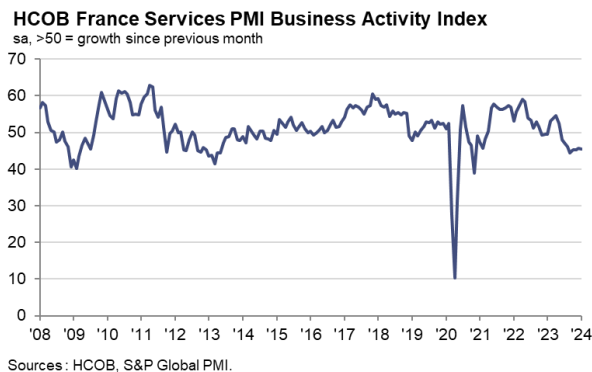
Commenting on the PMI data, Norman Liebke, Economist at Hamburg at Hamburg Commercial Bank, said:

*“The French service sector is continuing to perform poorly. Business activity declined for the eighth straight month, new business overall and from abroad are still on the decline and employment is hovering close to the stagnation threshold. In addition, price pressures intensified, heating up inflation and thereby feeding the narrative of stagflation. However, optimism for future business picked up again in January, showing a little bit of hope for the coming months.*

*“Wage developments also have the potential to delay ECB rate cuts. In January, input prices in the service sector increased again, and even sped up a bit. Output prices increased at an accelerated pace as well. Service inflation is the main contributing factor to elevated official consumer price inflation rates, so the latest PMI results suggest that the 2% inflation target remains out of reach in the short term, which poses a severe risk for the ECB rate cuts that are expected in the coming months.*

*“While the current situation looks dire, panellists showed some optimism with respect to future service sector output, which contrasts with the view of manufacturers. According to anecdotal evidence, optimism stems from hopes of interest rate cuts this year. However, the best we can say for the first quarter is that we expect a stagnation of the French economy, with a bit of upside potential.”*

-Ends-



## HCOB France Composite PMI<sup>®</sup>

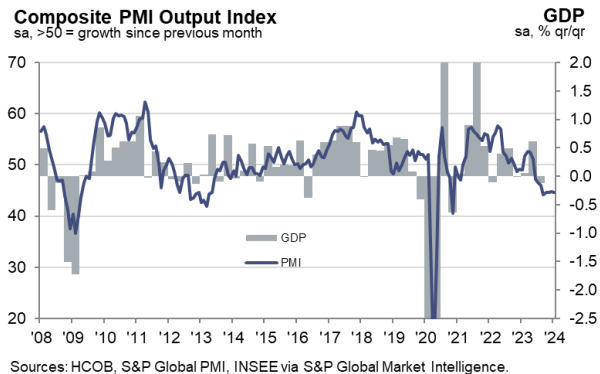
### Contraction in French economy sustained into the new year

The **HCOB France Composite PMI<sup>®</sup> Output Index** – a weighted average of the HCOB France Manufacturing Output Index and HCOB France Services Business Activity Index – remained in sub-50.0 contraction territory in January, signalling an eighth straight month of falling output volumes across France. At 44.6, the index was down slightly from 44.8 in December and therefore indicating a stronger rate of decline.

There was a further marked slump in sales volumes, with firms in both sectors experiencing lower new order intakes. The overall rate of decline was its weakest for five months, however. Backlogs of work continued to fall in a broad-based fashion, with manufacturers again driving the depletion.

A third successive monthly fall in employment was registered in January, although sector data showed this was driven entirely by factory lay-offs as services jobs ticked up marginally again. Business confidence meanwhile rose to a six-month high.

As for prices, overall input cost inflation cooled to a 34-month low, although output charges rose at the fastest pace since last June.



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## Note to Editors

The HCOB France Services PMI<sup>®</sup> 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 89% of final responses. Flash composite data were calculated from 91% 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).

For further information on the PMI survey methodology, please contact [economics@spglobal.com](mailto: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

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