

NEWS RELEASE  
MARKET SENSITIVE INFORMATION  
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# HCOB France Construction PMI®

## Ongoing downturn in demand for construction work curbs inflation

### Key findings:

New business inflows continue to fall sharply in June...

...triggering further cutbacks to business activity and input purchasing

Input costs rise at slowest rate in two-and-a-half years

Data were collected 12-30 June 2023.

The latest HCOB PMI® data painted a challenging picture for French construction companies, as protracted deteriorations in demand continued to ripple across the sector. June saw further reductions in new order inflows and business activity, which in turn led to job shedding as firms adjusted their workforces to match reduced workloads. Concurrently, input purchasing decreased at the fastest pace since the start of 2021.

There was some relief in terms of inflation, with panellists registering the slowest increase in cost burdens for two-and-a-half years.

The headline HCOB France Construction PMI Total Activity Index — which measures month-on-month changes in total industry activity — was in sub-50.0 territory for the thirteenth successive month in June. Despite rising from 42.6 in May to 43.7, the latest reading was consistent with a sharp rate of contraction that was among the fastest seen since the start of 2021. The latest downturn was linked to elevated borrowing costs and lower intakes of new work.

Business activity decreased across the three broad areas of the construction sector monitored by the survey. Housing posted the steepest fall, and was the only segment to see a quicker downturn than in May. The slowest, albeit solid, decline was registered for infrastructure projects. Despite easing in June, the contraction in work on commercial projects was among the fastest since early-2021.

Amid reports of a lack of calls for tender and the negative impact of inflationary pressures on demand, French construction companies noted another decline in new work intakes. The rate of contraction eased to the slowest in three months, but was sharp and took the current stretch of uninterrupted reductions to 15 months.

Reduced output requirements deterred firms from purchasing additional materials in June, thereby resulting in another fall in buying levels and a softer increase in input costs. The rate of inflation receded to the slowest in two-and-a-half years and was below its long-run average.

Another factor that helped restrict cost pressures was an improvement in supply-chain conditions. French constructors indicated quicker lead times on inputs in June, ending a 64-month sequence of delays.

Meanwhile, adverse sales developments, retirements and recruitment challenges prompted another round of job shedding. Employment decreased markedly in June, and at the fastest rate since January 2021.

French construction firms also continued to reduce their usage of outsourced personnel, taking the current sequence of contraction to nine months. In turn, this supported an improvement in the supply of subcontractors and a softer increase in rates charged by them.

Construction firms in France were divided in their assessments towards growth prospects. Some were pessimistic due to general inflation, recruitment challenges and competitive pressures. Others signalled upbeat projections amid expectations of better demand conditions and government support for green-home upgrades. On average, business activity levels were predicted to be stable.

### Comment

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

*"Things continue to look bad for the French construction sector, as shown by the June HCOB PMI survey. The sector has been in recession for three quarters, according to official data from INSEE, and according to the HCOB PMIs, this will have continued for the second quarter of 2023."*

*"With the new HCOB PMI reading for June, our nowcast for activity in the construction sector is little changed. The model, which takes into account other indicators in addition to the PMI, still expects construction to contract by 0.3% QoQ for the second quarter, confirming the HCOB PMI's key finding of construction activity."*

*"Activity is down in all three sectors - commercial, civil engineering and housing. The weakness of the housing sector is particularly noticeable, where the corresponding HCOB PMI has fallen below the 40 level. Commercial and civil engineering have managed to slow the pace of declining construction activity, although the corresponding PMIs here also remain below 50."*

*"The HCOB PMI for input prices signals a further increase in input prices, with the pace at which they have been rising slowing bit by bit. As a result, INSEE's Construction Cost Index (CCI), which measures producer prices in construction, is likely to have continued to rise in the second quarter of 2023, but possibly at a slower pace than it did in the first quarter (+1.1% QoQ)."*

*"The slowing pace of price increases is also likely to be related to declining demand, as seen in the HCOB PMI for new orders. Although the PMI for new orders managed to rise in June, the index remains well below 50. Employment, which has fallen for the fourth month in a row, also points to a further downward movement in the construction sector in France."*

-Ends-

**HCOB France Construction PMI Total Activity Index**

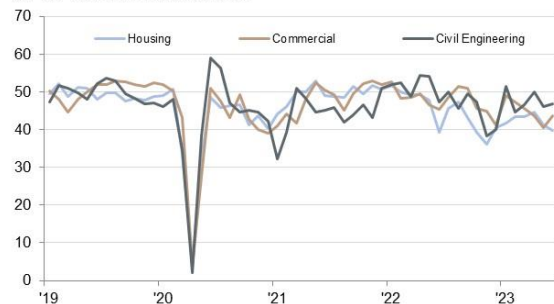
sa, >50 = growth since previous month



Sources: HCOB, S&P Global PMI.

**Construction PMI Total Activity Index by sector**

sa, >50 = growth since previous month



Sources: HCOB, S&P Global PMI.

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## Note to Editors

The HCOB France Construction PMI<sup>®</sup> is compiled by S&P Global from responses to questionnaires sent to a panel of around 150 construction companies. The panel is stratified by company workforce size, based on contributions to GDP. Survey data were first collected September 2000.

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 Total Activity Index. This is a diffusion index that tracks changes in the total volume of construction activity compared with one month previously. The Total Activity Index is comparable to the Manufacturing Output Index and Services Business Activity Index. It may be referred to as the 'Construction 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](mailto:economics@ihsmarkit.com).

## Hamburg Commercial Bank AG

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Hamburg Commercial Bank aligns its activities with established ESG (Environment, Social, and Governance) criteria and has anchored sustainability aspects in its business model. It supports its clients in their transition to a more sustainable future.

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