

NEWS RELEASE
MARKET SENSITIVE INFORMATION
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HCOB Flash France PMI[®]

French economy declines at fastest rate since February 2021 as service sector activity shows renewed weakness

Key findings:

HCOB Flash France Composite PMI Output Index⁽¹⁾ at 47.3 (May: 51.2). 28-month low.

HCOB Flash France Services PMI Business Activity Index⁽²⁾ at 48.0 (May: 52.5). 28-month low.

HCOB Flash France Manufacturing PMI Output Index⁽⁴⁾ at 44.2 (May: 44.7). 2-month low.

HCOB Flash France Manufacturing PMI⁽³⁾ at 45.5 (May: 45.7). 37-month low.

Data were collected 12-21 June

After four consecutive monthly expansions in private sector business activity, the French economy endured a disappointing end to the second quarter as output levels fell for the first time since the start of 2023. According to the latest HCOB flash PMI data, compiled by S&P Global, a worsening decline in manufacturing production was accompanied by a renewed reduction in activity across the services economy. Subsequently, the overall level of output in France declined at the strongest pace since February 2021.

Driving June's slump in activity was a further and faster deterioration in demand, particularly from abroad. Confidence in the 12-month outlook also waned and dropped to its weakest level since May 2020. Hiring continued in June, but the rate of job creation slowed.

Meanwhile, rates of input cost and output price inflation eased since May to 27- and 22-month lows respectively. Notably in the manufacturing sector, input prices and selling charges both declined.

The headline **HCOB Flash France Composite PMI Output Index** fell from 51.2 in May to 47.3 in June, below the critical 50.0 threshold that separates growth from contraction for the first time since January and thereby ending a fourth-month sequence of expansion in France's private sector economy. The headline figure pointed to a moderate reduction in activity, but still the quickest since February 2021.

At a sector level, June survey data signalled a continued downturn in factory production, extending the manufacturing output slump that started in the middle of 2022. However, driving the French economy into contraction territory was the services sector, where activity levels declined for the first time since January. According to survey respondents, inflation, more challenging financial conditions such as difficulties securing credit and, in some cases, business shutdowns, were factors firms attributed to the fall in business activity at the end of the second quarter.

Weak demand was also noted to be weighting on activity as the volume of incoming new work received by private sector firms in France declined again in June. The decrease was solid overall and the strongest since November 2020. Service providers and manufacturers registered steeper declines in new business wins, although the drop remained considerably quicker at manufacturers. Inflationary pressures, competition and higher interest rates were among the reasons firms linked to the drop in sales volumes. In line with the trend since March 2022, new export orders continued to fall, with the strength of June's deterioration in external demand remaining strong overall.

As has been seen since January 2021, French private sector companies added to their payrolls during June. The rate of job creation eased since May to a six-month low but was stronger than seen on average over the 25 years of data history. Hiring

was exclusive to the service sector, however, as manufacturing workforce numbers declined modestly.

Fewer incoming new business intakes, combined with greater employment levels, led backlogs of work to be depleted for the first time since January. In fact, the decrease in orders pending completion was the quickest since November 2020.

Meanwhile, June survey data signalled slowing rates of input cost and output price inflation across France. Overall operating expenses rose sharply, but at the weakest pace since March 2021. As was seen in May, manufacturers' input costs dropped, with the rate of decline at its greatest since March 2016 amid reports of falling raw material prices. On the other hand, services companies mentioned that rising wage pressures had pushed up their expenses.

Similarly, while factory gate prices were reduced, marking the first month of discounting since June 2020, services companies continued to raise their fees, albeit at a slower pace. Subsequently, the overall rate of output price inflation slowed to a 22-month low.

Lastly, there was a marked softening of business confidence across France during June as the overall level of optimism dipped to its weakest in just over three years. Services companies still anticipate growth, although positivity waned. Manufacturers meanwhile registered their greatest level of pessimism since November last year. Concerns regarding the outlook for demand, inflation and higher interest rates were cited by panellists.

Comment

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

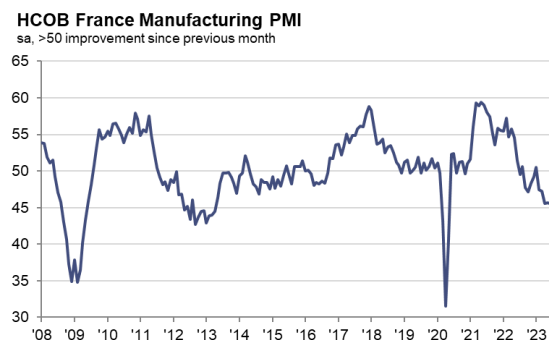
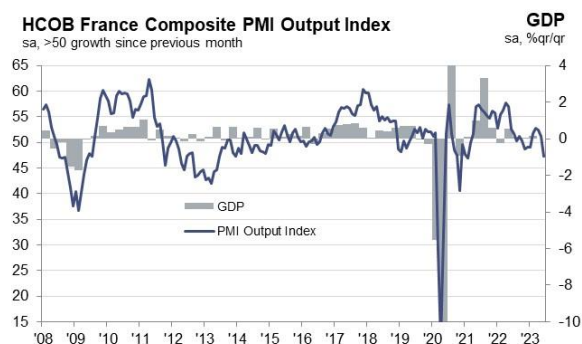
“The HCOB Flash PMIs for June do not paint an encouraging picture for the French economy, as was the case in recent months. With a value of 47.3, the HCOB Composite PMI is the lowest it has been since the beginning of 2021. Moreover, the index fell considerably compared with the previous month, with a drop of around four points. The services sector is mainly responsible for this decline. The companies surveyed indicated a renewed drop in activity, citing inflation and challenging financial conditions as reasons that led to lower business activity.

“Service sector companies lamented declining new orders at home and abroad, alongside falling backlogs of work. Although business expectations for the coming twelve months remain above the 50 mark, the corresponding HCOB PMI has fallen by more than six points and may indicate that the services sector will come under further pressure in the coming months.

“Prior to the June reading, our nowcast model had signalled economic growth of 0% QoQ for the second quarter, with manufacturing contracting and services expanding. With the new June figures of the HCOB PMIs, the picture changes, now not only the manufacturing sector but also the services economy is expected to contract, and economic growth turns negative overall along with it. According to our model, this results in negative growth of -0.5% QoQ. Even though this alone does not yet represent a recession, speculation that one will occur is likely to increase.

“On the price front, fundamentally encouraging signals are being sent, and these are coming primarily from the manufacturing sector. After the HCOB PMI for input prices in May signalled a decline in costs for the first time since July 2020, the corresponding PMI for sales prices now follows in June. In the services sector, on the other hand, while we have yet to see any price declines, the pace of price increases continues to slow. Although it is encouraging that price momentum is declining, we fear that service inflation will initially decline due to statistical base effects, but will ultimately remain persistent, thus also affecting core inflation significantly.”

-Ends-



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Note to Editors

Final June data are published on 3 July for manufacturing and 5 July for services and composite indicators.

The HCOB France PMI (Purchasing Managers' Index) is produced by S&P Global and is based on original survey data collected from a representative panel of around 750 companies based in the French manufacturing and service sectors. The flash estimate is based on around 85% of total PMI survey responses each month and is designed to provide an accurate advance indication of the final PMI data.

The average differences between the flash and final PMI index values (final minus flash) since comparisons were first available in January 2006 are as follows (differences in absolute terms provide the better indication of true variation while average differences provide a better indication of any bias):

Index	Average difference	Average difference in absolute terms
Composite Output Index ¹	-0.1	0.4
Manufacturing PMI ³	0.1	0.3
Services Business Activity Index ²	0.0	0.6

The Purchasing Managers' Index® (PMI®) survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries (including the European Central Bank) use the data to help make interest rate decisions. PMI® surveys are the first indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

S&P Global do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from S&P Global. Please contact economics@ihsmarkit.com.

Notes

1. The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index.
2. The Services Business Activity Index is the direct equivalent of the Manufacturing Output Index, based on the survey question "Is the level of business activity at your company higher, the same or lower than one month ago?"
3. The Manufacturing PMI is a composite index based on a weighted combination of the following five survey variables (weights shown in brackets): new orders (0.3); output (0.25); employment (0.2); suppliers' delivery times (0.15); stocks of materials purchased (0.1). The delivery times index is inverted.
4. The Manufacturing Output Index is based on the survey question "Is the level of production/output at your company higher, the same or lower than one month ago?"

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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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. <https://www.spglobal.com/marketintelligence/en/mi/products/pmi.html>

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