

News Release

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S&P Global France Business Outlook

French business confidence at lowest since October 2020

Key findings

French private sector firms the least optimistic globally in June

Hiring and capex intentions soften again as confidence towards the outlook weakens

Inflation expectations cool further from 2022 highs

The S&P Global France Business Outlook survey signalled a weakening of 12-month growth expectations among private sector companies, with the overall level of business confidence regarding output falling to its lowest since October 2020. Notably, of the 12 nations for which comparable data are available, France recorded the least optimistic assessment for private sector output prospects.

A net balance of +13% of companies reported an optimistic outlook for business activity. This was down from +18% in February and the lowest figure since October 2020.

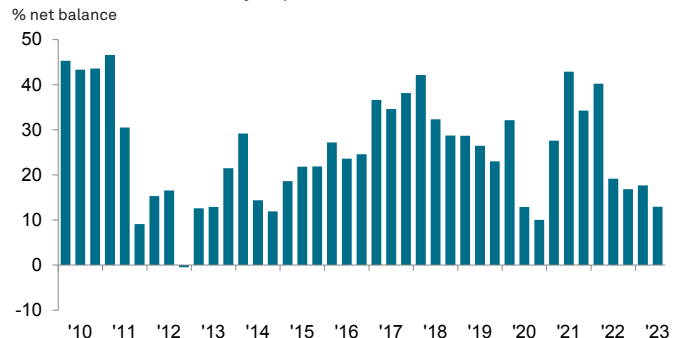
Notably, the proportion of French manufacturers predicting a fall in production exceeded that of growth. The subsequent net balance of -4% signalled the most negative outlook for the sector since October 2011. Inflation, rising interest rates and low confidence towards key markets such as construction were linked to pessimism among French factories.

Projections were better in the service sector, with a net balance of +17% of firms expecting activity growth in the next 12 months. Nevertheless, this was the lowest reading since October 2020, with respondents citing concerns relating to higher wages, falling client numbers and general uncertainty towards both the domestic and international business environment.

Inflation Expectations

Operating costs were once again expected to rise over the next 12 months, according to the latest France Business Outlook survey, although there was a cooling of inflation expectations. The net balance of firms

France Business Activity expectations



Source: S&P Global PMI.
Data were collected 12-27 June 2023.

Comment

Commenting on the France Business Outlook survey data, Joe Hayes, Senior Economist at S&P Global Market Intelligence, said:

"French businesses have shown increased concerns towards the economic outlook at the midway point of 2023, with growth expectations, as well as hiring and investment plans, weakening. Commonly cited reasons provided by businesses for the deterioration included rising interest rates, stubborn inflation and increased uncertainty, both domestically and internationally."

"There aren't many positives to glean from the results, although one could take some encouragement from a softening of firms' inflation expectations. Intentions to raise selling prices were at their weakest since February 2021, tracking broadly in line with the Business Outlook survey's long-run average. This suggests that interest rates are now starting to restrict economic activity by a degree that is sufficient to cool inflationary pressures."

anticipating higher staff and non-staff costs fell to +35% (from +50%) and +32% (from +58%) respectively, their lowest for two years. Notably, France recorded softer expectations on both fronts compared with the eurozone.

Meanwhile, French private sector businesses showed far less intent to raise their output prices than in recent survey periods. A net balance of +16% of companies plan to raise their selling charges over the next 12 months, the lowest figure since February 2021 and broadly in line with the long-run average. Price setting is expected to be varied by sector, however, with manufacturers set to lower their charges – the first time this has been the case in three years. Overall, a net balance of -7% of goods producers predicted discounting. This compared with a net balance of +21% of service providers that aim to hike their fees.

Employment & Investment

The outlook for private sector employment across France remained positive in June, although firms' hiring intentions were at their weakest in almost three years. A net balance of +9% of companies expect staffing capacity to rise over the next 12 months, slightly below the average for the euro area. Job creation is set to be entirely driven by services companies, however, as manufacturers were neutral towards hiring.

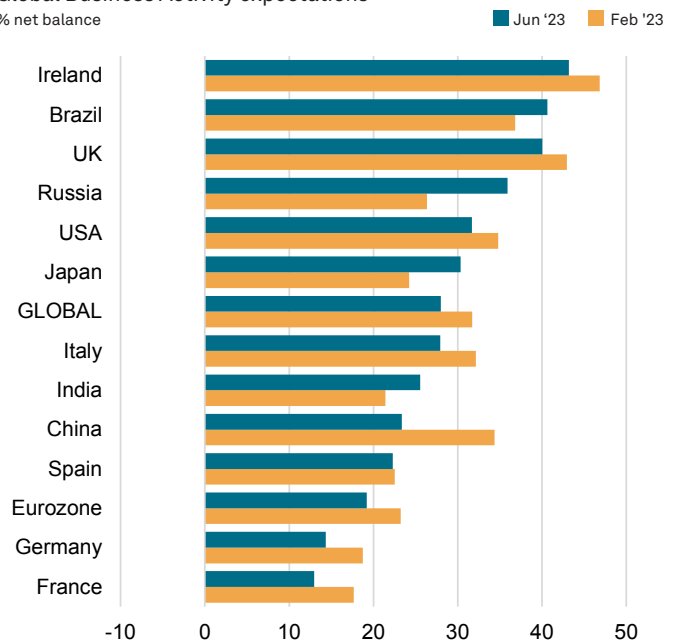
French firms also downgraded their investment intentions during June. Capital expenditure forecasts were their weakest since October 2020, remaining only slightly positive with a net balance of +5%. Research and development spending is expected to decline, however, as evidenced by a net balance of -2%.

Corporate Earnings

Amid the challenges posed by elevated cost pressures, and in tandem with softer growth expectations for the year ahead, French private sector companies signalled a downbeat assessment of their profitability outlook during June. Although the net balance rose to from February's recent low of -10%, it was only up slightly to -5%, representing pessimism towards corporate earnings.

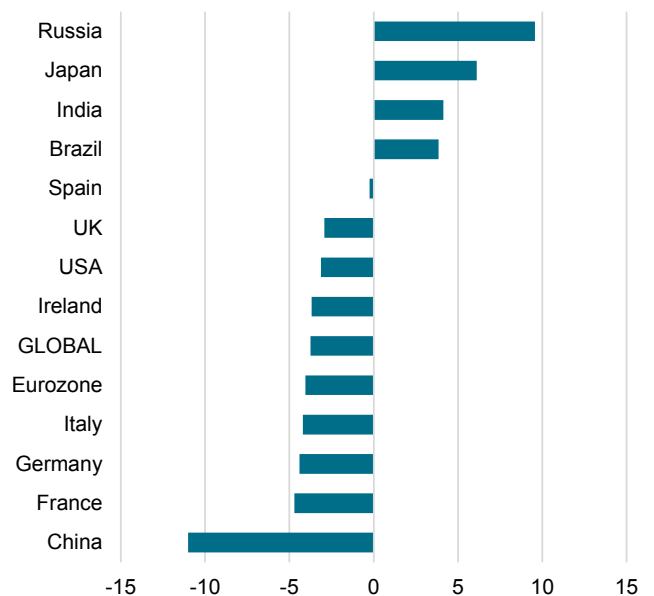
Manufacturers were the gloomiest towards the profits outlook, with a strongly negative net balance of -21%. This compared with a slightly less pessimistic forecast for profits at service providers when compared with February.

Global Business Activity expectations
% net balance



Source: S&P Global PMI.

Global Business Activity expectations
Change in % net balance, Jun '23 vs. Feb '23



Source: S&P Global PMI.
Full data available on request from economics@ihsmarkit.com.

Survey methodology

The Global Business Outlook Survey for worldwide manufacturing and services is produced by S&P Global and is based on a survey of around 12,000 manufacturers and service providers that are asked to give their thoughts on future business conditions. The reports are produced on a tri-annual basis, with data collected in February, June and October.

Interest in the use of economic surveys for predicting turning points in economic cycles is ever increasing and the Business Outlook survey uses an identical methodology across all nations covered. It gives a unique perspective on future business conditions from Global manufacturers and service providers.

The methodology of the Business Outlook survey is identical in all countries that S&P Global operates. This methodology seeks to ensure harmonization of data and is designed to allow direct comparisons of business expectations across different countries. This provides a significant advantage for economic surveillance around the globe and for monitoring the evolution of the manufacturing and services economies by governments and the wider business community.

Data collection is undertaken via the completion of questionnaires three times a year at four-month intervals. A combination of phone, website and email are used, with respondents allowed to select which mechanism they prefer to use.

The Business Outlook survey uses net balances to indicate the degree of future optimism or pessimism for each of the survey variables. These net balances vary between -100 and 100, with a value of 0 signalling a neutral outlook for the coming 12 months. Values above 0 indicate optimism amongst companies regarding the outlook for the coming 12 months while values below 0 indicate pessimism. The net balance figure is calculated by deducting the percentage number of survey respondents expecting a deterioration/decrease in a variable over the next twelve months from the percentage number of survey respondents expecting an improvement/increase.

Questionnaires are sent to a representative panel of around 12,000 manufacturing and services companies spread across the global economy*. Companies are carefully selected to ensure that the survey panel accurately reflects the true structure of each economy in terms of sectoral contribution to GDP, regional distribution and company size. This panel forms the basis for the survey. The current report is based on responses from around 8,000 firms.

** The countries with manufacturing and service sector surveys are Brazil, China, France, Germany, India, Italy, Japan, Russia, Spain, the Republic of Ireland, the UK and the USA. Manufacturing data are collected for the Netherlands, Austria, Greece, Poland and the Czech Republic.*

Contact

Joe Hayes
Senior Economist
T: +44 149 328 099
E: joe.hayes@spglobal.com

Sabrina Mayeen
Corporate Communications
T: +44-7967-447-030
E: sabrina.mayeen@spglobal.com

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