

NEWS RELEASE
MARKET SENSITIVE INFORMATION
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HCOB France Services PMI®

French service sector downturn cools markedly as demand conditions show signs of recovery

Key findings:

- Activity and new business fall at slowest rates since first half of 2023
- Growth expectations rise to seven-month high
- Cost inflationary pressures cool, but remain historically elevated

Data were collected 12-26 February

France's service sector contracted midway through the first quarter, although the rate of decline slowed markedly to the softest over the current nine-month downturn. The slower decrease in business activity came amid signs of recovery in demand as new export sales expanded for the first time since last May. Survey respondents also grew more optimistic towards the outlook for business activity, with growth expectations reaching a seven-month high.

Meanwhile, although input costs increased at the slowest pace for two-and-a-half years, February's rise was marked by historical standards as wage pressures persisted.

The seasonally adjusted **HCOB France Services PMI® Business Activity Index** – which measures changes in the volume of business activity compared with one month previously – rose markedly from January's 45.4, to 48.4 in February. Although this was indicative of a further contraction in business activity, extending France's service sector downturn to nine months, it was the least pronounced over this period.

Curbing the decline in business activity was a degree of stability in demand. Stronger sales conditions were the most apparent in export markets, as new work received from non-domestic clients increased for the first time since last May. Total new business shrank, but to the softest degree in nine months. New customer wins partially offset order book weakness elsewhere, panel member reports suggested.

Positive momentum was also seen in companies' projections for activity over the next 12 months, as growth expectations strengthened for a third successive survey period. Overall, the level of optimism was at its strongest since July 2023. Predictions of a rebound in sales underpinned bullish forecasts, anecdotal evidence showed.

With expectations improving, and the trend in demand picking up, February survey data showed service sector employment levels increasing across France. Additionally, the rate of job creation accelerated slightly to a four-month high. Both temporary and permanent staff were recruited, according to panel members. That said, growth in workforce numbers was weaker than the survey average as some companies opted to not replace voluntary leavers.

Backlogs of work decreased further midway through the first quarter, stretching the current sequence of depletion to seven months. That said, February's decrease was the least marked over this period, with some survey participants noting that the start-up of new projects exerted some pressure on their capacity.

February survey data highlighted another steep monthly increase in French service providers' operating expenses. This was despite the rate of increase cooling to a two-and-a-half-year low. According to anecdotal evidence, wage pressures were a major source of inflation.

French services companies continued to raise their prices charged midway through the first quarter, although the uplift in fees

was much less aggressive than in January. Overall, selling prices rose to the weakest degree since May 2021.

Comment

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

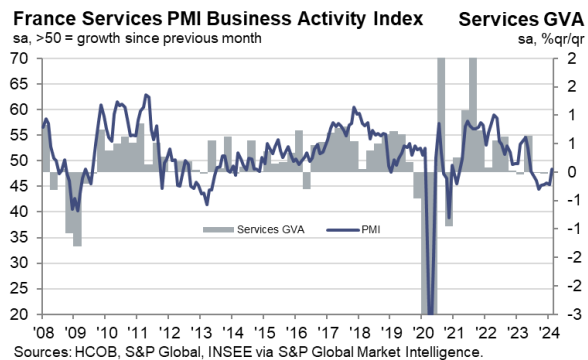
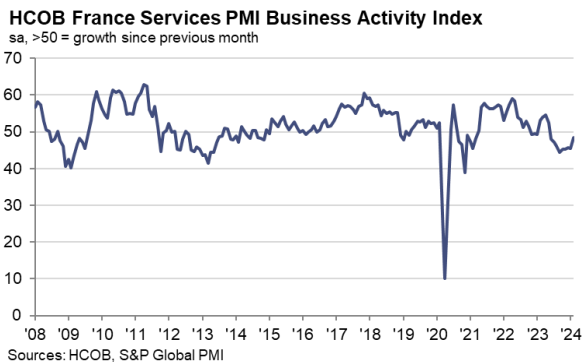
“The French services sector is on the verge of growth. It looks like the sector is moving closer to recovering with the Business Activity Index climbing to a nine-month-high and employment growth reaccelerating. Some recovery in demand was reportedly the main driver of the jump in the business activity index.

“Exports are giving a boost to the French services sector. Services exports have grown for the first time since May 2023, helping the services sector to get back up on its feet. From this we can deduce that domestic demand is shrinking.

“Price pressures are easing in the French services sector. Although output prices increased for the thirty-fourth consecutive month, the pace of increase slowed down after price growth had reaccelerated in recent months. On the other hand, there is no substantial easing of input price pressures, which are still rising due to increasing labour costs.

“The future is filled with uncertainty. Compared to last month, surveyed companies were more optimistic about future activity but the corresponding index is still below the long-term average, indicating rather muted optimism for the future. We think that the French economy will recover in 2024, and this will be driven by stronger domestic demand.”

-Ends-



HCOB France Composite PMI[®]

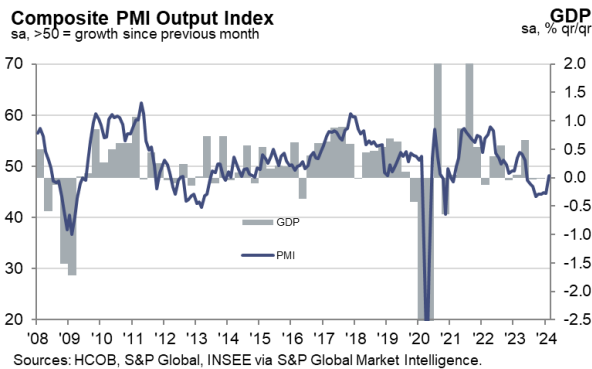
French private sector sees its downturn cool markedly in February

The HCOB France Composite PMI[®] Output Index – a weighted average of the HCOB France Manufacturing Output Index and HCOB France Services Business Activity Index – provided tentative signs of economic recovery for the French private sector as it rose to 48.1, from 44.6 in January, its highest level for nine months. Noticeable slowdowns in rates of contraction for manufacturing output and services business activity were registered.

Equally, the downturn in demand for French goods and services cooled markedly since January, in part reflecting a weaker drag from non-domestic client demand. Growth expectations picked up, hitting a nine-month high as confidence rose across both monitored sectors.

For the first time since last October, private sector employment rose across France. Job creation was entirely driven by service providers, but the rate of job losses in the manufacturing sector did at least slow. Backlogs of work continued to fall, albeit to the weakest extent in six months.

Lastly, output price inflation slowed despite input costs rising at the quickest pace for three months.



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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 76% of final responses. Flash composite data were calculated from 84% 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.

Hamburg Commercial Bank AG

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S&P Global (NYSE: SPGI)

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About PMI

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