

News Release

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S&P Global France Services PMI®

Services activity continues to fall, but downturn remains shallow

Key findings

January sees another marginal decrease in services activity

New orders decline, and to slightly greater extent than output

Backlogs subsequently fall, but hiring activity picks up

According to the S&P Global PMI® survey for January, France's service sector remained in a downturn at the start of 2023. That said, although activity contracted for a third month running, the declines to date have only been marginal.

The service sector performance was weighed down by subdued demand conditions, with new orders falling further. That said, firms were able to limit the impact on activity by working through backlogs, which decreased mildly in January. Despite this, jobs growth was sustained and even accelerated to a three-month high.

Elsewhere, although input cost pressures eased slightly, output prices were raised to the greatest degree in three months.

The seasonally adjusted S&P Global France Services PMI® Business Activity Index posted 49.4 in January. This was little-changed from December's 49.5, but crucially remained below the 50.0 no-change mark for a third consecutive month. As a result, this indicated a sustained downturn in France's services economy. That said, the rates of decline seen in November, December, and most recently in January, were marginal overall, indicating only shallow declines in total business activity during these periods.

Lower output volumes were reportedly a consequence of weaker client activity. Overall intakes of new work fell during January, with companies commenting on sluggish demand conditions. Some also mentioned the adverse effects arising from higher interest rates and persistent inflation. The decrease in new business was mild and unchanged from that seen in December.

However, there was a sharper drag coming from overseas markets, with new export orders falling at the fastest pace since December 2020.

Reduced inflows of new business freed up capacity at services firms, enabling them to work through orders pending completion. The volume of outstanding business across France's service sector fell at the beginning of the year, reversing a fractional accumulation seen in December.

S&P Global France Services Business Activity Index
sa, >50 = growth since previous month



Source: S&P Global.

Data were collected 12-26 January 2023

Comment

Joe Hayes, Senior Economist at S&P Global Market Intelligence, said:

"While it's clear from the PMI surveys that France's economy has been contracting since last November, declines thus far have only been marginal. This is a much better outcome than many had anticipated prior to the winter, when concerns about the economic impact of the energy crisis were at their most elevated.

"Furthermore, shallow declines in business activity in each of the past three months also limit the likelihood of the country even dipping into recession. While this can't be ruled out just yet, other areas of the PMI survey show reasons to be cautiously optimistic. We saw the Composite Future Output Index hit a six-month high in January, while employment growth also improved.

"That said, of concern will be the still-elevated rate at which input costs are rising, with many firms commenting on growing wage pressures. We're seeing inflation stay much stickier in the service sector, with firms here not hesitating to raise their prices more aggressively. Whether this aggravates the current soft patch in demand remains to be seen, but it poses a significant challenge to monetary policymakers in assessing how far they need to go in the tightening cycle."

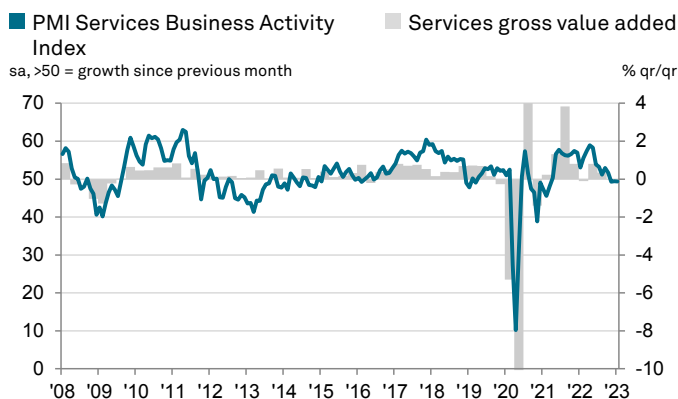
Albeit only modest, the rate of backlog depletion was the quickest in almost two years.

Nevertheless, despite falling capacity pressures, French services firms expanded their workforce numbers during January. The rate of job creation was solid overall and accelerated to a three-month high. Some companies reportedly hired additional sales staff.

Increased recruitment activity was one factor pushing up company operating expenses in the latest survey period, with wage pressures mentioned alongside increased supplier prices and energy costs. The rate of input price inflation was historically sharp, but eased marginally.

On the other hand, French service providers were slightly more aggressive in their price setting at the beginning of the year. This was reflected in a sharper increase in output prices. In many cases, firms linked the rise in their selling charges to general inflation across the market.

Looking ahead, French service providers were optimistic towards the growth outlook. The overall level of positive sentiment was at its strongest in six months. Expectations of a pick-up in client activity, and a subsequent improvement in sales, reportedly lifted confidence.



S&P Global France Composite PMI®

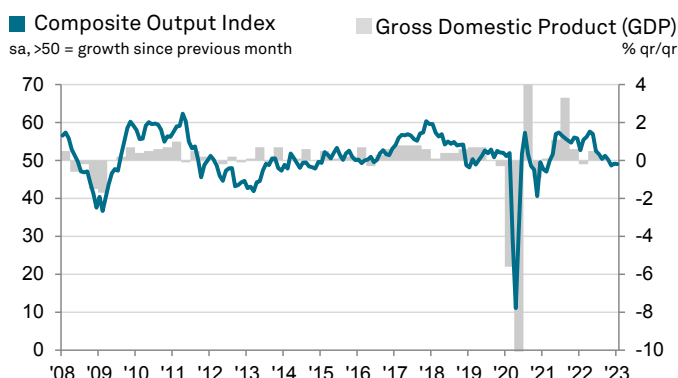
French private sector economy contracts marginally in January

The S&P Global France Composite PMI Output Index* posted 49.1 in January. This was unchanged from December and signalled a third straight monthly decrease in private sector business activity across France. That said, the rate of contraction was only marginal overall.

Weighing on activity levels was a further fall in new orders. Manufacturing companies continued to observe a faster fall in new work than their services counterparts. The overall level of incoming new business fell at a slightly quicker pace than output.

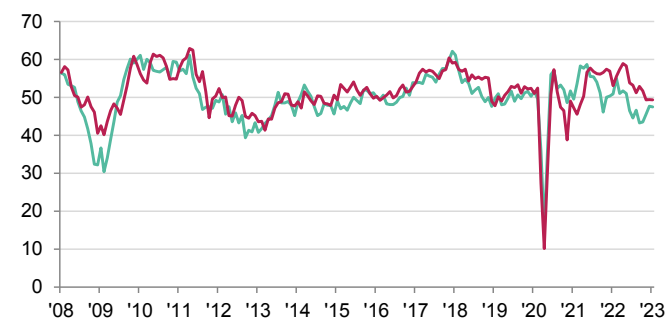
As a result, backlogs of work were depleted as firms allocated additional resources to clearing unfinished orders. That said, there was a pick-up in hiring activity across France, with employment trends improving across both sectors. The overall pace of job creation was solid and the quickest in three months.

Meanwhile, cost pressures eased slightly in January, due in large part to a softening of input cost inflation at goods producers. However, selling price inflation quickened to an eight-month high.



*Composite PMI indices are weighted averages of comparable manufacturing and services PMI indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data.

■ Manufacturing PMI Output Index
■ Services PMI Business Activity Index
 sa, >50 = growth since previous month



Source: S&P Global.

France Services PMI Input Prices Index

sa, >50 = inflation since previous month



Source: S&P Global.

Survey methodology

The S&P Global 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.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

Flash vs. final data

Flash services data were calculated from 83% of final responses. Flash composite data were calculated from 86% 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).

About PMI

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. ihsmarkit.com/products/pmi.html.

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