News Release

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S&P Global France Business Outlook

Growth expectations remain subdued amid concerns over high inflation and economic outlook

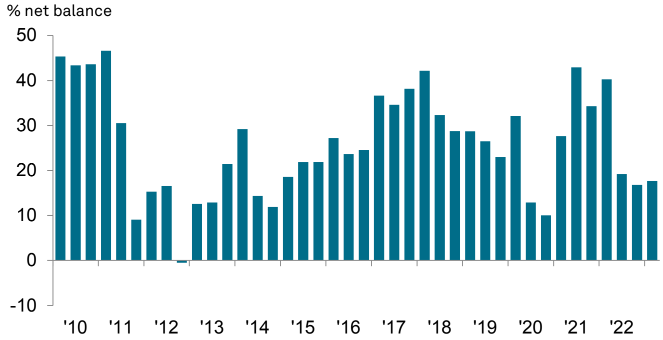
Key findings

Business confidence little-changed from last October's two-year low

Inflation expectations ease from their peaks but stay elevated

Profits expected to deteriorate markedly

France Business Activity expectations



Source: S&P Global.
Data were collected 10-23 February 2023.

The S&P Global France Business Outlook survey highlighted another downbeat assessment of year-ahead prospects by French private sector companies in February, with the level of business confidence only moving fractionally up from the two-year low seen in October last year.

A net balance of +18% of businesses predicted business activity to rise over the next 12 months during February. While positive, and therefore highlighting expectations of growth, this compared with last October's two-year low of +17%. Consequently, the latest data suggested that confidence in the outlook remained subdued.

Of the 12 nations covered by the Business Outlook survey, French companies were the least optimistic overall.

According to anecdotal evidence, confidence in the outlook was constrained by rising interest rates, inflation, geopolitical tensions and recruitment difficulties.

At the sector level, the latest survey data revealed that growth expectations were almost solely limited to service providers, as a net balance of just +1% of French manufacturers foresee higher output in the coming 12 months. This compared with a net balance of +21% across the service sector.

Inflation Expectations

French private sector firms still expect to see higher output prices and operating costs over the next 12 months. Sources of inflation were broad, anecdotal evidence showed, with companies anticipating higher

Comment

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

"Although there have been some more positive developments since the last Business Outlook survey, such as improvements on the energy market front and, for now at least, the aversion of a recession globally and in Europe, French companies remained fairly downbeat towards the year-ahead growth outlook. The net balance of companies predicting an increase in activity was little-changed from the two-year low seen last October.

"Inflation expectations have nudged slightly lower, most likely a result of easing stress in energy markets and across supply chains since late last year, but they still remain very high. Stubborn inflation is expected to weigh on client purchasing power, and companies are expecting demand conditions to remain constrained, limiting opportunities to expand business activity. This, combined with the prospect of further increases in interest rates, are causing companies to hesitate with regards to investment decisions."

charges from suppliers, greater energy costs and price pressures arising from a weaker euro exchange rate. Companies also expect to see their borrowing costs rise in line with interest rates. A net balance of +58% of companies forecast higher non-staff costs over the next 12 months in February. While this was down slightly from last October's series record of +62%, it was nonetheless higher than anything seen prior to June 2022 and the second-highest reading of the 12 nations for which comparable data are available (below the UK).

Staff costs followed a similar trend, with the respective net balance falling from a series peak of +57% to +50% but nonetheless remaining above those seen before the middle of last year (this series started in February 2019).

In line with expectations of higher operating costs, French private sector companies signalled their intent to raise selling prices in the next 12 months. That said, the net balance of firms reporting plans to increase their charges fell to +34%, from +44% last October. This was the lowest figure in a year but above both the eurozone and global averages.

Employment & Investment

There was a softening of hiring intentions across the French private sector during February, as evidenced by the net balance of firms planning to hire extra staff falling to +13%. Overall, this was the lowest reading seen over the current positive sequence that started in February 2021. Challenges in finding staff were noted by a number of survey respondents.

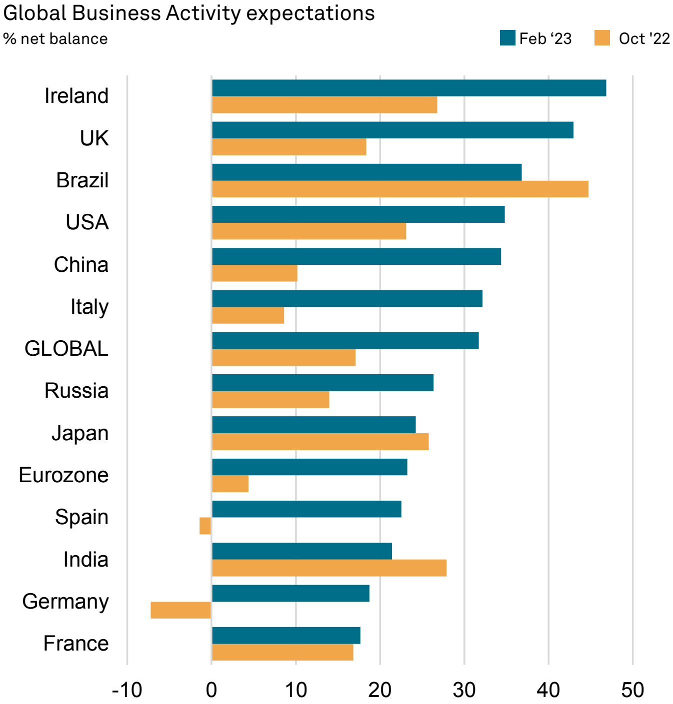
There were signs of caution with regards to investment decisions in February, with the net balance of firms planning to raise capital expenditure in modest positive territory at +8%. However, this was down from +9% and at its lowest in two years. R&D spending was also expected to be limited, with a net balance of just +1% predicting an increase over the next 12 months.

Corporate Earnings

French private sector companies were pessimistic towards the corporate earnings outlook during February, as signalled by a net balance of -10%. This was down from -7% last October, and therefore pointed to a worsening of expectations towards company profitability. Overall, surveyed firms were at their most downbeat towards corporate earnings since October 2020, with only Germany posting worse projections.

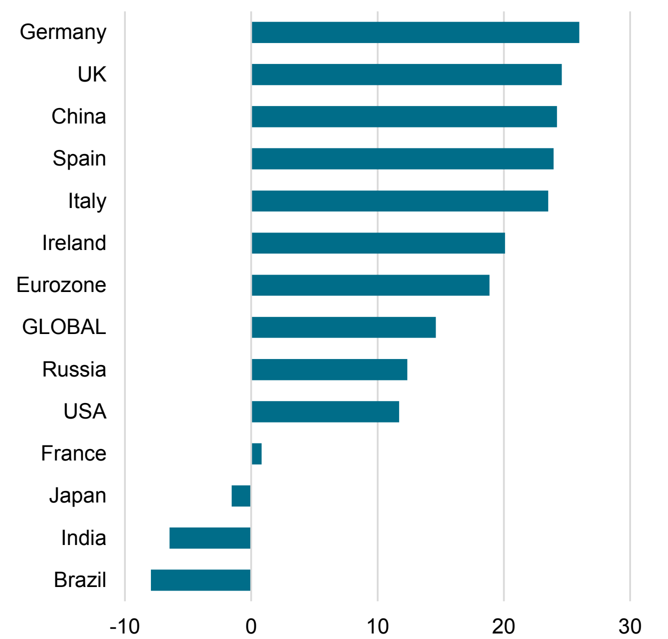
Manufacturers and service providers both signalled expectations that profits would deteriorate over the next 12 months, although manufacturing firms were slightly more pessimistic than their services counterparts.

Global Business Activity expectations
% net balance



Source: S&P Global.

Global Business Activity expectations
Change in % net balance, Feb '23 vs. Oct '22



Source: S&P Global.
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.*

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