

NEWS RELEASE

MARKET SENSITIVE INFORMATION

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HCOB Flash France PMI[®]

French economy starts fourth quarter with another steep contraction, while fuel and wage pressures drive costs up sharply

Key findings:

HCOB Flash France Composite PMI Output Index⁽¹⁾ at 45.3 (Sep: 44.1). 2-month high.

HCOB Flash France Services PMI Business Activity Index⁽²⁾ at 46.1 (Sep: 44.4). 3-month high.

HCOB Flash France Manufacturing PMI Output Index⁽⁴⁾ at 41.7 (Sep: 42.6). 41-month low.

HCOB Flash France Manufacturing PMI⁽³⁾ at 42.6 (Sep: 44.2). 41-month low.

Data were collected 12-20 October

After contracting at the steepest pace since November 2020 in September, business activity across the eurozone's second-largest economy saw another solid reduction in October, latest HCOB flash France PMI data showed. While the contraction softened from September, it was still the second-strongest in close to three years. Considerable weakness was also displayed on the demand side as new orders fell markedly and for a sixth successive month. Sales to non-domestic customers plummeted, declining to the quickest degree since May 2020.

Another key finding of the October survey was a month-on-month reduction in private sector employment, the first since November 2020. Nevertheless, cost pressures intensified, with input prices rising at the strongest pace since May. The rate of selling price inflation did cool, however, as firms struggled to fully pass on higher cost burdens on to clients.

The headline **HCOB Flash France Composite PMI Output Index** registered beneath the critical 50.0 level which separates growth from contraction in October for a fifth month running, signalling a sustained deterioration in private sector business activity across France. At 45.3, the index rose from September's 34-month low of 44.1, but was nonetheless indicative of a further steep reduction in output.

While sector level data showed sustained declines at both manufacturers and service providers, trends diverged as a softer (albeit solid) fall in services activity contrasted with the sharpest fall in factory production since May 2020. Companies in both sectors cited weak demand as a reason for lower output.

Indeed, anecdotal evidence was corroborated by the latest survey data as total private sector new orders decreased markedly and for a sixth month running during October. The manufacturing sector had a strong downward influence, with intakes of new work received by French factories falling at one of the steepest rates in the series history. Demand for services fell at a strong, but slower pace. Also weighing on overall order books was a significant deterioration in new business from abroad, with the deepening downturn in export sales across both sectors leading to the sharpest overall fall since May 2020.

Private sector companies in France turned to their backlogs of work once again to help sustain activity where possible. Subsequently, the level of outstanding business fell, with the rate of depletion accelerating to its steepest since November 2020. Amid evidence of growing spare capacity, October survey data signalled the first (albeit fractional) decrease in private sector employment in just shy of three years. This was exclusively centred on the manufacturing sector, however, as services jobs growth continued.

Despite employment levels falling, French firms' operating costs rose at a sharp and accelerated pace at the start of the fourth quarter. In fact, the rate of input price inflation was the fastest since May. Increased cost pressures were attributed to rising

wage bills and higher fuel prices by some respondents. That said, selling charges rose moderately and at a slightly weaker pace as competitive pressures drove some discounting.

Lastly, October survey data revealed another month of subdued business confidence, with sentiment little-changed from September's 35-month low. Notably, the outlook among French manufacturers deteriorated sharply to its most pessimistic since the peak of the first COVID-19 wave in April 2020. Concerns towards the economy, inflation, and weakness in construction and real estate sectors were factors behind firms' negative expectations.

Comment

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

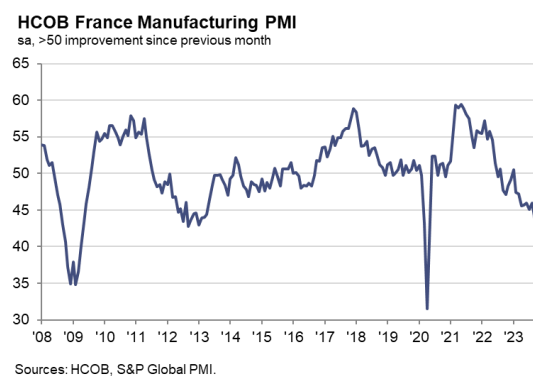
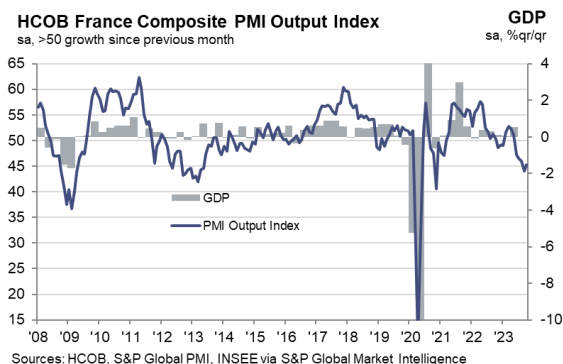
"The French economy is still feeling the heat at the start of the fourth quarter. While services business activity shrank at a slower pace than the month before, the manufacturing sector fell deeper into contraction in October. Our GDP nowcast model, with PMI figures in the mix along with a bunch of other indicators, is pointing to fractional growth in the fourth quarter.

"The services sector is hitting roadblocks. Even though the corresponding HCOB PMI for business activity signalled a softer decline, new orders both overall and from abroad reduced further, while employment growth continued to slow. Lower demand also led to a faster reduction in backlogs of work, which will further limit activity gains in the coming months.

"Things are going south in the manufacturing sector, and there is no relief in sight. In fact, manufacturing output fell by its greatest margin since May 2020, reportedly due to subdued demand conditions. Manufacturers' expectations for the next twelve months worsened conspicuously, with the corresponding index falling to the lowest level in three-and-a-half years. Factory pessimism was also reflected in the employment PMI, which fell to its lowest level since May 2020.

"Price indices are in perilous territory. The pace of increase in input prices rose for the second month in a row amid rising fuel prices and reports of sustained wage pressures. Although the increase in output prices slowed slightly, accelerated input price inflation could lead to higher output charges. Higher inflation rates would put the European Central Bank into a difficult position as it more or less signalled at its last meeting that no further rate hikes will be carried out."

-Ends-



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Note to Editors

Final October data are published on 2 November for manufacturing and 6 November 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@spglobal.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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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. <https://www.spglobal.com/marketintelligence/en/mi/products/pmi.html>

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