

NEWS RELEASE
MARKET SENSITIVE INFORMATION
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HCOB France Services PMI®

French service sector downturn eases in May but year-ahead expectations weaken

Key findings:

Business activity decreases further, but contraction softens

Prices charged discounted as firms strive to stimulate demand

Growth expectations slump to five-year low

Data were collected 12-27 May

France's service sector economy weakened further in May as business activity declined for a ninth successive month. That said, the pace of contraction was the slowest in the year-to-date amid less marked decreases in total new orders and employment. However, with demand conditions deteriorating further, French services firms reduced their prices charged to try and stimulate sales.

Looking ahead, firms showed less optimism towards the outlook for activity over the next 12 months as growth expectations fell to a five-year low.

The seasonally adjusted **HCOB France Services PMI® Business Activity Index** — which measures changes in the volume of business activity compared with one month previously — posted below the 50.0 no-change mark, as it has done in each month since September last year, signalling a sustained decline in service sector output across France. That said, having risen from 47.3 in April to 48.9 in May, the headline index rose to its highest level since last December and therefore indicated the slowest pace of contraction in the year-to-date.

Where activity fell, survey respondents noted weaker client demand. Indeed, in line with the trend for output, new business receipts fell for a ninth month running midway through the second quarter. Budget challenges and customer hesitancy weighed on sales performances, according to anecdotal evidence. Although the reduction was softer than in April, it was still solid nonetheless.

New orders from abroad were also a drag on sales volumes, but the drop in exports was softer than that seen for new business overall, suggesting that the domestic market was the principal headwind during May.

To support activity, French service providers completed backlogged orders. Outstanding business levels decreased during the latest survey period, extending the current period of depletion to just over a year. That said, the rate of reduction was the slowest in four months.

Workforce numbers were once again cut across France's service sector midway through the second quarter, albeit to an extent that was marginal and the slowest seen across the current six-month sequence. Some companies reportedly lowered employment due to weaker activity prospects and to reduce costs.

May survey data signalled a deterioration in 12-month growth expectations. In fact, business optimism sank to a five-year low. Geopolitical issues and challenging domestic economic conditions were cited as reasons for subdued forecasts.

Turning to prices, French services companies recorded an intensification of cost pressures midway through the second quarter. Salaries and purchasing prices were sources of inflation, anecdotal evidence showed. However, May's uptick was relatively muted when compared with the long-run average of the survey.

Despite stronger cost inflation, prices charged were discounted during the latest survey period. Where reductions were registered (just over 10% of firms), lower interest rates, competition, promotional offers and client negotiations were mentioned. The extent to which selling prices fell was the quickest since February 2021.

Comment

Commenting on the PMI data, Jonas Feldhusen, Junior Economist at Hamburg at Hamburg Commercial Bank, said:

“The French private sector economy seems like it’s on the brink of exiting contraction. The composite HCOB PMI improved to 49.3 in May, still below the growth threshold, but marking the highest reading so far this year. The upward trend is visible in both manufacturing and services PMIs.

“Overall market conditions remain constrained, with both domestic and foreign demand continuing to decline, though at a slower pace. While there are tentative signs of a recovery in market demand, optimism for improvement in the coming year has deteriorated further, suggesting that service providers remain unsettled by ongoing uncertainty. It remains to be seen how effective President Macron’s efforts to attract research and investment to France will be.

“Profit margins in the French service sector appear to have narrowed in May. Input cost inflation accelerated, driven in part by wage pressures. At the same time, output prices declined, indicating that firms were unable to pass on rising costs to customers. Competitive pressures prompted companies to lower their prices despite increasing cost burdens. The ECB might feel supported by this price trend, leaving scope for them to cut rates again at the next meeting tomorrow. Looking ahead, we anticipate two additional rate cuts from the ECB later this year.”

-Ends-

HCOB France Services PMI Business Activity Index

sa, >50 = growth since previous month



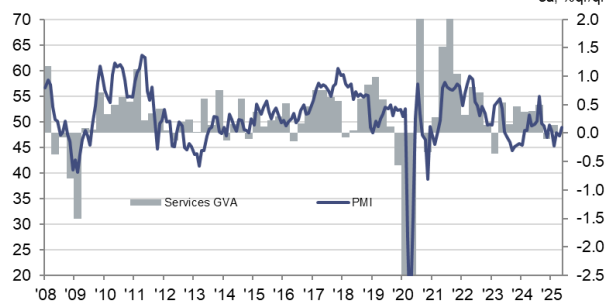
Sources: HCOB, S&P Global PMI.

HCOB France Services PMI Business Activity Index

sa, >50 = growth since previous month

Services GVA

sa, %qtr/qtr



Sources: HCOB, S&P Global, INSEE via S&P Global Market Intelligence.

HCOB France Composite PMI[®]

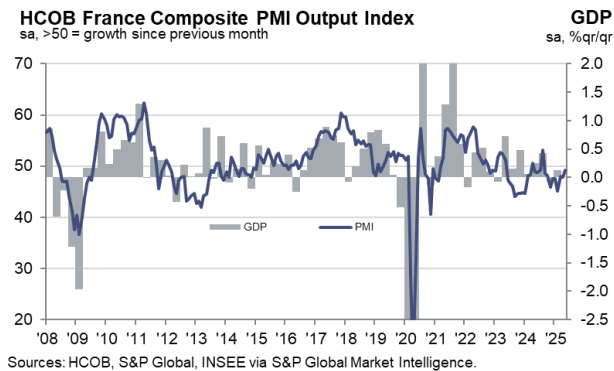
Private sector output declines marginally and at softer rate

The HCOB France Composite PMI[®] Output Index came close to signalling a stabilisation of the French private sector economy in May, rising from 47.8 in April to post only just below the 50.0 no-change mark (May: 49.3). This indicated a contraction that was only marginal overall and the softest over the current nine-month period of decline.

New orders fell during the latest survey period, in line with its trend since the middle of last year. Markedly softer decreases at both manufacturers and services companies meant the combined rate of reduction was much slower than seen in April. Private sector export sales fell at a slightly stronger rate, however.

Despite renewed employment growth at French factories, overall jobs numbers fell marginally as services firms cut headcounts for a sixth successive month. Lower staffing capacity came amid a worsening of business confidence.

Turning to prices, input costs rose solidly in May. Services firms were the principal driver of cost pressures across France. Nevertheless, prices charged for goods and services were discounted to the greatest extent since January 2021.



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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 75% of final responses. Flash composite data were calculated from 83% 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 0.0 (0.4 in absolute terms).

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

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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S&P Global (NYSE: SPGI)

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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. www.spglobal.com/marketintelligence/en/mi/products/pmi.html.

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