

NEWS RELEASE
MARKET SENSITIVE INFORMATION
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HCOB France Services PMI®

French services activity stabilises in July, but confidence weakens and new business shrinks

Key findings:

Output broadly stagnates in July, ending two-month period of decline

New business continues to fall, particularly from overseas

Business confidence slips to year-to-date low

Data were collected 11-26 July

France's service sector broadly stabilised at the start of the third quarter, latest HCOB PMI® data showed, although signs of weakness remained apparent in the survey data as new business, particularly from international sources, shrank during July. There was also a fourth consecutive easing of business confidence, bringing firms' expectations for the coming 12 months down to a year-to-date low.

Still, employment growth was sustained, although salary pressures remained a key factor behind another month of sharp input price inflation.

The seasonally adjusted **HCOB France Services PMI® Business Activity Index** – which measures changes in the volume of business activity compared with one month previously – registered 50.1 in July. Crucially, this was above the 50.0 threshold for the first time in three months, marking an end to the period of contraction between May and June. However, having posted only a fraction above the no-change mark, the latest data implied broadly stagnant activity levels when compared to the month prior.

According to survey respondents, the Olympic Games provided a boost to activity levels, as did the end of the election period. These drivers of growth were broadly offset by challenging sales conditions, panel members noted, which constrained output levels elsewhere.

Indeed, the level of incoming new business received by French services companies declined during July. While the end of the election period gave a boost to some, others noted that the result had generated some uncertainty towards the future of French politics, and this was reported as a reason for lower new orders. Unfavourable weather also reportedly dented sales performances.

Notably, new business from non-domestic clients fell markedly at the start of the third quarter, with the rate of contraction outpacing that seen for total new orders by a considerable margin. This was despite the decrease in new export sales cooling to its weakest in three months.

Softer demand conditions led French service providers to make inroads into their backlogs of work. The rate of depletion was marginal and slower than in June, however.

Nevertheless, employment across the service sector remained in growth territory, extending the current sequence of job creation to over three-and-a-half years. Both permanent and temporary positions were filled, anecdotal evidence showed.

Looking ahead, French service providers continued to expect growth over the next 12 months, although the level of optimism dwindled for a fourth consecutive month and was well below its long-term average. Some panellists noted that, due to the Olympic Games generating abnormally high business activity, output would likely be lower in the same period in a year's time. That said, concerns that the demand environment could remain challenging also weighed on confidence.

Regarding trends for prices, July survey data signalled an intensification of cost pressures, as input prices rose at the quickest pace for three months. Firms often linked higher operating expenses to salary increases.

Output charges were subsequently lifted in July as firms sought to protect margins. Although the extent of the rise was modest, it was stronger than seen on average prior to the pandemic.

Comment

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

“The Olympic Games are boosting the French economy. According to anecdotal evidence, there are companies for which the Olympic Games are generating unusually high business activity in July. This does, however, mean that business activity might drop in September when the Olympic Games are over. Additionally, lower uncertainty due to the end of the election period increased activity levels. In July, business activity edged higher, with the respective index at 50.1, slightly above the expansion threshold. In the third quarter, the French economy might grow in the ballpark of 0.5% to 0.6% because of the Olympic Games and due to stronger growth in the service sector, which we also might see in the August HCOB PMI figures.

“French service providers are turning less optimistic for the upcoming twelve months. This is partially due to unusually high activity at present because of the Olympic Games, meaning firms are expecting lower sales and activity once the event has finished. Accordingly, employment growth softened further to a five-month low.

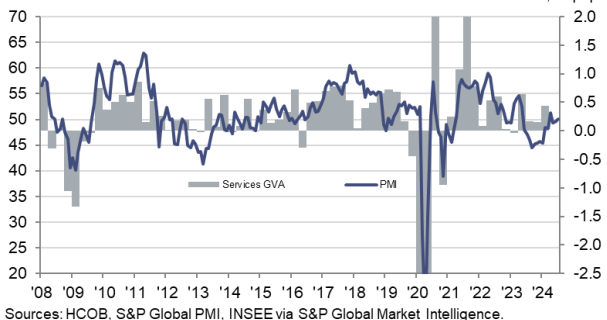
“Prices still pose a risk. In July, input and output prices increased at a faster rate compared to the previous month. Input prices accelerated due to salary increases on a broader scale, while some companies remarked on broad-based inflationary pressures. Accordingly, selling prices rose as companies passed on the higher input prices.”

-Ends-

HCOB France Services PMI Business Activity Index
sa, >50 = growth since previous month



France Services PMI Business Activity Index
sa, >50 = growth since previous month



HCOB France Composite PMI[®]

Sharp manufacturing downturn weighs on French economy in July

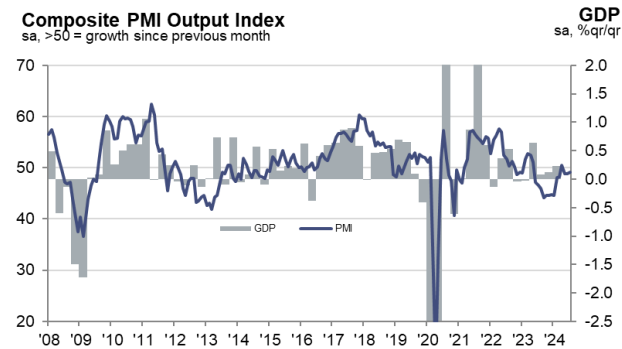
The HCOB France Composite PMI[®] Output Index – a weighted average of the HCOB France Manufacturing Output Index and HCOB France Services Business Activity Index – recorded in sub-50.0 contraction territory for a third straight month in July. The index was only slightly up from June's 48.8, to 49.1, thereby signalling another marginal decline in total activity. Sub-sector data revealed the decline was entirely driven by manufacturing as output in the service sector was little-changed since June.

Combined new orders also shrank in June, as too did backlogs of work. Manufacturing was once again central to these trends, although new and outstanding business volumes at services firms also contracted.

However, another month of job creation from service providers offset sustained employment cuts at factories. The overall rate of increase in staffing numbers was only marginal, however.

Measures of combined goods and services inflation picked up in July, with output price and input cost increases accelerating.

Lastly, July survey data showed aggregate business confidence easing to a six-month low, with sentiment dropping in both sectors.



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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 92% of final responses. Flash composite data were calculated from 92% 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

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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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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