

News Release

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S&P Global France Construction PMI[®]

French construction activity declines for second month running in July

Key findings

Construction activity falls once again in July as new orders drop

Employment decreases for first time since February

Construction sector confidence slumps to 15-month low

The French construction sector recorded a further drop in activity levels at the start of the third quarter, July's PMI[®] survey showed, marking back-to-back declines. The fall in construction work coincided with yet another decrease in new business intakes as economic weakness and high inflation weighed on demand for construction projects. Businesses also showed greater concern towards the outlook, with the level of confidence slumping to a 15-month low. Staffing levels were subsequently reduced for the first time since February.

The headline S&P Global France Construction Activity Index – which measures month-on-month changes in total industry activity – recorded 48.6 in July. While this marked an increase from 46.4 in June, it remained below the crucial 50.0 mark that separates growth from contraction, thereby signalling a further decline in construction activity across France.

According to more granular data regarding activity levels across different forms of construction work, housing and commercial building drove July's overall contraction. Residential construction recorded the faster deterioration of the two, although in both cases, rates of decrease slowed from June. Meanwhile, civil engineering activity levels were unchanged in July.

A key drag on French building work was demand, with July survey data signalling a fourth consecutive reduction in new projects. According to panel members, uncertain economic conditions and high inflation both weighed on constructors' order books. The decrease in demand was modest but slightly quicker than seen in June.

Indeed, the outlook for inflation and the economy were also mentioned as factors that drove a loss of business confidence during July. Although firms were optimistic overall, the level of positive sentiment slumped to a 15-month low.

There was evidence that weaker optimism and falling demand impacted hiring decisions in July. For the first time

■ Construction Total Activity Index

sa, >50 = growth since previous month



Source: S&P Global.

Data were collected 11-29 July 2022.

Comment

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

"The French construction sector began the third quarter in worse shape as building activity fell once again. According to panellists, uncertainty, weakening economic conditions and rapid inflation were causing clients to hesitate on new construction projects. Indeed, new orders fell for the fourth month in a row, while business confidence slumped to a 15-month low as companies grew concerned about their prospects in the year ahead."

"One relief for French constructors from the latest survey data will be a cooling of cost pressures. Input prices increased sharply in July, although the rate of inflation was the softest in almost a year-and-a-half. This was partly explained by a slight reduction in supply chain bottlenecks as input lead times lengthened to a markedly weaker extent than in June."

"That said, with demand conditions deteriorating and some firms cutting back on their purchases, businesses may take little solace from supply chain improvements if they have nothing to do with their materials."

since February, French construction firms recorded lower employment levels.

Indeed, subcontractor usage also continued to decline, although falling subcontractor availability, historically steep increases in their rates charged, as well as reports that the quality of their work had deteriorated, continued to be signalled by the latest survey.

Meanwhile, French construction companies continued to raise their purchasing activity at the start of the third quarter. That said, the rise in input buying, despite accelerating slightly, was below that seen on average over the current 11-month sequence of expansion.

Amid weak input demand growth, latest survey data showed tentative signs of reduced strain on suppliers. The extent to which lead times lengthened was the least marked since March 2021. That said, vendor performance continued to worsen at a historically sharp pace overall.

Lastly, French constructors faced another month of sharply rising costs. Higher prices for energy and raw materials were cited as sources of inflation by panellists. Nevertheless, the increase in operating expenses was the slowest in 16 months.

■ Housing Activity Index
 ■ Commercial Activity Index
 ■ Civil Engineering Index

sa, >50 = growth since previous month



Source: S&P Global.

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Survey methodology

The S&P Global France Construction PMI® is compiled by S&P Global from responses to questionnaires sent to a panel of around 150 construction companies. The panel is stratified by company workforce size, based on contributions to GDP. Survey data were first collected September 2000.

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 Total Activity Index. This is a diffusion index that tracks changes in the total volume of construction activity compared with one month previously. The Total Activity Index is comparable to the Manufacturing Output Index and Services Business Activity Index. It may be referred to as the 'Construction 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.

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