News Release

MARKET SENSITIVE INFORMATION
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S&P Global Flash France PMI®

French economy contracts at faster rate in December as service sector downturn worsens

Key findings:

Flash France PMI Composite Output Index[1] at 48.0 (Nov: 48.7). 22-month low.

Flash France Services PMI Activity Index[2] at 48.1 (Nov: 49.3). 22-month low.

Flash France Manufacturing Output Index[4] at 47.7 (Nov: 45.6). 7-month high.

Flash France Manufacturing PMI[3] at 48.9 (Nov: 48.3). 4-month high.

Data were collected 6-14 December

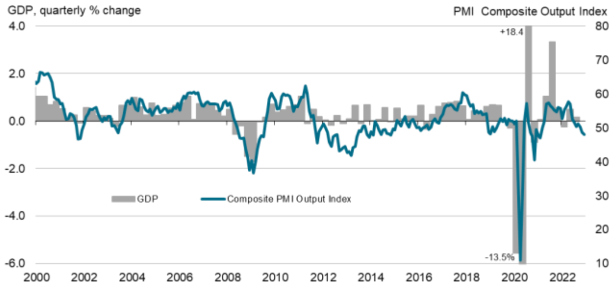
According to the latest S&P Global 'flash' PMI survey for France, the nation's private sector ended 2022 with a second straight monthly decline in business activity. The decrease in overall output levels, albeit moderate, accelerated since November to the sharpest for almost two years. Subdued demand conditions persisted into December, as evidenced by a fifth consecutive fall in new orders, while business confidence also remained suppressed.

The headline **Flash France PMI Composite Output Index** was below the crucial 50.0 threshold which separates expansion from contraction for a second consecutive month in December. At 48.0, the latest reading was down from 48.7 in November to its lowest since February 2021, signalling a stronger decline in private sector business activity.

Both monitored sectors saw output levels contract at the end of the fourth quarter, although directions of travel differed notably. The faster downturn at the aggregate level was triggered by a quicker decline in services activity, with panel members across the sector attributing this to lower client demand and higher interest rates. Overall, the drop in service sector output was the sharpest for nearly two years.

While the current manufacturing sector downturn entered a seventh month, December's drop in production was the weakest seen over this period. Factory output was reportedly boosted in some instances due to an improvement in the availability of certain critical inputs. Nevertheless, the manufacturing downturn remained steeper than that of services, with anecdotal evidence highlighting weak demand conditions.

S&P Global Flash France PMI Composite Output Index



Source: S&P Global, INSEE.

Indeed, new orders placed with French companies continued to fall in December, as has been the case since August. The rate of decline was broadly unchanged from November, which was the sharpest since February 2021. Surveyed businesses linked falling new business intakes to generally weak underlying demand conditions, with clients reportedly cutting back spending or postponing orders. As was the case with output, a faster decline in new business placed with services firms compared with a softer drop at manufacturers. Considerable weakness was also seen in export performances in December, with new orders received from overseas customers falling at the sharpest pace in just over two years.

There was little sign of business capacities being stretched in December as backlogs of work were broadly unchanged since November. Nonetheless, French private sector companies expanded employment for the twenty-fourth month running. This was exclusively driven by a faster rise in staffing numbers at services companies as headcounts at French factories fell for the first time since January 2021.

Despite cutbacks to staff, and another marked reduction in purchasing activity, input prices at manufacturers rose at an accelerated pace in December. Energy was widely commented on as a source of inflation by panellists. However, this was offset by a fractional drop in cost pressures at services companies, leading the overall rate of input price inflation to remain unchanged since November.

On the other hand, overall output price inflation picked up since November due to the fastest increase in factory gate charges for five months. Despite unfavourable demand conditions, more aggressive price-setting behaviour

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reportedly reflected efforts to protect margins and share the burden of higher costs with their customers.

Having slumped to a two-year low in November, business confidence edged slightly higher at the end of the year as sentiment at manufacturers moved from pessimistic to optimistic territory. Some businesses were more upbeat on 2023 prospects, partly down to pipeline work coming through from clients. Nonetheless, overall business sentiment was still the second-weakest seen over the past two years due to recession fears, inflation and concerns over energy prices.

Commenting on the flash PMI data, **Joe Hayes**, Senior Economist at S&P Global Market Intelligence said:

"Another month of falling business activity across the euro area's second-largest economy heightens the risk that the region is headed for a recession. Output across France fell at the quickest pace since February 2021.

"The worsening of the downturn across services compares with that of the manufacturing sector, which is far more progressed as the PMI survey suggests the industrial economy has been in a recession throughout the second half of 2022. However, we saw manufacturing production fall at the softest pace in seven months in December, while business confidence at goods producers even ticked back up into positive territory. This should be viewed positively and provides tentative signs that the worst may be behind us.

"Nevertheless, downside risks remain abundant, with the outlook for energy prices still a big uncertainty for households and firms. We're also seeing the impact that higher interest rates are having on the economy, with some firms attributing this as a factor behind lower business activity.

"Based off the latest survey results, we're likely to see French GDP contract in the fourth quarter, which will raise the risk of a technical recession being confirmed in 2023."

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Note to Editors

Final December data are published on 2 January for manufacturing and 4 January for services and composite indicators.

The France PMI (Purchasing Managers' Index) is produced by S&P Global and is based on original survey data collected from a representative panel of 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]	0.0	0.3
Services Business Activity Index[2]	-0.1	0.5

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@ihsmarkit.com.

Notes

1. The Composite Output *PMI* 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?"

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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. To learn more go to https://ihsmarkit.com/products/pmi.html .

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