

NEWS RELEASE  
MARKET SENSITIVE INFORMATION  
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# HCOB Flash France PMI<sup>®</sup>

## French economy continues to weaken in July amid marked drop in confidence

### Key findings:

HCOB Flash France Composite PMI Output Index<sup>(1)</sup> at 49.6 (Jun: 49.2). 11-month high.

HCOB Flash France Services PMI Business Activity Index<sup>(2)</sup> at 49.7 (Jun: 49.6). 11-month high.

HCOB Flash France Manufacturing PMI Output Index<sup>(4)</sup> at 48.6 (Jun: 47.3). 2-month high.

HCOB Flash France Manufacturing PMI<sup>(3)</sup> at 48.4 (Jun: 48.1). 2-month high.

Data were collected 10-22 July

France's private sector economy continued to deteriorate at the beginning of the third quarter, with business activity shrinking for an eleventh successive month. July's contraction was, however, only marginal overall and the weakest seen over the current sequence. That said, while the headline figure showed signs of stabilisation, other data from the 'flash' report pointed to underlying fragility. For example, new orders decreased markedly and at an accelerated pace, while business confidence deteriorated sharply to its weakest since last November. Additionally, employment fell to the greatest extent in three months.

The headline **HCOB Flash France Composite PMI Output Index** rose to an 11-month high of 49.6 in July, fractionally below the 50.0 level which separates growth from contraction. By improving from 49.2 in June, the preliminary HCOB PMI data for the start of the third quarter indicated that activity moved closer to stabilisation, following contractions in each of the prior ten months. By sector, slower declines in output were seen in both manufacturing and services.

However, despite the headline 'flash' index picking up, some of the survey's sub-indices signalled deepening fragility across the eurozone's second-largest economy. Demand for French goods and services declined at the sharpest pace in three months in July. Sales weakness intensified across both monitored sectors, but particularly in manufacturing, where new orders fell to the greatest degree since February

The steeper drop in overall private sector new orders partly reflected a quicker downturn in exports, which fell at the fastest rate in the year-to-date. Again, weakness was predominately centred on manufacturing.

Another key finding from July's 'flash' report related to French companies' year-ahead expectations, which slumped sharply to their weakest since November last year. Marked declines in confidence were recorded at both manufacturers and service providers, underlying sector data showed. Companies widely commented on lower budgets, concerns regarding the sales outlook and domestic political uncertainty.

With expectations diminishing, French businesses made further cuts to their employment numbers during July. The overall rate of job shedding was the fastest seen for three months, albeit modest. Notably, lower workforce numbers were exclusive to the service sector as factory hiring picked up. Although marginal, manufacturing employment growth was its most pronounced in two-and-a-half years. In many cases, goods producers expanded staffing capacity through the recruitment of fixed-term employees, anecdotal evidence showed.

As for pricing trends, July survey data revealed relatively soft inflationary pressures across France, with both input costs and output charges rising at rates which were below their respective long-term averages. Indeed, prices charged for French goods and services rose only marginally at the start of the third quarter, albeit at a slightly quicker pace following a fresh uptick in

factory gate prices. Total private sector input costs meanwhile rose at a broadly similar rate to June.

### Comment

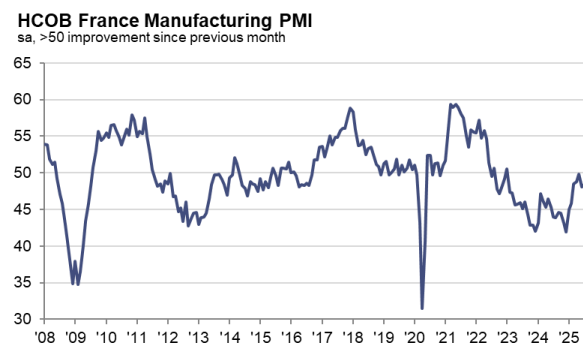
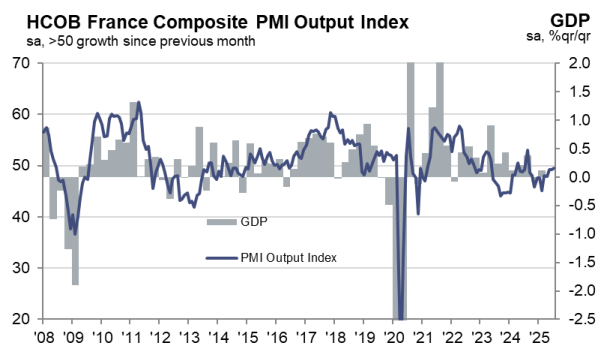
Commenting on the flash PMI data, Jonas Feldhusen, Junior Economist at Hamburg Commercial Bank, said:

*“The latest HCOB Flash PMIs from France are neither fish nor fowl. While momentum has been trending upward since the beginning of the year, the index remains below the critical 50-point threshold. This continues to signal a deterioration in economic conditions, albeit one that is only marginal. France remains under considerable pressure, both economically and politically. GDP growth is unlikely to exceed the 1% mark this year. At the same time, questions are mounting over whether Prime Minister Bayrou can sustain his austerity course politically. Global trade upheaval is compounding the strain on France as a business location, though the recent deal between Washington and Tokyo may bring a potential EU–US agreement closer within reach.*

*“Conditions in the service sector remain subdued. Business activity is stagnating at a low level, showing little movement compared to June. Particularly concerning is the sharp decline in the sub-index for future business expectations. This drop is likely a direct response to Bayrou’s draft budget proposal, presented in parliament last week. Should an agreement on the austerity package be reached, it would reduce disposable income for many households—posing clear downside risks for domestic demand and especially for the services sector. Conversely, failure to reach a budget deal could further escalate political uncertainty.*

*“The situation in the manufacturing sector also remains tense. The slight uptick in the headline index should not be overinterpreted. Of greater concern is the sharp decline in forward-looking sub-indices: both order intakes and business expectations fell significantly in July. This likely represents increased domestic uncertainty due to the fresh austerity proposal, and international unease stemming from protectionism in global trade policy. There is, however, a faint glimmer of hope on the pricing front as after a period of price reductions, output prices edged up again in July, helping firms to recoup margin losses in recent months.”*

-Ends-



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**Note to Editors**

Final July data are published on 1 August for manufacturing and 5 August 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 <sup>1</sup>	0.0	0.4
Manufacturing PMI <sup>3</sup>	0.1	0.3
Services Business Activity Index <sup>2</sup>	-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@spglobal.com](mailto: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

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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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