

News Release

Embargoed until 2301 UTC 17 July 2022

S&P Global France Business Outlook

Business confidence slumps to lowest level since October 2020

Key findings

Business outlook weakens as inflation expectations hit new highs

Hiring and investment intentions soften

Profitability forecast to decline over the coming year

The S&P Global France Business Outlook survey signalled a marked decline in private sector optimism during June, with the overall level of confidence slumping to its lowest since October 2020.

In turn, there was a softening of expectations towards hiring and investment over the next 12 months, while profit forecasts dipped into negative territory for the first time since October 2020 amid steep inflation expectations.

The net balance of firms that anticipate business activity growth over the coming 12 months fell sharply from +40% in February to +19% in June. Although indicative of growth expectations across the French private sector, it marked the weakest level of optimism in almost two years.

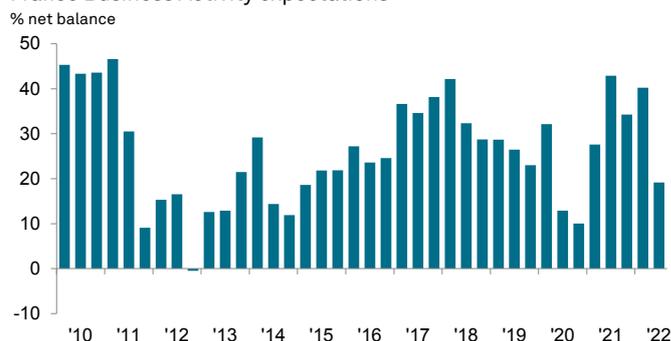
The still-positive outlook was exclusively reflective of service sector expectations as manufacturers foresee lower output levels in the coming year. This marked the first bout of pessimism among goods producers since October 2012.

Overall, business activity expectations were slightly stronger than those seen on aggregate across the euro area, but below the global average.

Inflation Expectations

There was a further rise in inflation expectations during June. A net balance of +61% of private sector companies anticipate non-staff costs to increase over the next 12 months, the highest since data were first available in October 2009 and up from +52% previously. Staff costs were also predicted to inflate, with the net

France Business Activity expectations



Source: S&P Global.
Data were collected 13-27 June 2022.

Comment

Commenting on the France Business Outlook survey data, Joe Hayes, Senior Economist at S&P Global Market Intelligence, said:

"The latest Business Outlook survey highlights a substantial deterioration in confidence at French private sector companies in June. The war in Ukraine, rapid inflation, supply issues, rising interest rates and labour shortages were all mentioned as risks to the economy by panellists, with many firms concerned about the impact these would have on their company's growth prospects."

"There was a notable divergence in business sentiment split by sector. While services firms remained optimistic overall, albeit to a lesser degree, manufacturers were pessimistic towards their output levels over the coming year for the first time since October 2012."

"The weaker outlook for growth coincided with inflation expectations reaching new records in June. Firms are planning to raise selling prices sharply, which in turn is expected to restrict profitability amid soaring costs and a potential fall in sales over the coming year. For the first time since October 2020, corporate earnings are expected to fall."

balance of firms that forecast a rise up to a new record high of +54%, from +48% previously.

With business operating costs expected to increase, latest survey data signalled firms' intentions to lift their selling charges. A net balance of +38% of French private sector companies reported plans to raise their output prices in June, the highest on record and an pick-up from +31%.

Employment & Investment

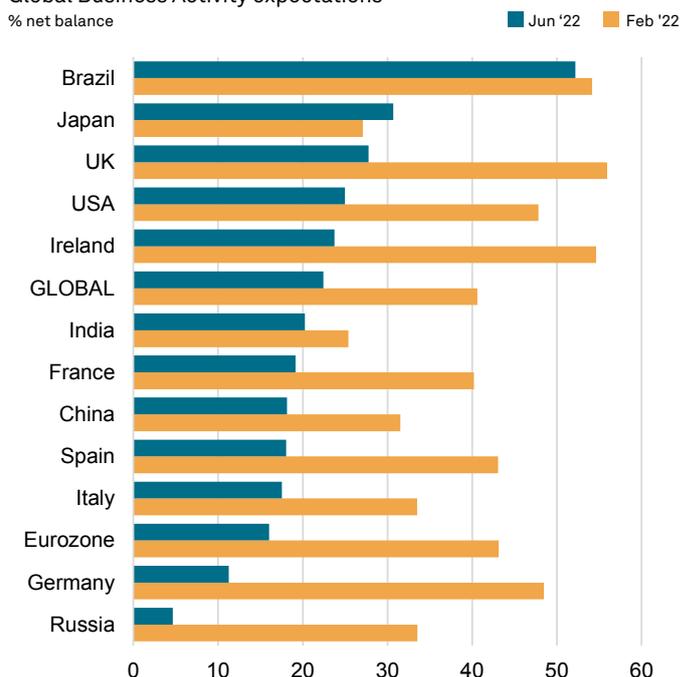
Despite a weaker level of confidence in the outlook for business activity, French private sector companies signalled strong hiring intentions in June. This was despite the net balance of firms expecting to hire additional staff falling to +20%, its lowest since February 2021. Sector level data showed recruitment plans at service providers exceeding those at manufacturers by a notable margin.

Meanwhile, latest survey data signalled expectations of greater capex and R&D spending in the coming year. That said in both cases, intentions softened since February.

Corporate Earnings

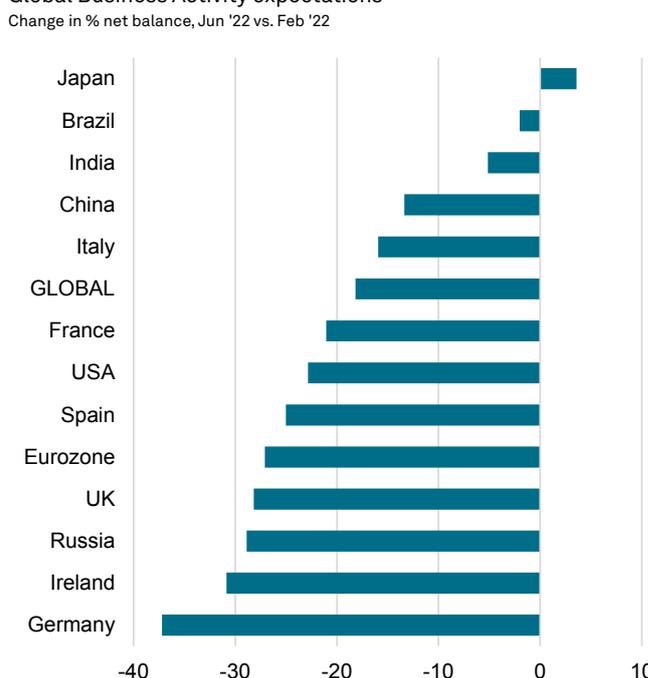
The outlook for company earnings fell into negativity during the latest survey period. June data showed a net balance of -1%, signalling expectations of a decline in profitability across the French private sector over the coming year. The worsened outlook for corporate earnings reflected downbeat profit forecasts at manufacturers, where a net balance of -17% of companies predicted a reduction compared with a net balance of +2% of services firms anticipating an improvement.

Global Business Activity expectations



Source: S&P Global.

Global Business Activity expectations



Source: S&P Global.

Full data available on request from economics@ihsmarkit.com.

Survey methodology

The Global Business Outlook Survey for worldwide manufacturing and services is produced by S&P Global and is based on a survey of around 12,000 manufacturers and service providers that are asked to give their thoughts on future business conditions. The reports are produced on a tri-annual basis, with data collected in February, June and October.

Interest in the use of economic surveys for predicting turning points in economic cycles is ever increasing and the Business Outlook survey uses an identical methodology across all nations covered. It gives a unique perspective on future business conditions from Global manufacturers and service providers.

The methodology of the Business Outlook survey is identical in all countries that S&P Global operates. This methodology seeks to ensure harmonization of data and is designed to allow direct comparisons of business expectations across different countries. This provides a significant advantage for economic surveillance around the globe and for monitoring the evolution of the manufacturing and services economies by governments and the wider business community.

Data collection is undertaken via the completion of questionnaires three times a year at four-month intervals. A combination of phone, website and email are used, with respondents allowed to select which mechanism they prefer to use.

The Business Outlook survey uses net balances to indicate the degree of future optimism or pessimism for each of the survey variables. These net balances vary between -100 and 100, with a value of 0 signalling a neutral outlook for the coming 12 months. Values above 0 indicate optimism amongst companies regarding the outlook for the coming 12 months while values below 0 indicate pessimism. The net balance figure is calculated by deducting the percentage number of survey respondents expecting a deterioration/decrease in a variable over the next twelve months from the percentage number of survey respondents expecting an improvement/increase.

Questionnaires are sent to a representative panel of around 12,000 manufacturing and services companies spread across the global economy in the countries mentioned above. Companies are carefully selected to ensure that the survey panel accurately reflects the true structure of each economy in terms of sectoral contribution to GDP, regional distribution and company size. This panel forms the basis for the survey. The current report is based on responses from around 8,000 firms.

Contact

Joe Hayes
Senior Economist
T: +44 149 328 099
E: joe.hayes@spglobal.com

Joanna Vickers
Corporate Communications
T: +44-207-260-2234
E: joanna.vickers@spglobal.com

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