

NEWS RELEASE  
MARKET SENSITIVE INFORMATION  
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# HCOB Flash France PMI®

## French economy loses momentum in May as services growth slows

### Key findings:

HCOB Flash France Composite PMI Output Index<sup>(1)</sup> at 51.4 (Apr: 52.4). 4-month low.

HCOB Flash France Services PMI Business Activity Index<sup>(2)</sup> at 52.8 (Apr: 54.6). 4-month low.

HCOB Flash France Manufacturing PMI Output Index<sup>(4)</sup> at 45.1 (Apr: 42.2). 2-month high.

HCOB Flash France Manufacturing PMI<sup>(3)</sup> at 46.1 (Apr: 45.6). 2-month high.

Data were collected 11-19 May

The French economy registered another monthly expansion in activity midway through the second quarter, latest HCOB PMI® data compiled by S&P Global showed, but growth slowed to a four-month low amid a loss of momentum across the service sector. Worsening demand conditions faced by French businesses were a notable headwind, with total intakes of new work falling for the first time since February. May survey data also showed a further softening of business confidence, which dropped to its weakest level in five months. Nevertheless, private sector employment across France rose at the strongest rate in almost a year as hiring activity picked up across both monitored sectors.

Meanwhile, input cost inflation slowed to a 23-month low, but firms were slightly more aggressive in their price setting during May, as indicated by a faster increase in output prices when compared to April.

The headline **HCOB Flash France Composite PMI Output Index** remained in expansion territory for a fourth successive month in May, posting 51.4. However, this was down from 52.4 in April and the lowest recorded across the current sequence of growth. Overall, the headline figure pointed to a modest increase in private sector business activity across France midway through the second quarter.

Pulling growth lower in May was a slowdown in the service sector, which posted a much softer increase in output compared to April's solid expansion. Weakness in demand was noted by respondents as a drag on activity. A sustained, albeit softer, increase in services output contrasted with a twelfth consecutive drop in manufacturing production. The decrease in factory output was steep, but weaker than in April.

There was a softening of demand conditions in May, according to anecdotal evidence, with firms in both sectors reportedly adversely affected by lower new order intakes. Indeed, the latest survey data showed total private sector new business intakes falling compared to the previous month for the first time since February. The loss of clients, inflation and lower spending were factors firms linked to weaker sales performances. New manufacturing orders continued to fall sharply, while demand for services fell only slightly.

As has been the case since March 2022, the latest survey data showed new export orders received by French companies falling. Goods producers continued to see rapidly deteriorating demand from abroad, although services firms saw a marginal uplift in non-domestic customer orders.

Reflective of weak factory demand, May survey data showed the continued reduction in manufacturers' purchasing activity. Suppliers' delivery times subsequently shortened once again as lower activity boosted vendor stocks, facilitating speedier shipments. Overall, average input lead times shortened to the greatest extent since July 2012.

An absence of capacity pressures across the manufacturing sector enabled firms to catch up on their unfilled orders as factory backlogs fell for a fourth month running. However, total outstanding business across France's private sector rose in May as services companies registered a further, albeit slower, increase in orders pending completion.

The resilience of private sector hiring activity was nevertheless sustained, with the rate of job creation quickening to an 11-month high. Employment growth was driven by services firms, where staffing levels continued to rise at a pace well above average.

Private sector firms in France saw input cost inflation ease further during May, with the overall rate of increase in operating expenses cooling to a 23-month low. However, pricing trends differed markedly by sector as a further steep rise in costs for services firms compared with a decline at manufacturers for the first time since July 2020. While services businesses remarked on an uptick in their costs due to factors such as higher wages and increased supplier charges, manufacturers reportedly benefitted from lower raw material and energy prices.

Conversely, there was a slight acceleration in the overall rate of output charge inflation for the first time since January. This was exclusively driven by services firms however, as manufacturing factory gate prices rose at the softest rate in over two-and-a-half years.

Lastly, May survey data revealed a weakening in business confidence across France. Although firms remained optimistic of growth over the coming 12 months, the degree of positivity eased to a five-month low.

## Comment

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

*"According to the HCOB Flash PMIs, the French economy continued to expand in May for the fourth consecutive month. After economic output grew by 0.2% in the first quarter, with both the services and manufacturing sectors contributing, the HCOB PMIs paint a different picture for the second quarter. According to the PMIs, the manufacturing sector continued to cool off in May, while the services sector continued to expand. By all accounts, the services sector, which accounts for 80% of the economy, will be the driving force in the second quarter."*

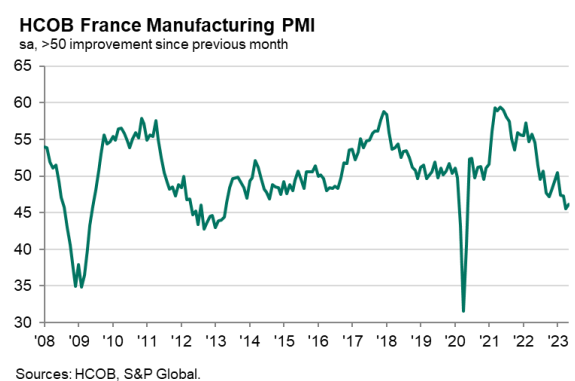
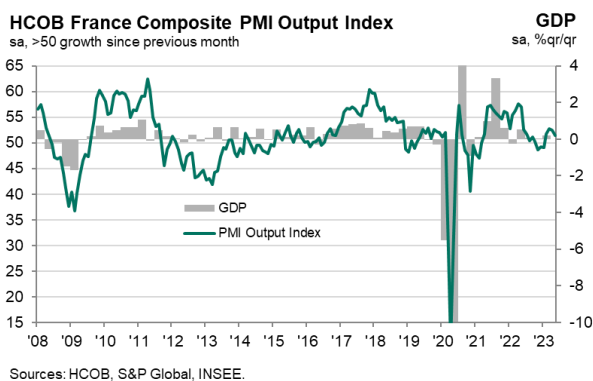
*"Services sector activity increased for the fourth month according to the flash HCOB Services Business Activity PMI, driving economic growth in France. Despite this encouraging news, there is also some negative news that colours the picture somewhat more bleakly. Firstly, total new business fell for the first time in three months, and secondly, both input and output price inflation rates remain at high levels. While the rise in input prices has slowed, selling prices increased at a faster pace."*

*"In contrast to services sector growth, manufacturing output is still declining. In addition to output, new business and new export business also showed weakness, although the pace at which they fell has slowed."*

*"However, not all is bad in the manufacturing sector. Input and output prices in particular stand out positively, as input prices fell for the first time since July 2020, according to the corresponding HCOB Flash PMI. What is pleasing for companies in this context is that they were once again able to push through slightly higher selling prices in this environment."*

*"The HCOB Employment PMI continued to rise in May, which is encouraging for both the services and manufacturing sectors. This is matched by an increase in employment and a decrease in the number of unemployed in the first quarter of 2023, according to INSEE. The unemployment rate is on par with the record low of the last 40 years."*

-Ends-



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## Note to Editors

Final May data are published on 1 June for manufacturing and 5 June 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>	-0.1	0.4
Manufacturing PMI <sup>3</sup>	0.1	0.3
Services Business Activity Index <sup>2</sup>	0.0	0.6

The Purchasing Managers' Index<sup>®</sup> (PMI<sup>®</sup>) 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<sup>®</sup> 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](mailto:economics@ihsmarkit.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

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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### About PMI

Purchasing Managers' Index<sup>®</sup> (PMI<sup>®</sup>) 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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