

MARKET SENSITIVE INFORMATION

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S&P Global Flash France PMI®

French private sector economy starts 2023 with a third successive contraction

Key findings:

Flash France PMI Composite Output Index⁽¹⁾ at 49.0 (Dec: 49.1). 2-month low.

Flash France Services PMI Activity Index⁽²⁾ at 49.2 (Dec: 49.5). 22-month low.

Flash France Manufacturing Output Index⁽⁴⁾ at 48.0 (Dec: 47.7). 8-month high.

Flash France Manufacturing PMI⁽³⁾ at 50.8 (Dec: 49.2). 7-month high.

Data were collected 12-20 January

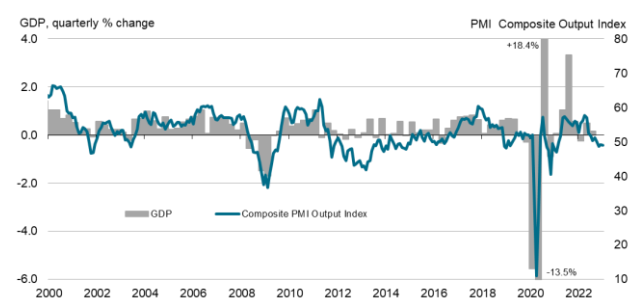
France's economy registered its third straight monthly decline in private sector output at the start of 2023, reflecting a further drop in goods production and a sustained weakening across the service sector. That said, the overall rate of contraction was only marginal, as was the case in the prior two months, suggesting that France's economic downturn remains modest in nature thus far.

The latest 'flash' survey results for January showed a sixth successive monthly fall in private sector new business, leading backlogs of work to decline. Nevertheless, employment growth strengthened to a three-month high and business confidence improved markedly. There was also an easing of cost inflation, although prices charged saw their most marked rise since October last year.

The headline **Flash France PMI Composite Output Index** was little-changed from December's 49.1 at the start of 2023, edging down fractionally to 49.0. Nevertheless, the headline figure from the 'flash' survey signalled a third successive month of falling business activity across France's private sector economy.

The drag from the manufacturing sector persisted into January, with production extending its current sequence of contraction which started in mid-2022. That said, factory output fell at the weakest pace seen over this period. On the other hand, service sector business activity recorded its sharpest decline since March 2021, despite the rate of reduction being only mild. Overall, PMI data suggest France's private sector downturn continued into the start of 2023, but remained modest.

S&P Global Flash France PMI Composite Output Index



Source: S&P Global, INSEE.

France's economic slowdown was demand-driven, anecdotal evidence showed, with survey respondents often commenting on falling intakes of new business. Indeed, overall new orders fell for a sixth month in a row in January, with the rate of decline quickening slightly since December. Increased interest rates and the high inflationary environment were cited as reasons for clients cutting their spending. Goods producers continued to observe a faster fall in new business than their service sector counterparts. Export demand also remained squeezed, with new orders from overseas customers falling for an eleventh month running.

Manufacturing companies also experienced an additional drag on the supply-side in January as delivery delays worsened. Overall, average input lead times lengthened to the greatest extent since August 2022.

Nevertheless, input cost inflation continued to trend downwards, with overall operating expenses across France's private sector rising at the slowest pace since February 2022. Companies in both sectors observed weaker cost pressures, although inflation in the service sector remained much stronger than seen across the manufacturing economy.

Conversely, the latest survey results showed selling price inflation picking up to a three-month high in January, reflecting more aggressive price setting across both monitored sectors. Anecdotal evidence suggested that increases in prices charged reflected business efforts to pass costs on to their customers.

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Elsewhere, there was an uplift in business confidence at the beginning of the year. French private sector companies recorded the strongest level of optimism towards the year-ahead outlook in six months as sentiment at both manufacturers and service providers strengthened. In some cases, growth expectations were underpinned by increases in staffing capacity.

Indeed, for a twenty-fifth month running, French private sector employment levels rose, with the rate of job creation even accelerating. Overall, workforce numbers grew moderately and at the fastest pace since October last year. The combination of shrinking order book volumes and rising staff levels led backlogs of work to be depleted in January. However, this was exclusively driven by the service sector as manufacturers noted a marginal rise in outstanding business.

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

“Although the latest PMI results for France showed its economic downturn extended into a third month, the decline in activity was once again fairly restrained and most certainly not of the nature many had expected prior to this winter. There were plenty of other positives to be gleaned from the latest data too, such as a further easing of input price inflation and a pick-up in business confidence. France’s labour market also continues to demonstrate its resilience, with employment growth accelerating to a three-month high.

“That said, the downturn remains demand-driven, and overall new business inflows fell again in January. In addition to persistent high inflation, which has eroded client purchasing power, rising eurozone interest rates present another drag to demand as borrowing costs increase. However, increased business optimism and stronger hiring suggests there are plenty of companies across France who are preparing for the downturn to be short-lived.”

-Ends-

News Release

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Note to Editors

Final January data are published on 1 February for manufacturing and 3 February 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 <i>PMI</i> ²	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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