NEWS RELEASE
MARKET SENSITIVE INFORMATION
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HCOB France Services PMI®

French service sector continues to weaken in October

Key findings:

Strong contractions in activity and new business sustained

Business confidence remains subdued

Input price inflation ticks up to five-month high

Data were collected 12-26 October

Business activity across France's service sector fell at a strong pace at the start of the fourth quarter, latest HCOB PMI® data showed, and although the rate of decline did lose some momentum, it was only marginally weaker than September's 34-month record. A further marked reduction in demand for services from customers both domestically and internationally was a key factor behind October's contraction.

A positive from the survey results was sustained growth in employment, despite backlogs falling strongly. Business confidence was however subdued, while input cost inflation intensified amid sustained wage pressures and rising fuel prices.

The seasonally adjusted **HCOB France Services PMI® Business Activity Index** – which measures changes in the volume of business activity compared with one month previously – registered in firm sub-50.0 territory in October at 45.2. Overall, this signalled a strong contraction that was the second-fastest in just shy of three years, surpassed only by that seen in September (44.4).

According to anecdotal evidence, lower activity levels at clients (particularly those within the real estate sector), inflationary pressures and increased interest rates impeded services output levels across France at the start of the fourth quarter. Indeed, the level of incoming new business followed the same trend as activity in October, declining at a strong rate that was only marginally softer than September's 34-month record. Demand for services has now fallen for six successive months.

Survey respondents noted a drag on sales from non-domestic markets during October, with new business from overseas decreasing sharply and at one of the fastest rates seen since the series began around nine years ago.

A sustained and strong reduction in incoming new business volumes drove an accelerated decrease in French service providers' backlogs of work during the latest survey period. In fact, the rate of depletion was the fastest since November 2020. This did not deter businesses from hiring additional workers, however, as staffing numbers rose for a thirty-fourth month in a row. The rate of job creation was broadly in line with its survey average.

Continued workforce expansion came amid reports from panel members of rising salary costs. This, alongside mentions of higher fuel prices, were noted as factors which drove the rate of input cost inflation up to a five-month high in October.

That said, weak demand conditions held back businesses' ability to fully pass on higher costs to their customers. Although prices charged for French services rose, the rate of increase was the slowest since May 2021.

Looking ahead, October survey data pointed to a subdued outlook towards activity for the coming 12 months. This was signalled by the HCOB Future Activity Index, which recorded well below its long-term average. Concerns regarding the broader economic outlook, in part due to higher interest rates, were noted by panel members.

Comment

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

"The French services sector is kicking off the fourth quarter on a rocky road. Business activity has taken a dive for the fifth consecutive month. Both total and international new orders remain on a downward trend. Input price increases remain stubbornly high, with the corresponding index increasing for the second month in a row and moving further above the threshold of 50. Output price increases softened a bit but are still historically strong, and will most likely be influenced in the coming months by rising input prices.

"The French services sector is taking a heavy blow from sluggish demand. Both overall and external new orders are plummeting rapidly, resulting in a strong decrease in business activity. In an effort to maintain the level of activity as high as possible, backlogs of work are being trimmed down. The decline in new work can be partly attributed to tightening financing conditions due to recent interest rate hikes.

"When it comes to prices, things are still pretty tense. Firms are grappling with increased input costs driven by higher energy expenses and escalating wages, as suggested by anecdotal reports. While output prices are still on the rise, the pace has slowed down in comparison to September. Inflation is poised to stay in the spotlight in the coming months, as the uptick in input costs is expected to translate into higher output prices.

"While the Future Activity index hovers above 50, it's noticeably below its long-term average, signalling subdued sentiment regarding the next twelve months. Anecdotal evidence points to tighter financial market conditions and mounting worries about the real estate sector as primary drivers behind this downturn in expectations."

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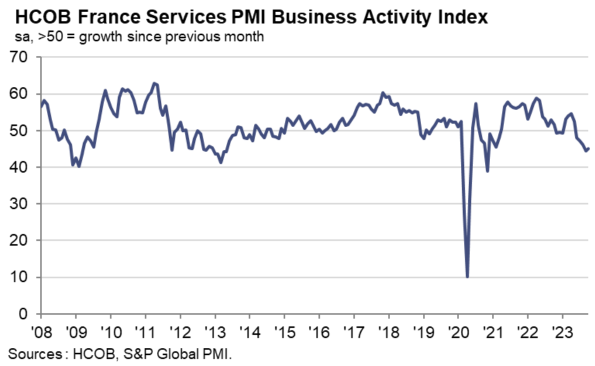
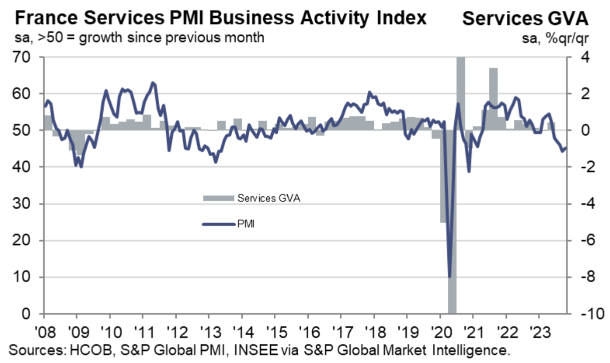




HCOB France Composite PMI®

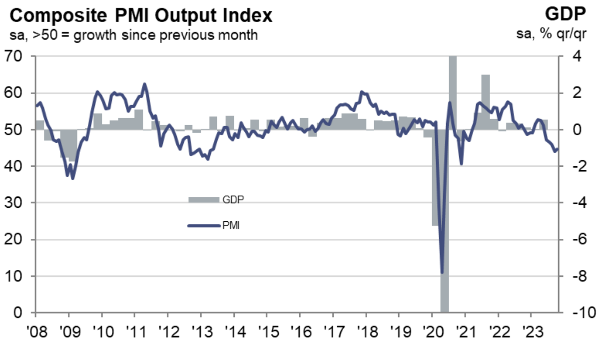
French economy starts fourth quarter with another strong fall in activity

France's private sector economy showed little signs of improvement following September's contraction in activity, which was the strongest in nearly three years. The **HCOB France Composite PMI® Output Index** recorded 44.6 in October, only slightly higher than September's 34-month low of 44.1 and therefore indicative of another strong reduction in private sector business activity. Lower output levels were seen across both the services and manufacturing sectors in October, with the latter seeing the stronger rate of decrease.

There was another sharp monthly fall in new orders at the start of the fourth quarter, with goods producers once again seeing the quicker decline. Falling new business intakes at the composite level led overall private sector backlogs to shrink at the fastest pace since November 2020.

Nevertheless, job creation within the service sector drove overall employment levels higher, despite factory job losses worsening.

Meanwhile, operating costs increased at the strongest pace since May. Average prices charged for goods and services subsequently rose, albeit only modestly.



Sources: HCOB, S&P Global PMI, INSEE via S&P Global Market Intelligence.

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Note to Editors

The HCOB France Services PMI® is compiled by S&P Global from responses to questionnaires sent to a panel of around 400 service sector companies. The sectors covered include consumer (excluding retail), transport, information, communication, finance, insurance, real estate and business services. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP. Data collection began in May 1998.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Services Business Activity Index. This is a diffusion index calculated from a question that asks for changes in the volume of business activity compared with one month previously. The Services Business Activity Index is comparable to the Manufacturing Output Index. It may be referred to as the 'Services PMI' but is not comparable with the headline manufacturing PMI figure.

The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index. The weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Composite Output Index may be referred to as the 'Composite PMI' but is not comparable with the headline manufacturing PMI figure.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

Flash services data were calculated from 81% of final responses. Flash composite data were calculated from 84% of final responses. Since January 2006 the average difference between final and flash Services Business Activity Index values is -0.1 (0.5 in absolute terms). Since January 2006 the average difference between final and flash Composite Output Index values is -0.1 (0.4 in absolute terms).

For further information on the PMI survey methodology, please contact economics@spglobal.com.

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.

Hamburg Commercial Bank aligns its activities with established ESG (Environment, Social, and Governance) criteria and has anchored sustainability aspects in its business model. It supports its clients in their transition to a more sustainable future.

The bank's specialists are as experienced as they are pragmatic. They act in a reliable manner and at eye level with their customers. They provide in-depth advice in order to jointly find efficient solutions that are a perfect fit – for complex projects in particular. Tailor-made financing, a high level of structuring and syndication expertise and many years of experience are just as much a hallmark of the bank as are our profound market and sector expertise.

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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. www.spglobal.com/marketintelligence/en/mi/products/pmi.html.

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