

NEWS RELEASE

MARKET SENSITIVE INFORMATION

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HCOB Flash France PMI[®]

Economic downturn in France persists midway through third quarter as fall in services activity worsens

Key findings:

HCOB Flash France Composite PMI Output Index⁽¹⁾ at 46.6 (Jul: 46.6). Unchanged.

HCOB Flash France Services PMI Business Activity Index⁽²⁾ at 46.7 (Jul: 47.1). 30-month low.

HCOB Flash France Manufacturing PMI Output Index⁽⁴⁾ at 45.8 (Jul: 44.0). 5-month high.

HCOB Flash France Manufacturing PMI⁽³⁾ at 46.4 (Jul: 45.1). 5-month high.

Data were collected 10-21 August

The French economy remained mired in a downturn midway through the third quarter, latest HCOB PMI[®] data compiled by S&P Global showed, with overall activity levels falling solidly. The rate of contraction matched that seen in July, which was the steepest since November 2020. Notably, output volumes across the dominant service sector fell for a third month running and at the quickest pace in two-and-a-half years, while manufacturing production extended the decline that has been ongoing since last summer.

There was a further slump in demand for French goods and services, with accelerated drops recorded at both manufacturers and service providers. Subsequently, backlogs of work fell at the sharpest rate in close to three years. Overall employment levels across France did however rise, albeit with the rate of job creation easing to its weakest since January 2021.

On the prices front, the latest survey data showed rates of input cost and output charge inflation easing to a 29- and 28-month lows, respectively.

The headline **HCOB Flash France Composite PMI Output Index** registered below the 50.0 no-change mark in August for a third consecutive month, signalling a sustained deterioration in economic activity across the eurozone's second-largest economy. At 46.6, the headline index was unchanged from July's 32-month low and pointed to a solid fall in private sector output across France midway through the third quarter.

As was also the case in both June and July, August's downturn was broad-based. Of note was a third consecutive monthly fall in service sector activity, and one that was the sharpest in two-and-a-half years. Some service providers attributed weaker output volumes to slowing market conditions. Meanwhile, factory production continued to decrease in August, extending the current sequence of contraction in manufacturing that started in the middle of last year. The reduction, albeit solid, was the softest since March.

Further evidence of economic weakness was also seen in private sector new orders, which declined for a fourth straight month in August. Moreover, the contraction was the quickest since November 2020 amid sharper falls in demand across both manufacturers and services firms. Generally sluggish market conditions reportedly led some surveyed businesses to struggle to secure new work. Export markets also presented a considerable drag for French companies in August, with new business from non-domestic clients falling sharply.

Lower volumes of incoming new business led firms to turn greater focus towards backlogs of work during August. Orders pending completion fell for the second time in the past three months and to the greatest extent since November 2020. Nevertheless, firms continued to hire additional staff, stretching the current period of employment growth that began in January

2021. Hiring was once again exclusively driven by services companies, however, as factory job losses continued for a third month in a row. Subsequently, the overall rate of employment growth slowed to a marginal pace that was the weakest in over two-and-a-half years.

Inflation rates remained on a downward trajectory in August, although there was once again significant variation in price dynamics at the sector level. August survey data signalled another marked reduction in manufacturers' operating costs, which fell at the fastest pace in 14 years. In comparison, service providers saw their expenses rise sharply on the month, but inflationary pressures did cool slightly. As a result, the overall rate of private sector input price inflation eased to a 29-month low. The trend was similar for output charges, with prices set for manufactured goods falling but services fees rising. Overall, the rate of selling price inflation slowed to its weakest since April 2021.

Lastly, business confidence took a hit in August. Although growth expectations cooled on the month, they were still stronger than June's 32-month low. Notably, manufacturers were at their most pessimistic towards the 12-month outlook since May 2020 as weak order book volumes are anticipated to hinder production.

Comment

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

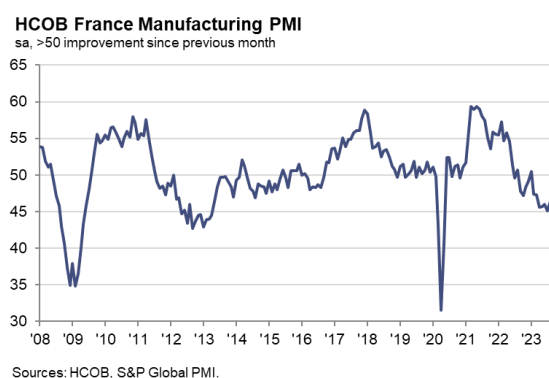
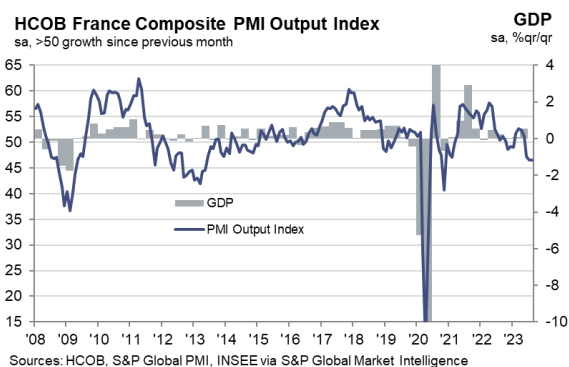
"The French economy is stuck in a rut, showing signs of struggle once again. For the third month straight, we've seen Europe's second-largest economy shrinking, as indicated by the HCOB PMIs. Despite hopes of a positive economic outlook, the latest PMI data is throwing a curveball, hinting that we might be headed for a contraction in the third quarter."

"The global weakness in demand is making itself felt in France. The HCOB PMI for new orders from abroad remains well below the expansion threshold of 50, but also new orders overall continued to deteriorate, which is why companies turned to backlogs of work to sustain activity wherever possible."

"The ongoing weakness of the French economy is also reflected in the employment situation. Although employment increased again, it did so at the slowest pace since January 2021. Nevertheless, it currently looks like the lowest unemployment rate in over 40 years could be reached in the third quarter. In addition, employment growth came exclusively from service companies. Should the situation in the service sector deteriorate further, a higher unemployment rate may follow."

"The discrepancy in prices between the sectors is still pronounced. In the services sector, input prices have again risen strongly due to higher wage growth. In contrast, manufacturing input prices fell for the fourth month in a row amid lower energy and raw material costs. In the case of output prices, a similar trend is showing, but this is not good for the inflation outlook as it suggests the core rate, where service prices play a crucial role, could prove to be stubborn."

-Ends-



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Note to Editors

Final August data are published on 1 September for manufacturing and 5 September 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 ¹	-0.1	0.4
Manufacturing PMI ³	0.1	0.3
Services Business Activity Index ²	0.0	0.6

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 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[®] (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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