

NEWS RELEASE  
MARKET SENSITIVE INFORMATION  
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# HCOB Flash Eurozone PMI®

## Eurozone activity falls at increased rate in December

### Key findings:

HCOB Flash Eurozone Composite PMI Output Index<sup>(1)</sup> at 47.0 (November: 47.6). 2-month low.

HCOB Flash Eurozone Services PMI Business Activity Index<sup>(2)</sup> at 48.1 (November: 48.7). 2-month low.

HCOB Flash Eurozone Manufacturing PMI Output Index<sup>(4)</sup> at 44.1 (November: 44.6). 2-month low.

HCOB Flash Eurozone Manufacturing PMI<sup>(3)</sup> at 44.2 (November: 44.2). Unchanged rate of decline.

Data were collected 05-13 December

Business activity in the euro area fell at a steeper rate in December, according to provisional PMI® survey data, closing off a fourth quarter which has seen output fall at its fastest rate for 11 years barring only the early-2020 pandemic months. Downturns were again recorded across both manufacturing and services, with both sectors reporting further steep falls in inflows of new business, which led to a further depletion of backlogs of work. Jobs were cut for a second month running as firms scaled back operating capacity in line with the worsening order book situation and persistent gloomy prospects for the year ahead, with future sentiment remaining well below its long-run average despite lifting slightly higher. Factories also cut inventories of inputs at a rate not seen since 2009.

Inflation signals were mixed: input cost inflation cooled but selling price inflation accelerated, the latter notably remaining elevated by historical standards.

### Output and demand

The seasonally adjusted **HCOB Flash Eurozone Composite PMI Output Index**, based on approximately 85% of usual survey responses and compiled by S&P Global, registered 47.0 in December, down from 47.6 in November to signal a seventh consecutive monthly reduction in business activity across the euro area. The weak reading rounds off the sharpest average quarterly decline in activity recorded by the survey since the fourth quarter of 2012, if early pandemic lockdown months are excluded.

Manufacturing continued to lead the downturn, accompanied by a steepening drop in service sector output. **Manufacturing output** fell for a ninth month running, the rate of decline re-accelerating after the moderation seen in November, albeit remaining less severe than seen in the four months to October. **Services activity** meanwhile fell for a fifth successive month, the pace of decline likewise gathering momentum again to register the third-steepest fall since the lockdowns of early 2021.

The overall reduction in business activity was again a reflection of deteriorating order books. **Inflows of new orders** fell for a seventh straight month, the rate of decline remaining unchanged on the steep pace seen in November (though somewhat less severe than witnessed in the three months to October). New orders for goods fell for a twentieth straight month, the rate of decline still sharp by historical standards despite easing for a second month in a row, while the rate of loss of new orders in the service sector remained among the highest seen over the past three years to register a sixth successive monthly fall.

**Backlogs of work** consequently also fell sharply, dropping for the seventeenth time in the past 18 months, the rate of decline ticking higher than in November. Manufacturing backlogs continued to fall especially sharply, but December also saw a sixth successive monthly fall in service sector backlogs, which were depleted at the fastest pace since February 2021.

## Employment, inventories and purchasing

**Employment** fell for a second consecutive month as companies scaled back capacity in line with the weakened demand environment. Although only modest, the recent falls in employment are the first recorded since early 2021. Manufacturing payrolls were cut for a seventh month in a row, the rate of job losses continuing to run at one of the highest seen since 2012 if pandemic months are excluded. Service providers meanwhile continued to pull back on their hiring, resulting in only a very modest expansion of their staffing levels, in marked contrast to the strong job gains seen in the sector earlier in the year.

As well as reducing employment, manufacturers cut their **purchasing activity** at one of the steepest rates recorded since the global financial crisis, resulting in the largest fall in **inventories of inputs** since November 2009. **Inventories of finished goods** likewise continued to be scaled back, largely in response to cost cutting amid weak sales. Falling demand for inputs meant that faster **suppliers' delivery times** were reported for an eleventh successive month in December, albeit showing the smallest improvement recorded over this period.

## Prices

Eurozone companies recorded a slowing in the rate of increase in **input costs**, which registered the smallest monthly increase since August and an increase only marginally above the survey's pre-pandemic average. A tenth successive month of falling input prices in manufacturing, the rate of decline of which remained among the highest seen since the global financial crisis, was accompanied by a further cooling of service sector input cost inflation to the lowest since July, albeit the latter remaining elevated by historical standards.

While input cost inflation cooled in December, average **selling prices** rose at an increased rate, posting the largest monthly increase since May to remain high by the historical standards of the survey. Although goods prices fell for an eighth straight month, the decline was only marginal, and the smallest recorded since May. Charges for services meanwhile rose at a rate not seen since July.

## Outlook

Looking ahead, firms grew more optimistic regarding the year-ahead outlook for output in December, with sentiment at its brightest since August. The improvement was limited to manufacturing, however, where confidence reached its highest since May, while service sector firms remained at their gloomiest for a year. Despite the uplift in manufacturing, the overall level of confidence notably continues to be well below long-run averages in both sectors.

## National trends

The downturn was led by **France**, where businesses reported the sharpest reduction in activity since March 2013 (excluding the pandemic) thanks to rates of contraction accelerating in both manufacturing and services. However, output also fell at a sharp and accelerating rate in **Germany** amid steepening losses for both goods and services. While the **rest of the eurozone** as a whole recorded a more muted decline by comparison to the falls seen in France and Germany, output here has now fallen for five successive months as a severe decline in goods production continued to offset only a very modest rise in services activity.

## Comment

Commenting on the flash PMI data, Dr. Cyrus de la Rubia, Chief Economist at Hamburg Commercial Bank, said:

*“Once again, the figures paint a disheartening picture as the Eurozone economy fails to display any distinct signs of recovery. On the contrary, it has contracted for six straight months. The likelihood of the Eurozone being in a recession since the third quarter remains notably high.*

*The service sector maintains a relatively more stable position compared to the manufacturing sector, contracting at a much slower rate. This is likely attributed to the concurrent reduction in consumer price inflation, coupled with an above-average surge in wages. These factors contribute to bolstering the purchasing power of private households, a crucial element for the more consumer-driven service sector. However, despite these elements, there are no indications of the service sector breaking free from its unsatisfactory trajectory. Quite the opposite, new business is diminishing at an accelerated pace, as is the backlog of work.*

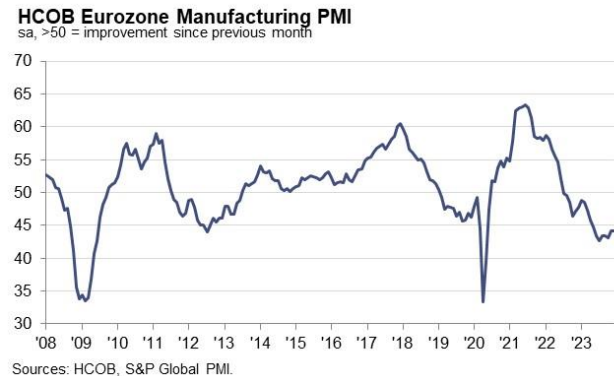
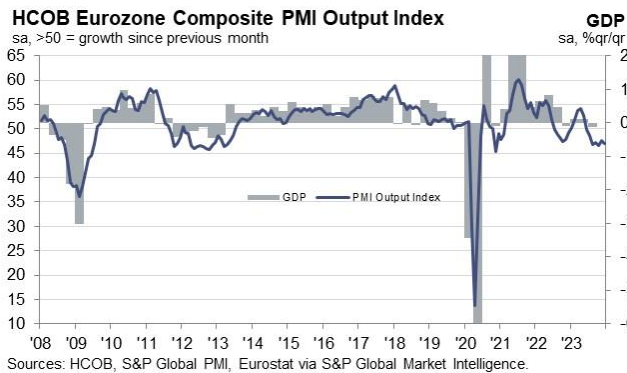
*Employment has teetered between marginal increases and decreases over the past five months, essentially holding steady. This stability is reassuring for individuals, providing them with greater certainty about their future income. However, the coexistence of declining output and unchanged employment levels signals an exacerbation of productivity challenges. Consequently, the anticipated streamlining effect, typical of past recessions providing the basis for productivity increases, seems unlikely to materialize this time. This factor contributes to our expectation of only modest economic growth in the Eurozone, forecasted at 0.8% for the upcoming year, following 0.5% growth this year.*

*Even though input prices increased at a modestly slower rate, companies were able to raise output prices even more than in previous months. This suggests that businesses were successful in transferring a portion of the cost increases to customers.*

The European Central Bank acknowledges this dynamic in its latest statement, noting that "domestic price pressures remain elevated."

A closer look at the top two economies in the Eurozone reveals a positive comparison for Germany in relation to France, particularly within the service sector. Germany is experiencing a much slower contraction in this area, while the downward trend of the index is more pronounced in France. Similar dynamics are observed in manufacturing, where the pace of output decline is faster in France than in Germany. Obviously, there's no room for "Schadenfreude" on the German side, not only for general reasons but also because France stands as the second most significant buyer of German export goods. In addition, the positive comparison does not change the fact that Germany's economy is in a bad shape, in absolute terms."

-Ends-



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## Note to Editors

Final December data are published on 2 January for manufacturing and 4 January for services and composite indicators.

The HCOB Eurozone PMI (Purchasing Managers' Index) is produced by S&P Global and is based on original survey data collected from a representative panel of around 5,000 companies based in the euro area manufacturing and service sectors. National manufacturing data are included for Germany, France, Italy, Spain, the Netherlands, Austria, the Republic of Ireland and Greece. National services data are included for Germany, France, Italy, Spain and the Republic of Ireland. The flash estimate is typically based on approximately 85%–90% 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>	0.0	0.3
Manufacturing PMI <sup>3</sup>	0.0	0.2
Services Business Activity Index <sup>2</sup>	0.0	0.3

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@spglobal.com](mailto:economics@spglobal.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.

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. <https://www.spglobal.com/marketintelligence/en/mi/products/pmi.html>

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