

NEWS RELEASE

MARKET SENSITIVE INFORMATION

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HCOB Eurozone Composite PMI[®]

Eurozone economy contracts at fastest pace in nearly three years as demand worsens

Key findings:

HCOB Eurozone Composite PMI Output Index at 46.5 (Sep 47.2). 35-month low.

HCOB Eurozone Services PMI Business Activity Index at 47.8 (Sep 48.7). 32-month low.

New business falls at quickest rate since September 2012 when excluding pandemic

Data were collected 11-26 October 2023

The eurozone economy started the fourth quarter with a further month of contraction, latest HCOB PMI[®] survey data compiled by S&P Global showed, extending the current period of decline seen so far in the second half of 2023. In fact, the rate of decrease in business activity accelerated since September and was the strongest since November 2020. Fragile demand conditions also remained a notable feature of the survey results, with overall new business intakes falling at the quickest rate since September 2012, during the sovereign debt crisis, when pandemic-affected months are excluded. A darkened economic outlook was also reflected by a stagnation of employment, ending a 32-month period of job creation.

Meanwhile, prices charged for euro area goods and services rose at the softest pace since February 2021, while the rate of input cost inflation cooled slightly from September's four-month high.

The seasonally adjusted **HCOB Eurozone Composite PMI Output Index**, a weighted average of the HCOB Manufacturing PMI Output Index and the HCOB Services PMI Business Activity Index, posted beneath the critical 50.0 threshold which separates expansion from contraction for a fifth month in a row in October. Furthermore, at 46.5, this was down from 47.2 in September, signalling a solid and accelerated contraction in output that was the fastest in nearly three years.

October's sharper downturn in activity reflected a worsening performance by service providers, as the decrease in factory production levels remained on par with that seen in September. Still, the latest survey data signalled the third month in succession in which output has fallen in both monitored sectors.

With the exception of Spain (where private sector activity stagnated in October), declines in output were broad-based across the euro area constituents monitored. Germany and France continued to contract sharply, and Italy posted the fastest deterioration for a year. Ireland registered the first decline in output in 11 months, albeit one that was only slight.

Demand conditions played a key role in October's stronger downturn in activity, with new orders placed for euro area goods and services falling at the quickest pace since May 2020. Excluding the pandemic-hit months, the latest drop in new business was the most substantial seen since September 2012, during the sovereign debt crisis. New business from abroad¹ was a considerable drag, falling at one of the steepest rates since this particular series was first compiled in 2014.

In turn, eurozone companies made further progress on their backlogs in October. Outstanding business volumes decreased strongly and at a rate that was broadly in line with September's 39-month record. A sustained marked fall in capacity pressures led more companies to hold back on workforce expansion. Consequently, euro area private sector employment stagnated, ending a 32-month sequence of job creation.

Firms' decisions to hold back on hiring chimed with survey data on business sentiment, which signalled a subdued level of confidence in the economic outlook. This was despite it improving slightly from September's ten-month low.

More positively, there was a cooling of cost pressures faced by euro area companies following two successive months of intensifying inflation. The rate of increase in firms' operating expenses was sharp nonetheless, and only marginally weaker than September's four-month high. Output price inflation cooled, however, to its weakest since February 2021.

Countries ranked by Composite PMI Output Index: October

Spain	50.0	2-month low
Ireland	49.7	11-month low
Italy	47.0	12-month low
Germany	45.9 (flash 45.8)	2-month low
France	44.6 (flash: 45.3)	2-month high

¹includes intra-eurozone trade.

HCOB Eurozone Services PMI[®]

The **HCOB Eurozone Services PMI Business Activity Index** fell to a 32-month low of 47.8 in October, from 48.7 in September, signalling a further and faster decline in output across the euro area's service sector. Overall, this marked the third consecutive month of contraction.

The latest survey data indicated a worsening of demand conditions faced by service providers, as new business volumes fell at the quickest pace since January 2021. This also reflected a stronger drag from non-domestic customers, as highlighted by new export business falling to the fastest extent in over two-and-a-half years.

Eurozone services companies were subsequently able to work through orders in a timelier fashion, as seen by backlogs of work falling for a fourth successive month. Employment growth was sustained, although the rate of job creation was mild and slower than in September. Business confidence improved but remained weaker than its historic average.

Lastly, eurozone services companies recorded a further substantial uplift in their operating costs, despite pressures easing slightly. Selling price inflation cooled to its weakest since May 2021.

Comment

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

"It looks like the service sector in the Eurozone is stumbling out of the gates for this final quarter. October marks the third straight month of business activity taking a hit. With new business diving steeply, it is not painting a rosy picture for what is ahead. Expectations for the next twelve months, however, have improved a bit, but remain well below the long-term average.

"It is a bit of a head-scratcher – prices are still going up, not walking hand in hand with demand like they normally do. While business activity has moved into recessionary territory, indices for prices remained well above 50. There is a name for it, stagflation. The million-dollar question is how long are we going to be stuck in this odd stagflation zone? PMI data are signaling a bit of a wait. For the ECB, it means that this is not yet the time to cut interest rates.

"Given the shortages in the labour market, service companies remain hesitant in cutting jobs. Instead, they have merely slowed the pace of hiring staff. While labour market conditions may soften amid weak business performance, the issue of a lack of qualified labour will most probably persist in the longer term. This should stop private consumption from falling off a cliff, which is of particular importance for the services sector.

"International business, which includes tourism, took a major hit with one of the biggest drops since 2014. This segment has been on a downward trend since June. It indicates that tourism, which had been a major source of support especially for the southern European countries, is evaporating.

"Looking at the rankings for the major economies' composite PMI in October, Spain sticks out with a score of 50. France, however, is the worst performer in this group, with Germany trailing close behind. Meanwhile, Italy is hot on Germany's heels in terms of poor performance. All in all, GDP of the Eurozone may well fall in the fourth quarter."

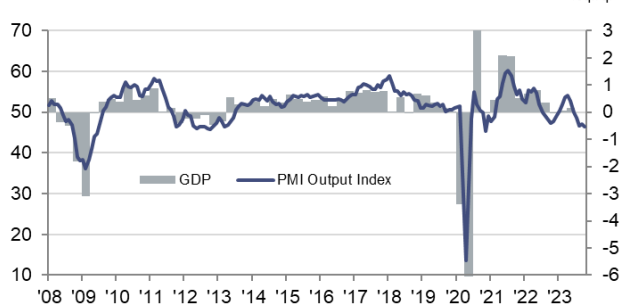
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HCOB Eurozone Composite PMI Output Index
sa, >50 = growth since previous month



Source: HCOB, S&P Global PMI.

Composite PMI Output Index **Gross domestic product (GDP)**
sa, >50 = growth since previous month %qtr/qr



Source: HCOB, S&P Global PMI, Eurostat via S&P Global Market Intelligence.

Contact

Hamburg Commercial Bank AG

Dr. Cyrus de la Rubia
Chief Economist
T +49-(0)160-9018-0792
cyrus.delarubia@hcob-bank.com

Katrin Steinbacher
Head of Press Office
Senior Vice President
T: +49-40-3333-11130
katrin.steinbacher@hcob-bank.com

S&P Global Market Intelligence

Chris Williamson
Chief Business Economist
T: +44-207-260-2329
chris.williamson@spglobal.com

Sabrina Mayeen
Corporate Communications
T: +44-796-744-7030
sabrina.mayeen@spglobal.com

Note to Editors

The HCOB Eurozone Composite PMI[®] is compiled by S&P Global from responses to questionnaires sent to survey panels of manufacturers in Germany, France, Italy, Spain, the Netherlands, Austria, Ireland and Greece, and of service providers in Germany, France, Italy, Spain and Ireland, totalling around 5,000 private sector companies. The panels are each stratified by detailed sector and company workforce size, based on contributions to each country's GDP.

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 manufacturing and services survey variable, at the country level. 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.

Eurozone level indices for manufacturing and services are calculated by weighting together the country indices using national manufacturing and services annual value added*. Composite eurozone level indices are calculated by weighting comparable manufacturing and services indices using eurozone manufacturing and services annual value added*.

The headline composite figure is the Composite Output Index. This is a weighted average of the Manufacturing Output Index and the Services Business Activity Index. It may be referred to as the 'Composite PMI' but is not comparable with the headline Manufacturing PMI, which is a weighted average of five manufacturing indices (including the Manufacturing Output Index).

The headline services figure is the Services Business Activity Index. This is a diffusion index calculated from a single question that asks for changes in the volume of business activity compared with one month previously. The 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.

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 composite data were calculated from 83% of final responses. Since January 2006 the average difference between final and flash Composite PMI Output Index values is 0.0 (0.3 in absolute terms). Flash services data were calculated from 79% of final responses. Since January 2006 the average difference between final and flash Services PMI Business Activity Index values is 0.0 (0.3 in absolute terms).

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

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.

S&P Global (NYSE: SPGI)

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