

NEWS RELEASE
MARKET SENSITIVE INFORMATION
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HCOB Eurozone Manufacturing PMI[®]

Production and new orders fall at strongest rates in six months, driving factory gate prices lower for first time since September 2020

Key findings:

HCOB Eurozone Manufacturing PMI at 44.8 (Apr. 45.8). 36-month low

HCOB Eurozone Manufacturing PMI Output Index at 46.4 (Apr. 48.5). 6-month low

Factory gate prices reduced for first time since September 2020

Data were collected 11-23 May

Having shown tentative signs of a modest recovery in the first quarter, the eurozone manufacturing economy registered a second successive monthly contraction in output midway through the second quarter. According to the latest HCOB PMI[®] survey, production volumes fell at the quickest rate since last November, reflecting a growing drag from demand as new orders also fell to the greatest extent in six months. Manufacturers continued to turn to their stock of outstanding work to help sustain production, as backlogs fell at a sharp and stronger pace in May. Factory employment levels rose for a twenty-eighth month running, but the latest rate of job creation matched the slowest over this sequence.

Suppliers' delivery times continued to shorten drastically amid growing spare capacity at vendors. With supplier pricing power dwindling, and amid reports of falling energy costs, eurozone manufacturing input costs fell at the fastest rate since February 2016. Meanwhile, output prices were reduced for the first time since September 2020.

The **HCOB Eurozone Manufacturing PMI[®]**, compiled by S&P Global, fell from 45.8 in April to 44.8 in May. Below the crucial 50.0 threshold which separates improvement from deterioration, the latest results signalled a further decline in the health of the eurozone manufacturing sector, and one that was the steepest in three years.

Of the eight eurozone countries monitored by the survey (which account for an estimated 89% of total manufacturing activity), Greece was once again the only member state to register an improvement in operating conditions since April. That said, the upturn here slowed and was only modest. Elsewhere, with the exception of France, manufacturing sector downturns worsened compared to the prior month. In many cases, rates of deterioration were the sharpest seen since the height of the initial COVID-19 outbreak in May 2020.

May survey data revealed a stronger downturn in factory production volumes across the euro area. The decline in output was solid and the quickest since last November. Falling new sales was a notable headwind to manufacturers midway through the second quarter, with new order inflows dropping sharply and at the quickest pace in six months. Surveyed companies highlighted a growing challenge in enticing new business from foreign clients as the downturn in new export orders' accelerated to a steep rate. In fact, May's deterioration in external demand was among the sharpest on record (since June 1997).

With the decrease in overall new business inflows outpacing that of production yet again in May, eurozone factories worked through their backlogs to help prop up output levels. The amount of orders pending completion fell for the twelfth month in succession during May, with the rate of depletion the fastest since last October. Eurozone manufacturers continued to recruit additional staff, extending the current sequence of job creation to 28 months. However, the rise in workforce numbers was modest and the joint-weakest over this period.

The latest survey results showed a persistence of inventory drawdowns, with stocks of purchases falling for a fourth month

running and to the greatest extent since October 2019. Indeed, eurozone manufacturers cut their purchasing activity sharply once again midway through the second quarter as firms showed a preference to use up existing materials where possible. Stocks of finished goods were broadly unchanged since April.

Rapidly improving supply chain conditions also justified businesses' destocking efforts, with average input lead times shortening drastically once again during May. Subsequently, surveyed firms recorded the strongest decrease in their input costs since February 2016 amid reports of falling supplier charges, as well as decreases in energy prices. Lower operating expenses allowed firms more flexibility over their pricing strategies. For the first time since September 2020, the price of goods leaving the factory gate declined during May.

Looking ahead, despite the prevailing business environment worsening, eurozone manufacturers were optimistic regarding the 12-month outlook. That said, the level of positivity was subdued by historical standards and eased to a five-month low.

¹ Includes intra-eurozone trade

Countries ranked by Manufacturing PMI: May

Greece	51.5	4-month low
Spain	48.4	4-month low
Ireland	47.5	36-month low
Italy	45.9	36-month low
France	45.7 (flash: 46.1)	2-month high
Netherlands	44.2	36-month low
Germany	43.2 (flash: 42.9)	36-month low
Austria	39.7	37-month low

Comment

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

"The weakness in demand in the manufacturing sector, which has become increasingly evident since the beginning of the year in falling PMI readings, has now led the surveyed companies to reduce their production for the second month in a row.

"The decline in new orders from home and abroad signals that the weakness in output is likely to persist for several more months. Data from the EU Commission, available through April, show that basically all product categories are under pressure, with the important exception of capital goods. Indeed, the latter is also confirmed by the Manufacturing PMI for capital goods which was far more resilient than the intermediate and consumer segments in May. Here, the EU New Generation Fund earmarked for investment projects may play a stabilizing role.

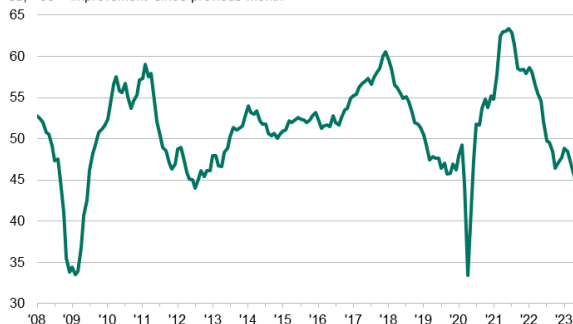
"The downturn in the manufacturing sector is geographically broad-based. In the four largest eurozone countries, manufacturing PMIs are below the key 50.0 threshold. According to Eurostat, manufacturing output has already fallen in the first quarter. Judging by the PMI survey results, the sign is likely to be negative in the second quarter as well, with France standing out in particular as a poor performer.

"In the labor market, the downturn has not yet taken hold. On balance, the companies surveyed are still hiring more people or are reluctant to cut staff despite the poorer order situation for fear of not being able to fill the positions again when the next upturn comes. This is evidence of a certain optimism. After all, the majority of the companies surveyed expect to produce more in the next twelve months than is currently the case."

-Ends-

HCOB Eurozone Manufacturing PMI

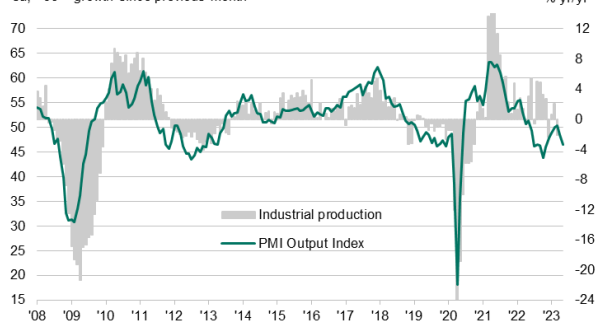
sa, >50 = improvement since previous month



Sources: HCOB, S&P Global.

Manufacturing PMI Output Index

sa, >50 = growth since previous month



Sources: HCOB, S&P Global, Eurostat.

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Note to Editors

The HCOB Eurozone Manufacturing 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, totalling around 3,000 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 are calculated by weighting together the country indices using national manufacturing annual value added*.

The headline figure is the Manufacturing Purchasing Managers' Index® (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers' Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

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.

*Source: Eurostat.

Flash data were calculated from 84% of final responses. Since January 2006 the average difference between final and flash Manufacturing PMI values is 0.0 (0.2 in absolute terms).

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

Hamburg Commercial Bank AG

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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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