

NEWS RELEASE
MARKET SENSITIVE INFORMATION
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HCOB Eurozone Manufacturing PMI®

Decline in eurozone factory orders among sharpest on record in October

Key findings:

HCOB Eurozone Manufacturing PMI at 43.1 (Sep: 43.4). 3-month low.

HCOB Eurozone Manufacturing PMI Output Index at 43.1 (Sep: 43.1). Unchanged.

October's contraction in new orders among strongest ever recorded

Data were collected 11-24 October

The slump in the eurozone's manufacturing sector remained substantial at the start of the fourth quarter, with steep and accelerated contractions in new orders, purchasing activity and backlogs contributing to another considerable fall in factory production. Notably, indicators for the aforementioned sub-indices were among the lowest in their respective histories, underscoring major weakness within the euro area goods-producing economy. October survey data also signalled the fastest reduction in factory employment levels since August 2020 as business confidence dropped to an 11-month low.

Manufacturers' input prices continued to fall, an eighth successive month in which this has been the case, feeding further factory price discounting. Rates of deflation eased in both cases, however.

The **HCOB Eurozone Manufacturing PMI**, compiled by S&P Global, fell to a three-month low of 43.1 in October, down from 43.4 in September and indicative of a further marked deterioration in the health of the euro area's goods-producing sector. This marked the sixteenth month in succession that the report's headline index has registered in sub-50.0 contraction territory, signalling a sustained deterioration in manufacturing conditions.

Of the countries where Manufacturing PMI data are available, October survey data highlighted broad-based weakness. As has been the case so far in the second half of the year, Germany was the worst performer, despite its downturn easing again. France, the second-largest economy in the single currency union, recorded its strongest deterioration in factory conditions in nearly three-and-a-half years. Faster declines were also noted for Italy, Spain and Ireland, while Greece remained the sole country to register an improvement, albeit one which was marginal.

PMI survey data continued to highlight considerable weakness in demand, with new orders contracting at one of the steepest rates in the survey history. The latest decrease has only ever been surpassed by those seen during the pandemic, the global financial crisis of 2008-09 and the energy crisis late last year. Similar trends were also evident for both quantity of purchases and backlogs of work, highlighting the bleak picture within the eurozone manufacturing industry.

A rapid and accelerated fall in pending workloads signalled companies' efforts to support production, given substantial weakness in demand. Nevertheless, factory production volumes fell markedly once again and at the joint-second strongest pace since May 2020.

In line with the trend seen for much of the year-to-date, eurozone manufacturers reduced their stocks of purchases in October. Notably, the rate of depletion quickened for the second successive month and was the strongest since November 2012. Post-production inventories also fell, with October's decline the most marked in over two years.

Alongside the cashflow improvements made via inventory depletion, eurozone factories looked to make additional cost savings through jobs cuts. Employment fell for a fifth month in a row at the start of the fourth quarter, with the rate of job shedding its fastest since August 2020.

An accelerated decrease in staffing numbers also came amid a worsening in firms' growth expectations. Although firms remained marginally optimistic towards the 12-month outlook, the level of positive sentiment slid to an 11-month low.

Meanwhile, deflation remained a key feature of the Manufacturing PMI survey in October as both input costs and output prices continued to fall. The extent to which operating expenses fell was the weakest since April, but sharp nevertheless. A sustained fall in input prices partially reflected further improvements on the supply side as average input lead times continued to improve. Survey respondents continued to pass through cost savings to clients via a reduction in prices charged, the sixth month running in which this has been the case.

Countries ranked by Manufacturing PMI: October

Greece	50.8	2-month high
Ireland	48.2	3-month low
Spain	45.1	12-month low
Italy	44.9	3-month low
Netherlands	43.8	2-month high
France	42.8 (flash: 42.6)	41-month low
Austria	41.7	6-month high
Germany	40.8 (flash: 40.7)	5-month high

Comment

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

"The Eurozone manufacturing sector's trend over the last two years or so looks like a bumpy sleigh ride down into the valley. Given that the headline PMI did barely move over the last few months, including October, we may be about to reach the bottom of the valley. Thus, the big question is when we will begin to make an ascent. The stagnating new orders index, which remains deep in negative territory, and the similar behaviour of the Quantity of Purchase Index does not suggest an immediate turnaround. Having said this, history tells us that in many cases the levelling out of these indices is the precondition for a start of the recovery. We expect this to happen in the first half of next year.

"Companies continue to decrease their stock of purchases. Thus, we do not see any desire from firms to refill their empty shelves, which we'd expect during a demand recovery. In light of the new geopolitical tensions in the middle east, and subsequent rise in downside risks, this is perhaps not fully surprising.

"Notably, companies cut staff much more aggressively in October than in the previous month. However, when we compare the headline PMI with the employment PMI, we see that the latter is actually in better shape than the former. This is kind of atypical because usually, both indices tend to move in sync, as we can see from the data between 2011 and 2019. There is a reason behind this seemingly odd behaviour which is the shortage of labour. That means many companies could not find people to fill their open positions. Hesitancy to lay off workers has meant that the jobs market is not taking as big of a hit as it did in past tough times.

"It looks like the eurozone countries are pulling each other down. With France, Italy, and Spain PMIs diving and Germany already signalling a deep manufacturing recession, it is pretty clear that the sector is headed for a contraction in all these countries this quarter."

-Ends-

HCOB Eurozone Manufacturing PMI

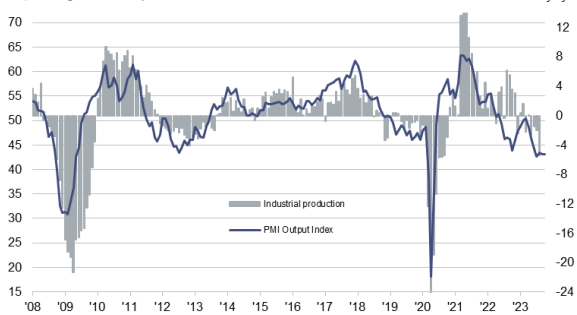
sa, >50 = improvement since previous month



Source: HCOB, S&P Global PMI.

Manufacturing PMI Output Index

sa, >50 = growth since previous month



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

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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 86% 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

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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