

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

Eurozone economy moves closer to stabilisation in February as service sector ekes out growth

Key findings:

HCOB Eurozone Composite PMI Output Index at 49.2 (Jan: 47.9). 8-month high.

HCOB Eurozone Services PMI Business Activity Index at 50.2 (Jan: 48.4). 7-month high.

Renewed service sector expansion offset by further contraction in manufacturing

Data were collected 12-26 February 2024

The euro area economy moved closer to stabilisation in February. Although total output volumes fell for a ninth successive month, the contraction was marginal and the slowest since the middle of last year. Notably, service providers recorded a fractional improvement in business activity, which was offset by a further solid reduction in factory production.

The downturn in demand, which has been a primary factor for the eurozone's economic decline since mid-2023, also cooled for a fourth month running, helping to spur growth expectations to their highest in nearly a year and re-invigorated job creation. However, amid reports of persistent wage pressures, overall operating costs rose to the strongest extent in ten months, pushing output price inflation higher.

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, remained in sub-50.0 contraction territory in February. That said, having risen from 47.9 in January to an eight-month high of 49.2, the index signalled a near-stabilisation of the euro area economy. A rejuvenation in the service sector was evident, where activity levels rose for the first time since July last year. The downturn in the manufacturing sector, albeit cooling, continued to offset this, however.

There were noteworthy differences in economic performance across the countries included in the eurozone PMI. Solid expansions were seen in Ireland and Spain. Private sector business activity in Ireland rose at a strong pace that was the fastest in a year, while the growth rate in Spain improved to a nine-month high. Italy also contributed positively, although the expansion here was mild. That said, these upturns were counteracted by the euro area's two largest economies, France and Germany, which remained mired in contraction. Although France's downturn eased, Germany saw its rate of decline quicken to the sharpest since last October.

The near-stabilisation of eurozone economic activity was in part due to a less marked reduction in new business intakes. Although private sector order books shrank, they did so to the softest degree since the slump in demand started in June last year. Better trends were apparent at the sector level, with both manufacturers and service providers seeing slower declines than at the beginning of the year. The greatest drag continued to come from export¹ markets, however, with new business from non-domestic customers falling at a faster pace than seen for order books overall.

A slower rate of deterioration in demand caused the pace of backlog depletion to slow during February. Outstanding business volumes fell solidly, but to the weakest extent in eight months. Companies in the manufacturing sector continued to drive the reduction, sector data showed. Nevertheless, job creation picked up midway through the first quarter, despite the absence of capacity pressures. The rate of employment growth, albeit modest, was at a seven-month high and fractionally quicker than seen across the survey history on average.

That said, the boost to net employment coincided with a fifth successive month-on-month improvement in business optimism

across the eurozone economy. In fact, growth expectations were in line with the series trend (going back to July 2012). The uplift in positive sentiment was driven by more bullish predictions across the service sector, as the level of confidence was unchanged in manufacturing.

As for price trends, February survey data signalled an intensification of pressures across the eurozone. Input costs continued to rise, with the rate of inflation accelerating to a ten-month high. Steep increases in service sector costs were to blame, sector data showed, although manufacturing costs declined at a weaker rate than at the turn of the year. In turn, prices charged for eurozone goods and services increased at the fastest pace since last May.

Countries ranked by Composite PMI Output Index: February

Ireland	54.4	12-month high
Spain	53.9	9-month high
Italy	51.1	9-month high
France	48.1 (flash: 47.7)	9-month high
Germany	46.3 (flash 46.1)	4-month low

¹includes intra-eurozone trade.

HCOB Eurozone Services PMI[®]

The **HCOB Eurozone Services PMI Business Activity Index** for February provided a positive signal for the services sector as it moved into growth territory for the first time since last July. At 50.2, the index was up solidly from 48.4 in January and indicated a fractional improvement in output levels compared with the previous month.

The pick-up in activity coincided with a broad stabilisation of demand, with the respective index posting below but close to the neutral 50.0 threshold. Steadier sales performances were accompanied by a stronger uplift in service sector employment across the euro area. The rate of job creation quickened to an eight-month high in February.

Services companies continued to make inroads into their backlogs of work, extending the current sequence of depletion that started last July. The rate of decrease was in line with the trend over this period.

As has been the case over the past three years, inflationary pressures in the service sector were elevated during February. While not as severe as seen between 2021 and 2023, the rate of increase in costs did edge up to a nine-month high and was well above its long-term average. Similarly, prices charged rose at a sharp and accelerated pace.

Looking ahead, eurozone service providers were optimistic regarding business activity prospects over the coming 12 months. The level of positive sentiment rose to a one-year high.

Comment

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

“The service sector may be off to a better start in 2024 than anticipated. For the first time in seven months, the sector’s activity is expanding instead of shrinking. While the growth rate is fractional, it is complemented by positive developments in other PMI sub-indicators. Particularly encouraging is the uptick in new staff recruitment by service providers, surpassing the sluggish growth rates seen in recent months. Moreover, the stability in incoming new business suggests a potential turning point in demand conditions.”

“Economic vitality in the Eurozone’s service sector stemmed predominantly in the South. Spain and Italy marked their sixth and second consecutive months of rising service sector activity, respectively, a contrast with Germany and France, where contractions continued. Nonetheless, a shared theme among the top four eurozone economies is a robust pace of hiring by employers. While employment is traditionally considered a lagging indicator, this trend hints at a growing sense of optimism and points towards continued sectoral recovery.”

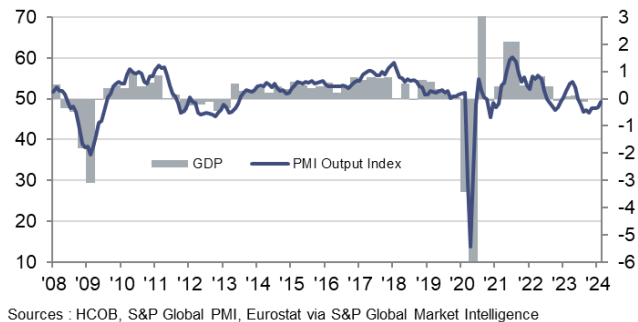
“As the European Central Bank (ECB) gears up for its March 7 meeting, the spotlight falls on heated discussions surrounding the timing of interest rate cuts. In this respect, the PMI survey provides two important insights. Firstly, output prices in the service sector continue to surge at an accelerated rate, primarily fuelled by escalating wages. Secondly, the unexpectedly robust pricing power demonstrated by service providers amid a sluggish economic climate and a forecast of sub-1% growth for 2024 raises eyebrows. This heightens concerns regarding the potential emergence of a wage-price spiral and stagflation, particularly in light of persistent structural labour shortages that threaten productivity. Those advocating late rate cuts may very well find reinforcement in the PMI findings.”

-Ends-

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



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



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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 86% 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 80% 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

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