

NEWS RELEASE

MARKET SENSITIVE INFORMATION

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HCOB Eurozone Composite PMI[®]

Eurozone economy ends third quarter with another contraction as demand falls at quickest pace in almost three years

Key findings:

HCOB Eurozone Composite PMI Output Index at 47.2 (Aug: 46.7). 2-month high.

HCOB Eurozone Services PMI Business Activity Index at 48.7 (Aug: 47.9). 2-month high.

Demand for eurozone goods and services falls at strongest rate since November 2020

Data were collected 08-26 September 2023

The eurozone economy ended the third quarter with another contraction in business activity, latest HCOB PMI[®] survey data compiled by S&P Global showed, as output volumes across both the manufacturing and service sectors were constrained by deteriorating demand conditions. Indeed, new orders fell at the fastest pace in nearly three years, reflecting an accelerated fall in new business received by service providers. Businesses showed a greater reliance on backlogs as a method to sustain activity, with the latest survey data showing the strongest reduction in outstanding work since mid-2020. Confidence towards the 12-month outlook subsequently dwindled, with growth expectations slumping to their weakest for ten months.

For the second successive month, the rate of input cost inflation edged higher, although output charges rose at the slowest pace in just over two-and-a-half years. Deflation continued across the manufacturing sector, with services remaining the principal driver of price pressures across the euro area.

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, recorded a fourth consecutive sub-50.0 reading in September. At 47.2, this was up slightly from 46.7 in August, and indicative of a further moderate contraction in business activity levels across the euro area's private sector economy.

Notably, as was the case in August, output across both manufacturing and services declined at the end of the third quarter, marking only the second time so far this year that both monitored sectors have contracted.

While the manufacturing sector's malaise has been a prominent feature of the HCOB Eurozone PMI survey for the most part since the middle of last year, September data showed growing weakness in the services economy. Indeed, amid a sharper reduction in demand for services, total order book volumes across the eurozone fell at the sharpest rate since November 2020. A considerable slump in new business was also seen in non-domestic¹ markets, as evidenced by a steep drop in new export orders.

To help sustain activity, eurozone firms turned to their backlogs of work. Outstanding business volumes fell at a strong and accelerated pace during September, reflecting the faster processing of orders across both monitored sectors. The extent to which work-in-hand fell was the fastest since June 2020.

Amid growing concerns towards the demand environment, eurozone businesses' confidence towards the next 12 months weakened markedly in September. Growth expectations at both goods producers and service providers eased on the month, with the overall level of optimism sliding to a ten-month low.

Nevertheless, demand-side fragility failed to hinder job creation during September, with employment levels rising for a thirty-second successive month. This was exclusively a reflection of services jobs, however, as factory workforce numbers continued to fall. The increase in staffing levels was only marginal and much weaker than those seen on average in the first half of 2023.

Meanwhile, September survey data signalled a further uptick in cost pressures, with the overall rate of input price inflation quickening for a second successive month to a four-month high. Prices charged were subsequently raised, albeit to the smallest extent since February 2021. Inflationary pressures came only from the services economy, however, as deflation persisted across the manufacturing sector.

Countries ranked by Composite PMI Output Index: September

Ireland	52.1	2-month low
Spain	50.1	2-month high
Italy	49.2	3-month high
Germany	46.4 (flash 46.2)	2-month high
France	44.1 (flash: 43.5)	34-month low

¹includes intra-eurozone trade.

HCOB Eurozone Services PMI[®]

The **HCOB Eurozone Services PMI Business Activity Index** registered below the critical 50.0 level which separates growth from contraction for a second month in a row during September, signalling a sustained reduction in services output across the euro area. At 48.7, this was up from 47.9 in August and signalled a mild, but slower rate of decline.

Weighing on activity was a further drop in demand for eurozone services. New business fell solidly and at the quickest pace since February 2021. Subdued sales performances were also seen with external clients, as new export business fell to the sharpest degree in over two-and-a-half years.

In turn, eurozone service providers were able to process outstanding business at a faster rate during September amid weaker demand pressures. The rate of backlog depletion was the strongest since early-2021. Employment continued to rise, albeit only modestly, while business confidence fell to a ten-month low.

Lastly, September survey data signalled the strongest rise in input prices for four months. The rate of increase remained steep overall and well above its long-run average. Prices charged were raised in response, albeit to the softest extent since August 2021.

Comment

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

“Given the HCOB Eurozone PMI for services perked up in September, you may be tempted to spot a few green shoots popping up. Not so fast. For starters, the index is still in contractionary territory. Even glancing at Germany and Spain, where the index moved above 50, this happened only marginally, indicating more of a standstill in these parts of the euro area. Then you have the second largest economy of the eurozone, France, where business activity is not just dipping, but nose-diving, signalling a deeper economic downturn.

“The HCOB Composite PMI for the Eurozone did rebound a bit. However, we can’t jump on the hope train yet. Blame it on new business, which is plummeting especially in Germany and France. Accordingly, outstanding business continued to decline, and business expectations fell further below their long-term average.

“There is still a frenzy for workers in the services sector. Indeed, Eurozone firms bulked up their teams at a faster pace than in August. That is a head-turner, considering new business is in the doldrums. One guess could be that with the economic waters getting choppy, people are pushing back to the job hunt, letting companies plug long-lasting staff gaps.

“Amid discussions at the European Central Bank about the next interest rate decision, the hawks are receiving some backing with the latest PMI price indices. The Input Price Index, which is heavily influenced by wages and energy prices, increased to a four-month high. However, the doves will point out that prices charged for services increased at the lowest rate since summer 2021. Prices are nevertheless still climbing the ladder rather fast, a weird twist when the economy is singing the blues.”

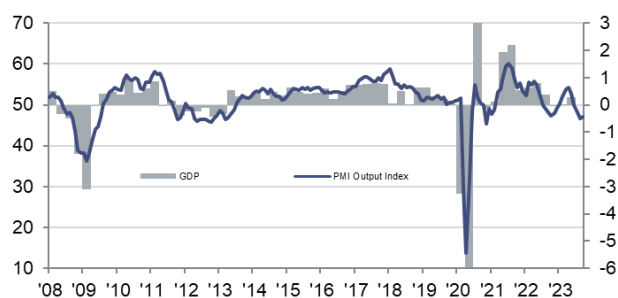
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HCOB Eurozone Composite PMI Output Index
sa, >50 = growth since previous month



Source: HCOB, S&P Global PMI.

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



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 85% 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.

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