

NEWS RELEASE
MARKET SENSITIVE INFORMATION
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HCOB Flash Eurozone PMI®

Eurozone downturn moderates at start of 2024, but price pressures intensify

Key findings:

HCOB Flash Eurozone Composite PMI Output Index⁽¹⁾ at 47.9 (December: 47.6). 6-month high.

HCOB Flash Eurozone Services PMI Business Activity Index⁽²⁾ at 48.4 (December: 48.8). 3-month low.

HCOB Flash Eurozone Manufacturing PMI Output Index⁽⁴⁾ at 46.6 (December: 44.4). 9-month high.

HCOB Flash Eurozone Manufacturing PMI⁽³⁾ at 46.6 (December: 44.4). 10-month high.

Data were collected 11-22 January

Business activity in the euro area fell at the slowest rate for six months in January, according to provisional PMI® survey data, albeit with downturns persisting in both manufacturing and service sectors amid further falls in new business. The overall contraction of new orders was nevertheless the smallest recorded since last June, helping stabilise employment levels and lift business optimism about the year ahead to an eight-month high.

Although disruptions to shipping in the Red Sea caused supply chains to lengthen for the first time in a year, manufacturing input costs continued to fall on average. However, service sector cost growth accelerated during the month, contributing to the steepest overall rise in prices charged for goods and services since last May, the rate of inflation having now accelerated for three months from October's 32-month low.

Output and demand

The seasonally adjusted **HCOB Flash Eurozone Composite PMI Output Index**, based on approximately 85% of usual survey responses and compiled by S&P Global, rose from 47.6 in December to 47.9 in January. Although signalling an eighth successive month of falling output, January's decline was the smallest registered since last July. The reading nevertheless suggests that the eurozone's deepest contraction since 2013 (if early pandemic months are excluded) has persisted into the new year.

Although goods producers continued to lead the downturn, with **manufacturing output** falling for a tenth consecutive month in January, the fall in factory production was the smallest witnessed since last April. New orders for goods likewise showed the smallest decline for nine months. Although **services activity** fell for a sixth straight month, the pace of decline gathering momentum slightly to register the steepest fall since last October, new business placed at service providers fell at the slowest rate since last July, providing a further hint of a cooling in the demand downturn.

January also saw the region's export decline easing, with overall new export orders dropping at the slowest rate for nine months thanks to reduced losses for both goods and services.

Despite rising in January, the seasonally adjusted New Orders Index was below that of output for a twenty-third successive month, meaning companies relied on **backlogs of work** to help sustain current operating levels. Backlogs of orders consequently fell for the eighteenth time in the past 19 months, the rate of decline unchanged on the marked pace seen in December to point to a further depletion of the order book pipeline. Manufacturing backlogs continued to fall especially sharply, albeit less steeply than in December, while service sector backlogs were eroded at the fastest pace since February 2021.

Employment, inventories and purchasing

Employment increased fractionally in January as a slight upturn in net hiring in the service sector offset an eighth successive monthly fall in manufacturing payroll numbers. Although the marginal overall rise in employment signalled by the flash PMI represented a modest improvement on the minor declines seen in the closing two months of 2023, the largely unchanged picture continues to reflect a reluctance to add to headcounts amid a weak demand environment.

As well as reducing employment, manufacturers cut their **purchasing activity** for a nineteenth successive month in response to lower production needs in the months ahead, resulting in a twelfth consecutive monthly fall in **inventories of inputs**. However, inventories were also impacted by delays in the supply of inputs. **Supplier delivery times** lengthened on average for the first time in a year in January, widely linked to shipping delays caused by disruptions in the Red Sea. The extent to which supplier lead times lengthened on average nevertheless remained far less severe than recorded throughout much of the 2020-2022 pandemic period.

Prices

Despite additional costs associated with shipping delays, manufacturers' average **input costs** fell sharply in January for an eleventh successive month, albeit with the rate of decline easing slightly to register the smallest fall since last April. Eurozone service providers meanwhile reported an increased rate of cost growth, to the highest in eight months, causing overall cost growth across goods and services to accelerate to the fastest recorded since last May.

Faster input cost inflation was matched by an upturn in **selling price inflation** in January. Average prices charged for goods and services also rose at the steepest rate since last May. Having fallen to a 32-month low last October, the rate of selling price inflation has now ticked higher for three successive months to therefore remain elevated by the historical standards of the survey. Although goods prices fell at a slightly increased rate, down for a ninth straight month, charges for services rose in January at a rate not seen since last June.

Outlook

Looking ahead, business optimism about the coming 12 months improved for a fourth successive month in January, rising to the highest since last May. Confidence struck a nine-month high in manufacturing and an eight-month high in services, albeit the latter remaining the more upbeat of the two sectors. Improved growth prospects were commonly a reflection of hopes of reduced cost of living pressures and lower interest rates in the year ahead, helping boost broader economic growth and demand both in domestic and international markets. Year-ahead optimism nevertheless continued to run below pre-pandemic averages.

National trends

Business conditions varied across the region. The downturn continued to be led by **France**, where output fell for an eighth successive month and at the sharpest rate since last September thanks to steepening contractions in both manufacturing and services. Output also fell at a steep and accelerating rate in **Germany**, albeit a moderating downturn in manufacturing helping offset a worsening service sector situation. In contrast, the **rest of the eurozone** as a whole returned to growth after five months of decline, recording the largest – yet still modest – expansion since last June. Service sector growth outside of France and Germany accelerated to a six-month high and the manufacturing decline moderated to register the smallest reduction for ten months.

Comment

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

“The commencement of the year brings positive tidings for the Eurozone as manufacturing experiences a widespread easing of the downward trajectory witnessed in the past year. This positive shift is evident across key indicators such as output, employment, and new orders. Notably, the export sector plays a pivotal role in driving the improvement of the latter, showing better conditions compared to the end of the preceding year.

The persistent attacks by Houthi rebels on commercial vessels navigating the Red Sea are exerting discernible impacts on supply chains. The PMI index for delivery times has witnessed a notable dip, slipping below the 50 mark. Nevertheless, various industry reports indicate that businesses are not caught off guard like they have been previously, having learned from past disruptions. Many have proactively diversified their suppliers across geographical regions and enterprises, mitigating the potential fallout from such unforeseen challenges.

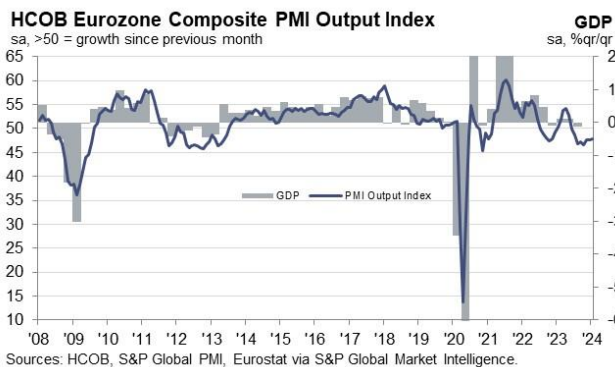
In the domain of services, the contraction in output is currently moderate, echoing the trends observed in the fourth quarter of the previous year. However, there is a silver lining as an increasing proportion of companies are actively expanding their workforce, signalling optimism in the market. This aligns with the positive shift in overall expectations.

In the ongoing discourse surrounding the optimal timing of rate cuts by the ECB, the PMI price indicators align with the

sentiments of the hawks. They are all about shouting “hold your horses” telling everyone to take it slow and not rush into early cuts. Companies have faced higher input prices and were able to pass them through to their customers. As a result, price increases are very much at odds with the recessionary environment. Thus, even as inflation remains an issue, rate increases by the ECB are out of the question at this point in time.

When assessing the performance of Germany and France, it is only a question who is having the tougher time. According to the composite PMI, France is lagging behind Germany. Primarily, this discrepancy is attributed to the manufacturing sector, where the contraction in output is more pronounced in France than in Germany. One plausible explanation is that the external environment beyond the eurozone is showing signs of improvement, providing Germany, with its substantial export exposure, a relative advantage.”

-Ends-



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Note to Editors

Final January data are published on 1 February for manufacturing and 5 February for services and composite indicators.

The HCOB Eurozone PMI (Purchasing Managers' Index) is produced by S&P Global and is based on original survey data collected from a representative panel of around 5,000 companies based in the euro area manufacturing and service sectors. National manufacturing data are included for Germany, France, Italy, Spain, the Netherlands, Austria, the Republic of Ireland and Greece. National services data are included for Germany, France, Italy, Spain and the Republic of Ireland. The flash estimate is typically based on approximately 85%–90% of total PMI survey responses each month and is designed to provide an accurate advance indication of the final PMI data.

The average differences between the flash and final PMI index values (final minus flash) since comparisons were first available in January 2006 are as follows (differences in absolute terms provide the better indication of true variation while average differences provide a better indication of any bias):

Index	Average difference	Average difference in absolute terms
Composite Output Index ¹	0.0	0.3
Manufacturing PMI ³	0.0	0.2
Services Business Activity Index ²	0.0	0.3

The Purchasing Managers' Index™ (PMI®) survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as

sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries (including the European Central Bank) use the data to help make interest rate decisions. PMI® surveys are the first indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

S&P Global do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from S&P Global. Please contact economics@spglobal.com.

Notes

1. The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index.
2. The Services Business Activity Index is the direct equivalent of the Manufacturing Output Index, based on the survey question "Is the level of business activity at your company higher, the same or lower than one month ago?"
3. The Manufacturing PMI is a composite index based on a weighted combination of the following five survey variables (weights shown in brackets): new orders (0.3); output (0.25); employment (0.2); suppliers' delivery times (0.15); stocks of materials purchased (0.1). The delivery times index is inverted.
4. The Manufacturing Output Index is based on the survey question "Is the level of production/output at your company higher, the same or lower than one month ago?"

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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