

NEWS RELEASE

MARKET SENSITIVE INFORMATION

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HCOB Flash Eurozone PMI[®]

Flash PMI signals steepening downturn in August, price gauges tick higher

Key findings:

HCOB Flash Eurozone Composite PMI Output Index⁽¹⁾ at 47.0 (July: 48.6). 33-month low.

HCOB Flash Eurozone Services PMI Business Activity Index⁽²⁾ at 48.3 (July: 50.9). 30-month low.

HCOB Flash Eurozone Manufacturing PMI Output Index⁽⁴⁾ at 43.7 (July: 42.7). 2-month high.

HCOB Flash Eurozone Manufacturing PMI⁽³⁾ at 43.7 (July: 42.7). 3-month high.

Data were collected 10-21 August

Eurozone business activity contracted at an accelerating pace in August as the region's downturn spread further from manufacturing to services. Both sectors reported falling output and new orders, albeit with the goods-producing sector registering by far the sharper rates of decline. Hiring came close to stalling as companies grew more reluctant to expand capacity in the face of deteriorating demand and gloomier prospects for the year ahead, the latter sliding to the lowest seen so far this year. While inflationary pressures continued to run far lower than seen over much of the past two-and-a-half years, led by falling manufacturing prices, August saw headline rates of input cost and selling price inflation tick higher due in part to upward wage pressures.

Output and demand

At 47.0, down from 48.6 in July, the seasonally adjusted **HCOB Flash Eurozone Composite PMI Output Index**, based on approximately 85% of usual survey responses, fell in August to its lowest since November 2020. If pandemic months are excluded, the latest reading was the lowest since April 2013.

Output has now fallen for three consecutive months, led by a fifth successive monthly decline in manufacturing output. Although the rate of decline of factory output eased slightly in August, it remained the second-strongest recorded by the survey over the past 11 years barring only the initial COVID-19 lockdowns.

The eurozone service sector meanwhile also fell into decline in August, with activity contracting for the first time since last December, albeit at a much softer rate compared to the goods-producing sector.

Demand conditions continued to worsen across both sectors. New business inflows fell overall for a third straight month, with the rate of decline accelerating to the fastest since November 2020. Excluding the pandemic, the drop in new business was the steepest since October 2012. New orders for goods continued to fall at the one of the sharpest rates since the global financial crisis, accompanied by a second month of deteriorating demand for services. The latter contracted in August at a pace not seen since May 2013 if COVID-19 lockdown months are excluded.

Employment, operating capacity and optimism

Employment came close to stalling, with the August flash PMI survey registering the smallest rate of job creation since headcounts began rising after the pandemic lockdowns in February 2021. A marginal loss of manufacturing jobs was recorded for a third successive month, while hiring in the larger service sector continued to slow from April's recent peak to register only a marginal rise, signalling the smallest net job gain in the sector since February 2021.

The near stalling of hiring reflected an increasingly sharp decline in companies' **backlogs of work**, which points to the development of excess capacity relative to demand. The drop in backlogs was the largest since November 2012 if the initial COVID-19 lockdown months are excluded. While manufacturing backlogs fell sharply again, dropping for a fifteenth consecutive month, service sector backlogs fell for a second month running; the rate of decline the sharpest since February 2021.

The deteriorating order book situation played a key role in further denting business confidence in prospects for the year ahead. Companies also cited concerns over broader economic slowdowns at home and in export markets, as well as worries over the impact of higher prices. Companies' **expectations of output** levels in the coming year consequently fell for a sixth month in a row, dropping to their lowest since last December and descending further below the survey's long-run average to thereby signal subdued optimism by historical standards.

Manufacturers also continued to scale back their **purchasing of inputs** sharply in August, in line with reduced production requirements, helping to further reduce their **raw material inventories** at an historically marked pace. **Stocks of finished goods** were likewise reduced.

The reduced purchasing of inputs by manufacturers meanwhile took pressure off supply chains, which in turn facilitated a seventh successive monthly improvement in average **supplier delivery times**.

Prices

Inflationary pressures meanwhile picked up in August, both in terms of average selling prices and input costs, albeit with both measures signalling far weaker inflation rates than seen throughout the two years prior to the summer.

Average **prices charged** for goods and services rose at an increased rate for the first time in seven months, pushing the rate further above the survey's long-run average albeit registering the second-slowest rate since March 2021. Goods prices fell for a fourth month running, though the rate of deflation moderated. Service sector charges meanwhile rose at the slowest rate since October 2021.

The rate of **input cost inflation** across both sectors edged higher for the first time in 11 months, though remained marginally below the survey's long-run average. A steep fall in manufacturers' costs, albeit at a reduced rate of deflation compared to July, was accompanied by a slight upturn in service sector input cost inflation, the latter commonly linked to rising wage pressures.

National trends

Looking at growth across the euro area, the steepest downturn was recorded in **Germany**, where output across both goods and services fell for a second month and at a rate not seen since May 2020 (and since June 2009 if the pandemic is excluded). A severe and steepening decline in manufacturing output was accompanied by the first fall in German service sector activity since last December.

France reported a third successive monthly drop in output, the rate of decline unchanged on July, which had seen the sharpest decline since May 2013 barring only four months of pandemic lockdowns. The rate of contraction moderated in manufacturing, though remained sharp, and meanwhile accelerated in services.

The **rest of the region** suffered a moderate decline in output compared to France and Germany, yet the reduction was notable in being the first recorded since December amid an ongoing loss of manufacturing output alongside a near stagnation of activity in the service sector.

Comment

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

"The service sector of the eurozone is unfortunately showing signs of turning down to match the poor performance of manufacturing. Indeed, service companies reported shrinking activity for the first time since the end of last year, while output in manufacturing dropped again. Considering the PMI figures in our GDP nowcast leads us to the conclusion that the eurozone will shrink by 0.2% in the third quarter."

"ECB president Christine Lagarde sounded the alarm that the economy may be faced with higher wages and lower productivity, leading to higher inflation. It seems like those worries are about to turn into reality, at least for the vast service sector. For, in this sector input prices and thus wages increased at an accelerated pace in August. Meanwhile, stagnating employment combines with decreasing production and results therefore in lower output per head. As a result, the ECB may be more reluctant to pause the hiking cycle in September."

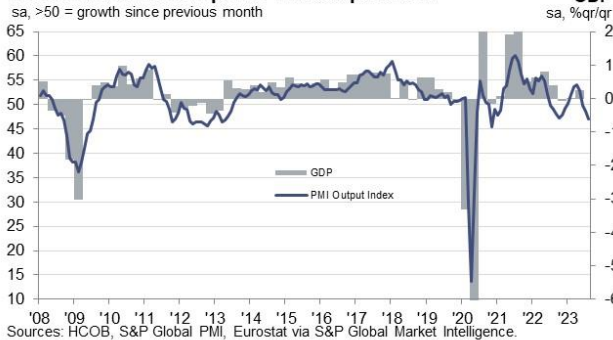
"Is a bottom in sight in the manufacturing sector? Perhaps, as the PMI headline index, though still in shrinking territory, has increased somewhat. This happened on the back of a slightly better order situation as well as slower destocking. The higher confidence that output will be higher one year from now fits into this narrative. A real turnaround may only happen in the first quarter of next year, however, as the PMI starts from a rather low level."

"The downward pressure on the economy of the eurozone in August stems mainly from the German service sector which

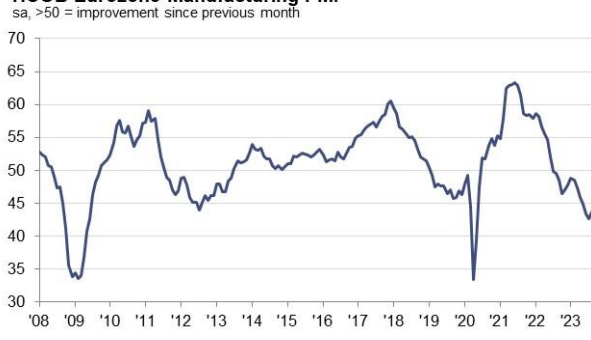
switched from growth to contraction at an unusual pace, while the French service providers reduced their activity at a similar speed as the month before. In the manufacturing sector, Germany's firms are reducing their output at a much faster pace than the French ones. This will only fuel the discussion of Germany being the sick man of Europe."

-Ends-

HCOB Eurozone Composite PMI Output Index



HCOB Eurozone Manufacturing PMI



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: +44-779-5555-061
chris.williamson@spglobal.com

Sabrina Mayeen
Corporate Communications
T: +44-796-744-7030
sabrina.mayeen@spglobal.com

Note to Editors

Final August data are published on 1 September for manufacturing and 5 September 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@ihsmarkit.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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