NEWS RELEASE
MARKET SENSITIVE INFORMATION
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HCOB Eurozone Composite PMI®

Eurozone economy shrinks in July as manufacturing downturn worsens and service sector comes close to stalling

Key findings:

HCOB Eurozone Composite PMI Output Index at 48.6 (Jun: 49.9). 8-month low.

HCOB Eurozone Services PMI Business Activity Index at 50.9 (Jun: 52.0). 6-month low.

Eurozone economy slows; price pressures cool but stay services-driven

Data were collected 11-26 July

After stagnating in June, the eurozone economy started the third quarter with the fastest contraction in business activity since November last year, latest HCOB PMI® survey data compiled by S&P Global showed. July's contraction was brought about by a deepening downturn in the manufacturing sector and a near-stalling of services output. There was also notable weakness with respect to demand as total new orders fell again and to the quickest extent in nine months. Export performance was a considerable drag as demand from foreign clients fell at the steepest rate since the start of the COVID-19 pandemic over three years ago.

Falling new business led to a greater reliance on backlogs of work to help sustain activity levels where possible. Backlogs fell for the fourth month in a row and at a faster pace. Employment growth meanwhile slowed and business confidence weakened.

A further cooling of price pressures was also recorded, although this continued to be heavily driven by the manufacturing sector as services companies registered still-elevated rises in both their costs and prices charged.

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, posted 48.6 in July, down from 49.9 in June and crucially, below the 50.0 no-change mark that separates growth from contraction. Overall, the latest survey data indicated the fastest decrease in business activity across the euro area since November last year.

Once again, the manufacturing sector represented a considerable drag on the eurozone's economic performance in July, with production volumes declining at a rapid and accelerated rate. Weakness among goods producers was accompanied by a further slowdown in the services sector as activity levels came close to stalling.

Overall output volumes were constricted by deteriorating demand for euro area goods and services at the start of the third quarter. New business volumes fell for the second month in a row, with the decline gathering pace amid a steep reduction in new export[1] orders. Overall, the decrease in total new work intakes was the strongest since October last year.

July's contraction in order books continued to free up capacity at eurozone firms, leading backlogs of work to decline once again. The drop in outstanding business volumes was the fourth in as many months and the quickest seen since the first half of 2020. Deteriorating demand and sustained progress on the completion of pending workloads weighed on euro area job creation. While staffing levels rose further in July, the expansion was only modest and slowed to the weakest in almost two-and-a-half years. As was the case in June, employment growth was confined to the service sector.

Business confidence retreated further at the start of the third quarter, falling to its weakest level seen in the year-to-date and marking a fifth successive month in which growth expectations have eased. Both manufacturers and services providers were less optimistic towards the 12-month outlook.

July survey data continued to show cooling price pressures across the euro area. Notably, the overall rate of input cost inflation fell further beneath its long-run average during the latest survey period, down to a 32-month low. A slower rise in prices charged was also seen, with output price inflation considerably cooler than the rates seen in the first few months of 2023. Overall, prices set for eurozone goods and services increased at the weakest pace since February 2021. That said, for both output charges and input costs, it was the manufacturing sector which played the most significant role in July's inflation slowdown. Price pressures in the service sector, despite cooling slightly on the month, remained strong overall.

Countries ranked by Composite PMI Output Index: July

Spain	51.7	6-month low
Ireland	50.0	8-month low
Italy	48.9	8-month low
Germany	48.5 (flash 48.3)	8-month low
France	46.6 (flash: 46.6)	32-month low

[1]includes intra-eurozone trade

HCOB Eurozone Services PMI®

The **HCOB Eurozone Services PMI Business Activity Index** fell for a third month running in July, signalling a sustained growth slowdown in the euro area's dominant service sector. At 50.9, the index signalled a near-stalling of activity levels in July and compared with a modest upturn in June (index recorded 52.0).

July survey data revealed a renewed reduction in new business intakes at service providers, marking the first contraction in demand for eurozone services since the end of last year. The decline, albeit only modest, was the quickest for eight months. Orders received from export markets also slumped further, July data showed.

The fall in new business led firms to turn their focus to their backlogs of work. Volumes of outstanding business fell for the first time since January. Employment growth was sustained nevertheless, continuing the current sequence of job creation that began two-and-a-half years ago. That said, the rise in staffing levels was the slowest in five months.

There was a broad cooling of price pressures since June, although rates of input cost and output price inflation were only fractionally weaker than seen in June and therefore remained historically strong.

Looking ahead, expectations for business activity remained positive, although the degree of optimism slipped to a seven-month low.

Comment

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

"The Eurozone is off to a bad start in the second half of the year. According to the PMI, economic output fell in July after stagnating the month before and showing generally solid growth during the first five months of the year. The slump in activity is driven by manufacturing, but services activity growth has cooled off too, scaling back the support to the economy as a whole.

"It does not require crystal ball powers to see employment growth coming to a halt over the next few months given dimmer prospects for the economy. However, at least for now companies are still rather reluctant to trim down the staff in the services sector. Rather, they decide to hire fewer people.

"In the services sector, a weak phase is heralded by the fall of the incoming new business index into contractionary territory. Amid this development it may be worrisome for the European Central Bank that inflation decreased only slightly in comparison to the month before, according to the PMI survey.

"The development in the services sector of the Eurozone is remarkably diverse. While the French service companies have put the brakes on their activity, Spanish companies are still expanding at rather healthy pace, despite a considerable slowdown since the first quarter. Spanish companies are also still in a hiring mood, while the Italian firms have started to cut employment. The contrasting economic performance is making the already-difficult job for the ECB even more challenging."

-Ends-

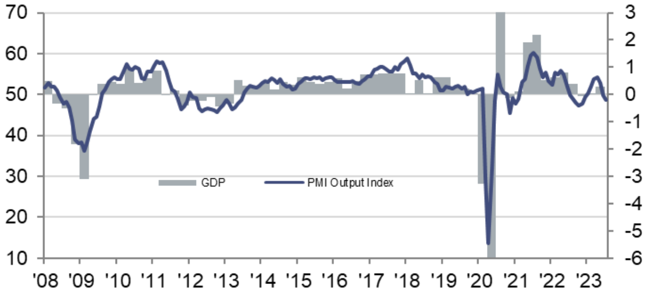
HCOB Eurozone Composite PMI Output Index

sa, >50 = growth since previous month

Source: HCOB, S&P Global PMI.

Composite PMI Output Index **Gross domestic product (GDP)**

sa, >50 = growth since previous month %qr/qr



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 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@ihsmarkit.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.

The bank's specialists are as experienced as they are pragmatic. They act in a reliable manner and at eye level with their customers. They provide in-depth advice in order to jointly find efficient solutions that are a perfect fit – for complex projects in particular. Tailor-made financing, a high level of structuring and syndication expertise and many years of experience are just as much a hallmark of the bank as are our profound market and sector expertise.

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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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