NEWS RELEASE
MARKET SENSITIVE INFORMATION
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HCOB Flash Eurozone PMI®

Eurozone economy close to stabilising in March, price pressures ease

Key findings:

HCOB Flash Eurozone Composite PMI Output Index(1) at 49.9 (February: 49.2). 9-month high.

HCOB Flash Eurozone Services PMI Business Activity Index(2) at 51.1 (February: 50.2). 9-month high.

HCOB Flash Eurozone Manufacturing PMI Output Index(4) at 46.8 (February: 46.6). 11-month high.

HCOB Flash Eurozone Manufacturing PMI(3) at 45.7 (February: 46.5). 3-month low.

Data were collected 11-19 March

Business activity in the euro area came close to stabilising in March, as provisional PMI® survey data registered only a marginal decline in output of goods and services. A modest recovery of service sector output gained momentum, accompanied by a softening in the rate of manufacturing output decline. However, ongoing falls in output in France and Germany offset a gathering upturn in the rest of the eurozone to point to an uneven economic picture.

Encouragingly, order books fell at a reduced rate and business confidence about the year ahead improved to a 13-month high. Supplier delivery times at goods producers also continued to improve after the initial Red Sea related delays seen at the start of the year, facilitating a further fall in manufacturing input prices. Service sector input cost and selling price inflation rates meanwhile remained elevated by historical standards due to higher wage costs, though a cooling in the pace of increase in cost burdens was recorded to take some pressure off overall selling price inflation.

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 49.2 in February to 49.9 in March. Although signalling a tenth consecutive month of falling output, March's decline was only marginal and the smallest since last June, indicating a near-stabilisation of activity. New orders fell at the slowest rate for ten months and backlogs of work were depleted at the weakest rate for nine months.

However, business conditions once again varied considerably across the eurozone, both by sector and country.

Manufacturing output fell across the eurozone for a twelfth successive month in March, with the rate of decline easing only slightly to register another month of steep contraction. New orders for goods likewise fell sharply by historical standards, though the fall was the slowest recorded over the past year after the rate of decline moderated for a fifth straight month.

In contrast, **service sector business activity** rose for a second month in March after six months of decline, with the pace of expansion building on the fractional rise seen in February to register the largest gain since last June. The overall pace of services expansion nevertheless remained well below the pace seen this time last year thanks to only a marginal rise in new business during the month. The rise in new work was, however, notable in being the first recorded since last June.

By country, output again fell sharply in **Germany**, dropping for a ninth successive month, albeit at a reduced rate as services activity came close to stabilising and the manufacturing sector's steep decline moderated slightly.

Output also contracted sharply in **France**, the rate of decline picking up compared to February but still showing the second-weakest fall since France's current period of contraction began in June of last year. Although services output fell at a faster rate, the pace of decrease remained weaker than seen at the start of the year, and manufacturing production fell at the slowest rate for 14 months.

The **rest of the eurozone** meanwhile collectively reported growth of output for a third successive month, with the rate of expansion reaching an 11-month high. A second month of marginal manufacturing output gains was accompanied by the fastest service sector growth since last May.

Employment

Employment increased for a third month running in March after two months of marginal declines at the end of 2023, though the rate of growth slowed to only a very modest pace. A steepening rate of job losses in the manufacturing sector occurred alongside a softer pace of job creation in the service sector. The fall in manufacturing jobs was notable in being the joint-largest since August 2020. By country, renewed marginal falls in headcounts were seen in both Germany and France but the rest of the region saw further services-led net job creation, albeit at a reduced rate, in part linked to labour shortages.

Supply chains

The ongoing plight in the manufacturing sector was further highlighted by a continued steep reduction in **input buying** by factories, which in turn led to the sharpest fall in **inventories of inputs** since December (and the second-steepest decrease since November 2012). An upside to the lower levels of input buying was less pressure on supply chains. Having lengthened in January for the first time in a year amid Red Sea related shipping disruptions, **supplier delivery times** shortened for a second successive month in March to indicate a further alleviation of supply chain issues.

Prices

Price pressures eased during March, but remained elevated by pre-pandemic standards.

Growth of average **input costs** across the goods and services sectors slowed in March after having accelerated in the prior two months, with the pace of overall cost inflation down to a three-month low. Rates cooled in Germany, France and collectively across the rest of the region. Services sector costs rose at the softest pace for eight months, while factory input prices fell at the weakest rate for a year. While the continued fall in manufacturing costs helped pull overall input cost inflation closer to its pre-pandemic average, service sector inflation remained well above its pre-pandemic trend rate despite easing in March, greater services costs were often linked to higher wage bills.

Selling price inflation likewise moderated in March, cooling for the first time in five months after having hit a nine-month high in February. Rates of charge inflation slowed in France, Germany and the rest of the region combined. While manufacturers' average selling prices fell for an eleventh successive month, charges for services continued to climb at a strong pace by historical standards, albeit the rate of increase losing some momentum to show the slowest rise for four months.

Outlook

Looking ahead, business expectations about the coming 12 months improved for a sixth straight month in March, signalling the highest degree of optimism since February of last year. Confidence hit a 23-month high in the service sector, reviving further from a low-point seen last September, but slipped lower in manufacturing (albeit running higher than seen at the end of 2023). Improved sentiment in France and Germany contrasted with a pull-back in confidence in the rest of the region, though the latter continued to run relatively higher.

Recent months have seen business confidence improve largely thanks to the expectation of lower interest rates and a moderating cost of living squeeze. However, worries persist regarding elevated levels of economic uncertainty amid global geopolitical concerns and still high price levels.

Comment

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

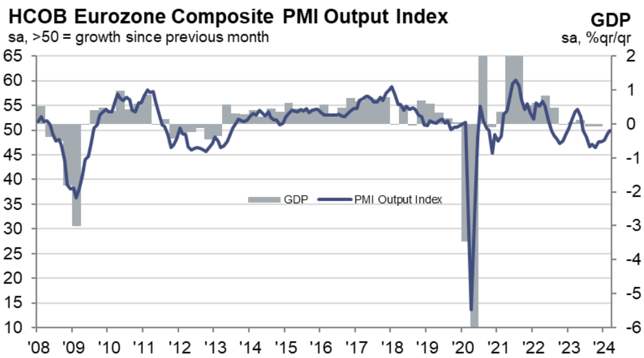
"If you were hoping for a recovery in the manufacturing sector in the first quarter, it's time to throw in the towel. The March PMI confirmed the clear weakness of this sector, which seems to be dominated by the heavyweight Germany. Output fell at more or less the same pace as in the first two months of the year, and new orders continued their downward trend unabated. However, there is a glimmer of hope. Companies remain optimistic about future production. Moreover, the index of stocks of finished products has risen for the second month in a row and is approaching the point of no change. Reaching this point would mean that destocking would no longer be a drag on production.

"These are the times that make you humble and where a modest monthly expansion is already good news. In this sense, the fact that the services PMI moved further into expansionary territory at 51.1 should be seen as a positive development, especially as it marks the second consecutive month of growth. Similarly, the fact that new business rose for the first time in nine months is notable and fits with the further improvement in business expectations.

"The European Central Bank can take some comfort from the fact that price pressures in the wage-sensitive services sector have not increased further. Instead, the rise in input costs has softened somewhat, and the same is true of selling prices. However, price pressures remain elevated. Therefore, the PMI price news is not enough to change the ECB's apparent plan to cut rates in June rather than April.

"Comparing France and Germany, the composite PMI data shows almost the same degree of weakness. However, there are two important differences. First, in Germany the output index improved in March, while in France it deteriorated. And second, the downturn in France is more widespread than in Germany, with both the manufacturing and services sectors contracting. In Germany, on the other hand, it's only the manufacturing sector that is showing negative growth, while the services sector is broadly stagnating. None of this is encouraging, and compared to the eurozone economy as a whole, both economies are laggards."

-Ends-



Sources: HCOB, S&P Global PMI, Eurostat via S&P Global Market Intelligence.

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Note to Editors
Final March data are published on 2 April for manufacturing and 4 April 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.

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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We are widely sought after by many of the world's leading organizations to provide credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help the world's leading organizations plan for tomorrow, today.

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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