NEWS RELEASE
MARKET SENSITIVE INFORMATION
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HCOB Eurozone Composite PMI®

Eurozone downturn at its weakest since July 2023

Key findings:

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

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

Business confidence strongest for nine months; inflationary pressures intensify

Data were collected 11-26 January 2024

Tentative signs of improvement in the euro area economy were seen at the start of the year, January's HCOB PMI® survey showed, as contractions in business activity and new orders softened, while growth expectations strengthened to a nine-month high. There was also a stabilisation of employment, which had previously contracted in the final two months of 2023, while export[1] demand fell at its slowest pace since last April.

Stubborn inflationary pressures remained apparent, particularly for prices charged by firms for goods and services. Both output prices and input costs rose at their sharpest rates for eight months.

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, rose to a six-month high of 47.9 in January, from 47.6 in December. Albeit still below the critical 50.0 threshold, and therefore pointing to lower euro area business activity, it signalled the softest rate of decline since last July. A slower contraction in factory production led to the weaker fall in overall output levels during January, offsetting a slightly quicker deterioration in services activity.

However, country-level data revealed a marked divergence in regional economic performance. Economies in the south of the euro area saw economic activity levels improve at the beginning of 2024. Albeit only mild, upturns in Spain and Italy were their strongest for six and eight months, respectively. By contrast, contractions in Germany and France worsened, with the Composite Output Index falling in both instances (but remaining above 2023 lows).

New business inflows fell in January, extending the current sequence of shrinking demand that began last June. Weaker falls in new orders were seen at manufacturers and services companies, leading to the softest overall rate of decline in sales for seven months. Although new business from external clients fell for a twenty-third month in a row, January's decrease was the least pronounced since April 2023.

Cooling rates of contraction in new business and activity helped eurozone employment stabilise during the latest survey period. Workforce numbers were broadly unchanged in January following declines in November and December. This helped eurozone companies to continue clearing backlogs of work, which fell solidly and for a tenth consecutive month.

Euro area businesses' growth expectations improved yet again in January, as has been the case since hitting their most recent low point last September. In fact, the overall level of optimism was its strongest for nine months.

There were stronger price pressures across the euro area during January, however. Rates of input cost and output price inflation accelerated to eight-month highs due to more pronounced price increases across the service sector. The rise in overall input costs was broadly in line with its long-term trend, although the HCOB Composite Output Prices Index was well in excess of its series average (51.4).

Countries ranked by Composite PMI Output Index: January

Spain	51.5	6-month high
Italy	50.7	8-month high
Germany	47.0 (flash 47.1)	3-month low
France	44.6 (flash: 44.2)	2-month low

[1]includes intra-eurozone trade.

HCOB Eurozone Services PMI®

The **HCOB Eurozone Services PMI Business Activity Index** fell to 48.4 in January, from 48.8 in December, signalling a sixth successive month of falling service sector output levels. While only mild, the latest decline was the quickest for three months.

Weak demand conditions remained a major hindrance for activity, with the latest survey data indicating a seventh consecutive monthly reduction in new business. January's drop in output came despite the faster completion of outstanding projects, which was evidenced by the sharpest fall in backlogs of work in close to three years.

The alleviation of capacity pressures was supported by increased hiring activity, with employment growth quickening to a four-month high. Greater recruitment tallied with an improvement in firms' confidence towards the next 12 months. Expectations for growth were at their strongest since last May.

Price pressures across the service sector remained steep by historical standards, latest survey data showed. In fact, rates of inflation for both input costs and output charges accelerated in January, to their quickest for four and seven months, respectively.

Comment

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

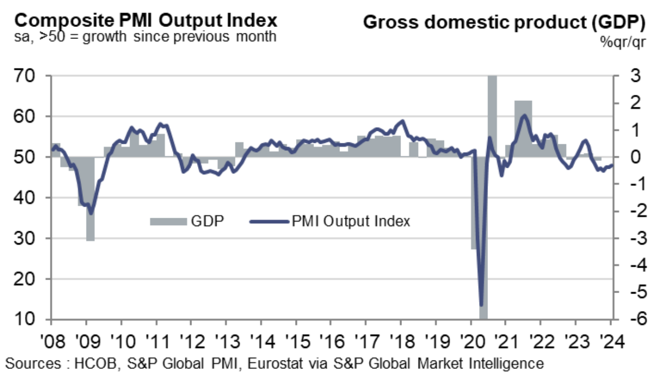
"There is a north-south divide in the eurozone's service sector, but perhaps not in the way you may expect. Contrary to the general view that southern European countries are the weak link of the currency union, these economies are presently performing relatively well. This positive trend serves as a counterforce, partially mitigating declines in Germany and France. Thanks to the resilience exhibited by Italy and Spain, the PMI for services experienced only a marginal dip to 48.4, maintaining proximity to the expansionary threshold of 50.

"The European Central Bank's hesitancy to cut interest rates gains clarity when considering the surge in the PMI price indices. With both input and output prices in the services sector on the rise, the ECB is reluctant to ease monetary policy. However, it finds itself in a tricky situation. This is accentuated by the latest official GDP data for the fourth quarter of 2023, indicating that the economy narrowly avoided a technical recession.

"A shortage of labour is a pervasive reality across the entire eurozone, evident in the noteworthy wage increases in the top four euro area countries. Inflation of input prices within these economies underscores the impact of this phenomenon. Remarkably, companies demonstrated a marked unwillingness to reduce their workforces, a trend observed even in Germany and France, where the service sector remains in poor condition.

"Business expectations have improved a bit, hinting at better times ahead. However, given the fall of new business for seven months straight, an imminent recovery is unlikely."

-Ends-



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 89% 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 85% 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.

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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