

NEWS RELEASE

MARKET SENSITIVE INFORMATION

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# HCOB Flash Eurozone PMI<sup>®</sup>

## Eurozone companies see sharpest drop in new orders for almost three years

### Key findings:

HCOB Flash Eurozone Composite PMI Output Index<sup>(1)</sup> at 47.1 (August: 46.7). 2-month high.

HCOB Flash Eurozone Services PMI Business Activity Index<sup>(2)</sup> at 48.4 (August: 47.9). 2-month high.

HCOB Flash Eurozone Manufacturing PMI Output Index<sup>(4)</sup> at 43.4 (August: 43.4). Unchanged rate of decline.

HCOB Flash Eurozone Manufacturing PMI<sup>(3)</sup> at 43.4 (August: 43.5). 2-month low.

Data were collected 08-20 September

The eurozone private sector remained in contraction at the end of the third quarter of the year as waning demand led to a further decline in activity. The overall reduction in output was again led by manufacturing, but the service sector saw activity decrease for the second month running. Although firms continued to expand their staffing levels in September, the rate of job creation was only marginal amid evidence of spare capacity and the gloomiest outlook since the final quarter of last year. Despite the weak demand environment, input costs continued to rise sharply, and the rate of inflation even picked up from that seen in August. Output prices, meanwhile, increased at the softest pace in over two-and-a-half years amid muted pricing power.

### Output and demand

The seasonally adjusted **HCOB Flash Eurozone Composite PMI Output Index**, based on approximately 85% of usual survey responses, posted 47.1 in September, up marginally from 46.7 in August but still signalling a solid monthly decline in business activity as the third quarter drew to a close. Output has now fallen in four consecutive months.

For the second successive survey period, declines in output were seen across both monitored sectors as services activity decreased again. That said, the rate of contraction in services eased slightly from August and was still much softer than that seen in manufacturing. The reduction in manufacturing production was unchanged from the rapid pace seen in the previous month. Barring a brief period of growth during the opening quarter of the year, euro area manufacturing output has decreased continuously since the middle of 2022.

Central to the latest reduction in business activity was a further deterioration in customer demand, as highlighted by a fourth successive monthly decrease in **new orders**. Moreover, the fall in September was marked and the most pronounced since November 2020. Manufacturing new orders contracted rapidly again, but the acceleration in the overall rate of decline was centred on the service sector, where the drop in new business was the sharpest since the pandemic. In fact, excluding months affected by COVID-19 restrictions, the fall in services new orders was the largest since May 2013. **New export orders** declined even more quickly than total new business in September.

### Employment, operating capacity and optimism

Sharp falls in new orders meant that companies often turned to work on outstanding business in order to maintain activity levels. As such, **backlogs of work** decreased markedly again during September, with the latest depletion the most pronounced since June 2020.

Eurozone businesses also signalled a waning of **confidence** in the year-ahead outlook at the end of the third quarter. Although on balance firms continued to predict a rise in activity over the coming 12 months, sentiment dipped to the lowest since

November last year. Optimism waned across both monitored sectors, with manufacturing sentiment only just in positive territory.

The combination of spare capacity and reduced confidence in the outlook meant that companies were again cautious in their approach to hiring. Although **employment** rose marginally in September, the rate of job creation was the joint-second slowest in the current 32-month sequence of growth. A fourth successive monthly reduction in manufacturing workforce numbers compared with a slight increase in services employment.

As well as scaling back staffing levels, manufacturers in the eurozone also cut their **purchasing activity** sharply and reduced their holdings of both **purchases** and **finished goods**. The fall in stocks of finished goods was the most marked in two years. Reduced demand for inputs meant that suppliers were able to speed up deliveries, with vendor **lead times** shortening for the eighth consecutive month. The rate at which deliveries quickened was marked, albeit the least pronounced since February.

## Prices

There were differing trends in terms of inflation in September as a sharper rise in input costs contrasted with a softer pace of output price inflation.

**Input costs** increased at the fastest pace in four months, albeit at a pace that remained well below the average seen over the past three years. Inflation was driven by the service sector, where prices were up sharply amid higher wages and rising fuel costs. Manufacturing, on the other hand, posted a seventh successive monthly drop in input costs.

Despite the steeper pace of input cost inflation, a weakening demand environment meant that companies increased their **selling prices** to a lesser extent than in August. In fact, the latest rise in charges was only modest and the softest since February 2021. Manufacturing output prices fell at a marked and accelerated pace, while services charge inflation eased to a 25-month low.

## National trends

The euro area's two largest economies – Germany and France – were the key drivers of the overall downturn in activity during September. Germany saw output decrease for the third month running and at a solid pace, albeit one that was slightly softer than seen in the previous survey period. Manufacturing production declined at the fastest rate since the opening wave of the COVID-19 pandemic, while services activity was down marginally.

The contraction in **France** was more stark, with activity decreasing to the largest extent since November 2020. Excluding pandemic affected months the reduction was the sharpest in over a decade. Rates of decrease quickened across both manufacturing and services.

The **rest of the eurozone** saw business activity remain broadly stable in September. Although manufacturing output decreased for the sixth month running, the fall was the softest since April. Meanwhile, services activity increased slightly, and to a greater extent than in August.

## Comment

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

*“The numbers for PMI services in the Eurozone paint a grim picture, but it's not all doom and gloom. Sure, activity has been reduced once again and new incoming business has been shrinking for three months in a row. However, companies are hiring in September at a somewhat faster pace than they did in August. Thus, companies still show some resilience and optimism in the face of lower demand. Having said this, we expect the eurozone to enter a contraction in the third quarter. Our nowcast, which incorporates the PMI indices, points to a drop of 0.4% compared to the second quarter.”*

*“The Eurozone's HCOB PMI figures for services are serving up a bitter pill for the European Central Bank to swallow. The input prices, where wages play an important role, have sped up in September for the second month in a row. Output prices continue to be on the increase as well, but upward pressure has softened a bit again. While the latter may bring some comfort to central bankers, the heat on input prices shows that the risk of a wage-price spiral must remain very much on the radar of the ECB.”*

*“The main drag continues to come from manufacturing where the order situation deteriorated further. Companies keep reducing the stock of purchased goods. However, the declines in purchasing activity have lost some momentum. Thus, the destocking process may bottom out over the next few months in line with a worldwide trend. This will be an important precondition for the recovery of the manufacturing sector which we expect for the beginning of next year.”*

*“In terms of the weakness in the manufacturing sector, France is catching up with Germany. Indeed, the French PMI heads further south while Germany's PMI has marginally increased from a very low level. In the services sector, the French services sector is in a much worse state than the German one. At the same time there are signs of a stabilization in Germany services, but further deterioration in France. This may have to do with the fact the luxury goods business and services play a more important role in France than they do in Germany. When things go south, those are the first to feel it, way more than non-luxury business providers.”*

-Ends-

**HCOB Eurozone Composite PMI Output Index**

sa, >50 = growth since previous month



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

**HCOB Eurozone Manufacturing PMI**

sa, >50 = improvement since previous month



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**Note to Editors**

Final September data are published on 2 October for manufacturing and 4 October 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 <sup>1</sup>	0.0	0.3
Manufacturing PMI <sup>3</sup>	0.0	0.2
Services Business Activity Index <sup>2</sup>	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](mailto: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.

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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#### About PMI

Purchasing Managers’ Index<sup>®</sup> (PMI<sup>®</sup>) 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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