NEWS RELEASE
MARKET SENSITIVE INFORMATION
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HCOB Eurozone Composite PMI®

Euro area growth slows to three-month low in May as manufacturing sector weakens further

Key findings:

HCOB Eurozone Composite PMI Output Index at 52.8 (Apr: 54.1). 3-month low.

HCOB Eurozone Services PMI Business Activity Index at 55.1 (Apr: 56.2). 2-month low.

Services activity growth stays strong, but factory output falls at quickest pace in six months

Data were collected 11-25 May

The euro area economy continued to expand midway through the second quarter, latest HCOB PMI® survey data compiled by S&P Global showed. However, the rate of growth slowed for the first time in 2023 so far as a slightly softer upturn in services activity combined with the sharpest drop in factory output since last November. Moreover, the volume of incoming new work almost stagnated in May, signalling a softening in demand conditions. Indeed, the drag from external markets also worsened as new export[1] sales fell at a quicker rate.

Nevertheless, employment growth continued in May and remained robust, helping firms to clear their backlogs. That said, business confidence edged down to a five-month low.

Meanwhile there was a further easing of cost pressures across the eurozone, with input price inflation cooling to a 28-month low. Subsequently, output charges recorded their weakest increase for just over two years. That said, pricing trends varied widely by sector, with the latest survey data revealing services as the exclusive driver of inflation.

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, remained in expansion territory during May at 52.8. However, this was a decrease from 54.1 in April and marked the first growth slowdown since eurozone economic activity began rising again at the start of 2023. Overall, the latest upturn in output was moderate, but the slowest in three months.

Data split by eurozone constituents showed that growth was broad-based during May, but expansions slowed in each case. Spain was once again the fastest-growing nation, extending its streak as top performer into a fourth month. Growth here was strong overall and markedly quicker than in France, which was the slowest-growing monitored constituent during the latest survey period.

The latest survey data highlighted considerable differences in performance by sector during May. While services activity continued to rise, albeit at a slower rate than in April, factory production volumes fell at the sharpest pace since November. Manufacturers were placed under pressure by rapidly deteriorating order books, the latest survey data showed, which contrasted with a further uptick in demand for euro area services. Subsequently, total new business inflows almost stagnated in May following the strongest expansion in nearly a year at the start of the second quarter.

New export[1] sales continued to have a negative influence during May, falling for a fifteenth month running and at a sharper rate than in April. External market demand was down sharply at euro area manufacturers, while services businesses saw new business from abroad rising at one of the quickest rates since the series began in 2014.

Surveyed eurozone companies recorded a further expansion in their workforce numbers in May, extending the current sequence of hiring that began in February 2021. The rate of job creation, albeit weaker than in April, was solid and quicker than seen across the series average. With staffing capacity rising, firms were able to reduce their volumes of outstanding work for a second successive month during the latest survey period. The rate of backlog depletion was modest and slightly faster than in April.

Meanwhile, the latest survey data revealed a further cooling of cost pressures across the eurozone. A major contributor to this was manufacturers' input prices, which fell at the fastest rate since February 2016. A further sharp, albeit weaker, rise in operating costs at services firms meant that overall input price inflation was sustained, but fell to a 28-month low. Similarly, reductions in prices charged by manufacturers contrasted with a sustained uplift in the fees set by services firms. Overall selling charges rose, but to the slowest extent in just over two years.

Firms' assessments towards the 12-month outlook for business activity remained positive during May, with optimism seen across both the manufacturing and service sectors. However amid a broad-based weakening of sentiment, the level of confidence eased to a five-month low.

Countries ranked by Composite PMI Output Index: May

Spain	55.2	4-month low
Germany	53.9 (flash 54.3)	2-month low
Italy	52.0	4-month low
France	51.2 (flash: 51.4)	4-month low

**Ireland Composite PMI data are released 6 June*

[1]includes intra-eurozone trade

HCOB Eurozone Services PMI®

The **HCOB Eurozone Services PMI Business Activity Index** remained in firm growth territory during May with a reading of 55.1. While this was above the series long-run average by a notable margin, it was down from 56.2 in April and thereby indicated a weaker expansion.

May's upturn was supported by a further improvement in demand for eurozone services. New business intakes rose solidly and for a fifth month in succession, although the rate of growth was the softest since February. Surveyed companies recorded a historically marked uplift in new work from external clients during May, with new export sales rising at one of the sharpest rates since data were first available in September 2014.

Service sector employment growth continued in May and remained much stronger than the long-run average for the series. Nevertheless, firms' backlogs of work rose for a fourth straight month, indicating pressure on capacity.

Euro area service providers registered another steep rise in their operating costs, although the increase was the softest since August 2021. That said, firms were more aggressive in their price setting as average prices charged rose at a quicker pace than in April.

Finally, businesses remained optimistic towards the outlook for business activity in the year ahead. However, the overall level of positive sentiment dipped to the weakest seen in 2023 so far.

Comment

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

"In the eurozone, activity in the services sector grew at a slightly slower pace in May than in the previous month, according to the HCOB PMI survey. Germany is somewhat the odd one out in this regard as growth accelerated there but slowed in the other three major eurozone countries.

"The services sector is being supported by the strong labor market, rising wages and a tourism sector that is flourishing throughout Europe. The latter is confirmed by the New Export Business PMI, which includes tourism-related demand and remained near its series peak in May.

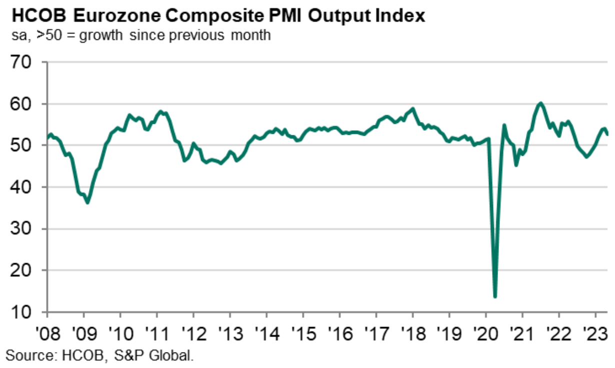
"In terms of new orders, France stands out negatively, because while orders continue to grow solidly in the other three major eurozone countries, its corresponding index is now in sub-50.0 contractionary territory. The increased strike and protest activities there in recent months have possibly left their mark after all.

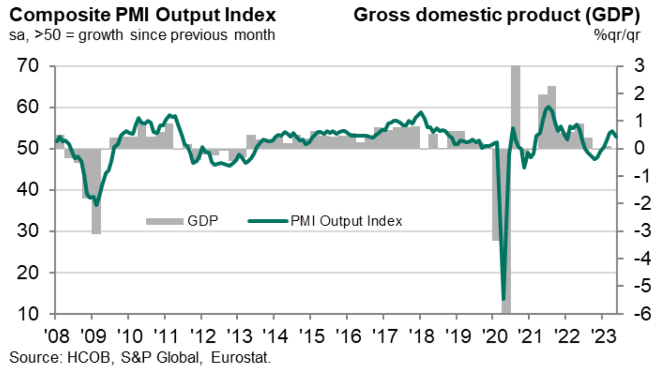
"The PMI price data are anything but reassuring from a monetary policy perspective. While the index for selling prices for goods indicates a decline in prices for the first time since September 2020, surveyed companies in the service sector were

able to increase prices more than in the previous month, especially in Germany and France. This could mean that the recent unexpected fall in official rates of inflation for France, Spain and Germany may not continue at this pace over the next months.

"Relatively resilient services activity growth should ensure that the eurozone regains some footing and shows a positive rate of expansion in the second quarter after GDP stagnated in the October-March period. However, the downturn in manufacturing is a drag on economic growth and is likely to be reflected in a further slowdown in the services sector in the coming months. We do not anticipate an overall economic recession, though."

-Ends-





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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 83% 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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