

NEWS RELEASE
MARKET SENSITIVE INFORMATION
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HCOB Flash Eurozone PMI[®]

Flash PMI at three-month low as steepening factory downturn offsets services revival

Key findings:

HCOB Flash Eurozone Composite PMI Output Index⁽¹⁾ at 53.3 (Apr: 54.1). 3-month low.

HCOB Flash Eurozone Services PMI Business Activity Index⁽²⁾ at 55.9 (Apr: 56.2). 2-month low.

HCOB Flash Eurozone Manufacturing PMI Output Index⁽⁴⁾ at 46.3 (Apr: 48.5). 6-month low.

HCOB Flash Eurozone Manufacturing PMI⁽³⁾ at 44.6 (Apr: 45.8). 36-month low.

Data were collected 11-19 May

Eurozone business output grew for a fifth straight month in May, according to the latest HCOB flash PMI survey data produced by S&P Global, pointing to robust economic growth so far in the second quarter. The rate of expansion moderated in response to a near-stalling of new business inflows, however, and the upturn grew increasingly uneven. Strong service sector growth contrasted with a steepening loss of factory output, linked in turn to a widening divergence in demand growth for goods and services.

Inflation trends also varied by sector. Resurgent post-pandemic demand buoyed pricing power in the services sector, allowing the pass through of higher costs – notably wages – on to customers to result in a steep and accelerating rate of selling price inflation for services. In manufacturing, however, weak demand and lower raw material prices, linked to surplus supply, pushed selling prices lower for the first time since September 2020.

Business confidence in the outlook meanwhile sank to a five-month low, dropping further below the survey's long-run average amid growing concerns about the economic outlook, albeit still above last year's lows. Sentiment was especially weak in manufacturing but also cooled in the service sector.

Output and demand

The seasonally adjusted **HCOB Flash Eurozone Composite PMI Output Index**, based on approximately 85% of usual survey responses, registered expansion for a fifth consecutive month in May. Recording 53.3 compared to 54.1 in April, the flash reading signalled an easing in the rate of growth to a three-month low but the expansion was still robust and the third-strongest seen over the past year.

The growth divergence between manufacturing and services widened further, however, pointing to an increasingly uneven recovery. While growth surged in the service sector at the second-fastest pace seen over the past year, the expansion cooling slightly from April's high, manufacturing output contracted sharply, dropping at the fastest rate for six months. The resulting outperformance of services relative to manufacturing was the widest since January 2009. The survey has not yet previously signalled such a strong service sector expansion at a time of manufacturing decline.

The sector divergence was even more marked for **new orders**. New order inflows into the service sector rose for a fifth successive month, albeit at the slowest rate for three months, while manufacturing new orders fell at an increasingly steep pace, underperforming the service sector to an extent not seen since 2008. Measured overall, new orders rose only marginally and at the slowest rate for four months to point to an overall near-stalling of demand growth.

Output growth across the region consequently exceeded growth of new orders to a degree not seen since early 2009. The relatively faster pace of output growth was again supported by companies fulfilling orders placed in prior months, causing

backlogs of work to fall at an increased rate, albeit exclusively in manufacturing (though service sector backlogs rose only very modestly).

Employment

Labour market trends also varied by sector. Whereas manufacturing employment rose only slightly, the rate of job creation down to the lowest for 28 months, service sector jobs growth was the second-strongest recorded over the past year. The resulting overall increase in employment was consequently weaker than April but still the second-highest recorded over the past 11 months.

Prices

Average **prices charged** for goods and services rose at the slowest rate for 25 months in May, having been on a broad easing trend over the course of the past year. However, the rate of increase remained elevated by historical standards, and far above the average seen in the decade leading up to the pandemic. Although prices charged for goods leaving the factory gate fell for the first time since September 2020, average rates levied for services grew sharply, with the rate of inflation accelerating compared to April.

While the variance in inflation trends by sector in part reflected differing demand conditions, with service sector firms reporting higher pricing power amid resurgent demand while goods producers reported an increasing need to offer discounts to stimulate sales, the survey also revealed growing cost divergences.

Input costs in the goods producing sector fell for a third straight month and at the sharpest rate since February 2016, pulled lower by reduced costs for energy as well as for a wide variety of other inputs amid increasingly abundant supply. **Supplier delivery times** shortened for a fourth successive month, with improved supply conditions also linked to slumping demand for raw materials. Manufacturers cut back on their **input buying** at the fastest pace for three years, leading to the steepest decline in **inventories** for three-and-a-half years.

In contrast, service sector input costs continued to rise sharply, the rate of increase remaining elevated, often linked to higher **wage and salary costs**. Service sector input cost inflation nevertheless moderated slightly to the lowest since August 2021, helping bring the overall rate of input cost inflation across goods and services to the lowest since January 2021.

Future expectations

Finally, **optimism about the year ahead** dipped further from February's 12-month high, down especially in manufacturing but also slipping further in services, reaching a five-month low. Although the number of optimists continued to outnumber pessimists, the overall degree of confidence has dropped further below the long-run average, and is especially low by historical standards in manufacturing. While sentiment has improved considerably since the lows seen late last year on the back of fewer energy and supply chain worries, recent months have seen some cooling of sentiment amid growing concern over weaker customer demand and higher interest rates, fuelling uncertainty about the outlook and adding to recession risks.

National trends

Looking at growth within the euro area, the expansion in May was led by **Germany**, where output grew at the sharpest rate for 13 months, albeit confined to services. The sharpest expansion of service sector output since August 2021 was countered by the sharpest fall in German goods production for six months. Growth in **France** meanwhile slipped to the lowest in the current four-month span of expansion, with weakened service sector growth accompanied by a further marked drop in goods production. While the **rest of the region** as a whole reported growth for the fifth month in a row, the expansion cooled to the lowest since February due to slower (though still buoyant) services growth and an increasingly steep fall in manufacturing output.

Comment

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

"Eurozone GDP is likely to have grown in the second quarter thanks to the healthy state of the services sector. However, the manufacturing sector is a powerful drag on the momentum of the economy as a whole. German companies from this sector are particularly hard on the brakes, as new orders here have fallen even more significantly than in France and the production index is also pointing sharply downward."

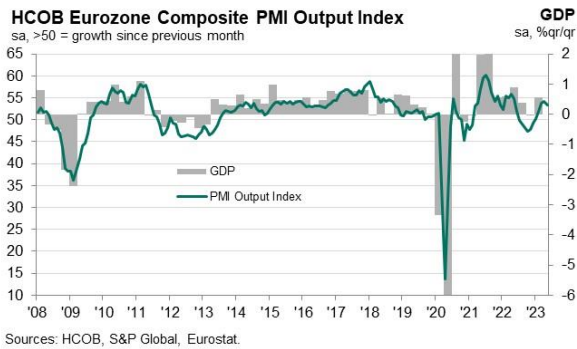
"Overall, companies in the manufacturing sector are less optimistic about their production over the next twelve months. This is matched not only by the significant decline in new orders, but also by lower inventories of intermediate inputs and lower purchases thereof. However, according to Eurostat, the order situation is by no means catastrophic, as in the second quarter order books for the major euro countries were still well above their long-term average."

"The European Central Bank will have a headache with the PMI price data. This is because selling prices in the services sector actually rose more than in the previous month. It is precisely price developments in this sector that the ECB is watching with a

wary eye. The upward movement that can still be observed here is keeping the central bank from taking an interest rate pause."

"A welcome development for the people of the eurozone is that companies continue to hire more workers. Even in the weakening industrial sector, employment is increasing, as shown by the corresponding PMI component. The risk of a recessionary downward spiral in the form of falling employment, lower consumer demand triggered by this, which in turn causes companies to downsize, is therefore rather low in these times of demographically induced labour shortages."

-Ends-



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Note to Editors

Final May data are published on 1 June for manufacturing and 5 June 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@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.

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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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