

NEWS RELEASE
MARKET SENSITIVE INFORMATION
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HCOB Flash Eurozone PMI®

Eurozone recovery slows as new orders fall for first time in four months

Key findings:

HCOB Flash Eurozone Composite PMI Output Index⁽¹⁾ at 50.8 (May: 52.2). 3-month low.

HCOB Flash Eurozone Services PMI Business Activity Index⁽²⁾ at 52.6 (May: 53.2). 3-month low.

HCOB Flash Eurozone Manufacturing PMI Output Index⁽⁴⁾ at 46.0 (May: 49.3). 6-month low.

HCOB Flash Eurozone Manufacturing PMI⁽³⁾ at 45.6 (May: 47.3). 6-month low.

Data were collected 12-19 June

The eurozone's economic recovery suffered a setback at the end of the second quarter of the year, according to provisional PMI® survey data. New orders decreased for the first time in four months, feeding through to softer expansions in business activity and employment. Meanwhile, business confidence dipped to the lowest since February. Rates of input cost and output price inflation eased to six- and eight-month lows respectively.

The slowdown in growth of business activity seen in June was reflective of a softer expansion in the service sector and a more pronounced decrease in manufacturing production, which fell to the largest degree in the year-to-date.

Looking geographically across the euro area, Germany recorded a slight increase in activity in June, while the rest of the eurozone continued to record solid expansion, albeit with the pace of growth easing to a four-month low. Less positively, France posted a decrease in output for the second month running.

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, dropped to 50.8 in June from 52.2 in May. Although the latest reading signalled a fourth consecutive monthly increase in business activity and thus suggested that GDP will continue to expand in the second quarter, the latest rise in output was only slight and the weakest since March to signal a loss of growth momentum as the first half of the year draws to a close. Nevertheless, the average index reading over the second quarter was the highest for a year.

Growth was again limited to the **service sector**, where activity increased for the fifth month running. The latest rise was solid, but the softest since March. Meanwhile, the recent improving picture in the **manufacturing sector** was reversed in June as production decreased at a marked pace that was the sharpest since the end of 2023. Manufacturing output has now fallen in 15 consecutive months.

Central to the slower expansion in overall business activity across the euro area in June was a renewed fall in **new orders**, which decreased for the first time in four months. The pace of decline was only slight, however. A marked reduction in manufacturing new orders outweighed a slight increase in services new business. Demand weakness in export markets was particularly prevalent as **new export orders** decreased much more quickly than total new business. The decline in new business from abroad (including intra eurozone trade) was the sharpest since February amid falls across both monitored sectors.

The eurozone's largest economy, Germany, posted a third successive monthly increase in business activity, but the rate of expansion slowed and was only marginal amid a renewed fall in new orders. **France**, meanwhile, saw output decrease at the quickest pace since February. The **rest of the eurozone** recorded a further solid rise in activity, despite the rate of growth

easing to a four-month low.

Employment

In tandem with a slower expansion in business activity, the rate of job creation also eased in the euro area during June. **Employment** rose for the sixth month running, but at only a slight pace that was the weakest since March. Staffing levels were raised solidly in the service sector, while a similarly-sized fall was recorded in manufacturing. With new orders returning to contraction territory, output was supported by work on **outstanding business**. As a result, backlogs of work continued to be depleted solidly, with the latest reduction the most marked since February.

Inventories and supply chains

The deepening downturn in the manufacturing sector resulted in more pronounced reductions in **purchasing activity** and holdings of both **purchases** and **finished goods** in June. Most notably, the depletion in post-production inventories was the sharpest in almost three years. Falling demand for inputs meant for spare capacity in supply chains, and **lead times** on the delivery of purchased items shortened for the fifth consecutive month. The latest improvement in supplier performance was solid, but the least marked since February.

Prices

The rate of **input cost** inflation eased for the second month running in June and was the slowest in the year-to-date. Input prices continued to rise sharply, however, with the latest increase still slightly stronger than the pre-pandemic average. For the first time in 16 months, input costs rose across both the manufacturing and service sectors as manufacturers posted a renewed increase in their cost burdens, albeit one that was only slight. In services, the pace of input cost inflation eased to a 38-month low.

In line with the picture for input costs, the pace of **output price** inflation also eased in June and was at an eight-month low. Selling prices in the service sector continued to rise solidly, albeit to the least extent in just over three years. Meanwhile, manufacturers lowered their selling prices slightly. The reduction was the joint-slowest in the current 14-month sequence of falling charges, equal with that seen in May 2023. Selling prices increased at slower rates in France and the rest of the eurozone, but at a faster pace in Germany.

Outlook

After having hit a 27-month high in May, **business confidence** waned in June amid the fall in new orders. Optimism was the lowest in four months, but still broadly in line with the series average. Sentiment dipped in both the manufacturing and service sectors, with services optimism dropping to the lowest since January.

Comment

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

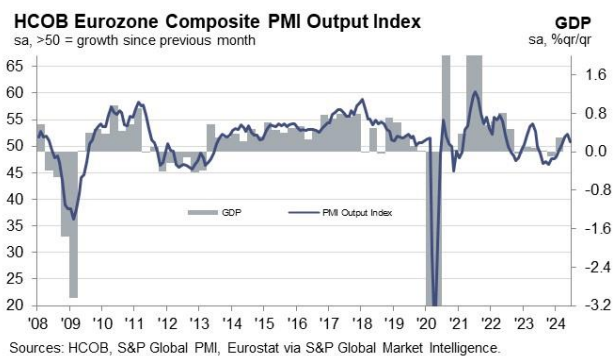
“Is the recovery in the manufacturing sector ending before it began? Both we and the market consensus anticipated that the increase in the index in May would be followed by another rise in June, potentially setting the stage for an upward trend. However, rather than moving closer to expansionary territory, the HCOB Flash Eurozone Manufacturing PMI reading fell, dashing hopes for a recovery. This setback was compounded by the fact that new orders, which typically serve as a good indicator of near-term activity, fell at a much faster rate than in May. This rapid decline in new orders suggests that a recovery may be further off than initially expected.

“The services sector continues to keep the Eurozone afloat. Even though activity didn’t pick up as much as last month and fell short of what most analysts were expecting, the overall expansion was solid. Parallel to the softer activity figures, service providers were a bit more reserved when it came to increasing their staffing levels. Using the preliminary HCOB Flash Eurozone Composite Output Index in a simple regression analysis, the GDP estimate for the second quarter indicates a slight downgrade but still points to positive growth of 0.2% compared to the first quarter.

“The ECB, which cut interest rates in June, may feel vindicated by prices data which signalled easing pressure in the Eurozone’s service sector. However, the HCOB PMI do not provide ammunition for another rate cut in July by the ECB. This is because, for the biggest Eurozone economy, Germany, service providers increased their selling prices at a sharper pace than in May. In addition, in the Eurozone manufacturing sector, which experienced deflation in output charges over the last 14 months, we may see a return of selling price inflation again as input prices in the region increased in June for the first time since February 2023.

“The worsening situation in both the services and manufacturing sectors in France might be tied to the results of the recent European Parliament election and President Emmanuel Macron’s announcement of snap elections on June 30. This unexpected turn of events has likely stirred up a lot of uncertainty about future economic policies, causing many companies to hit the brakes on new investments and orders. In any case, it is evident that France’s poor economic performance has significantly contributed to the deteriorating economic conditions in the Eurozone.”

-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

Andrew Harker
Economics Director
T: +44-1491-461-016
andrew.harker@spglobal.com

Sabrina Mayeen
Corporate Communications
T: +44-796-744-7030
sabrina.mayeen@spglobal.com

Note to Editors

Final June data are published on 1 July for manufacturing and 3 July 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

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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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