NEWS RELEASE
MARKET SENSITIVE INFORMATION
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HCOB Eurozone Composite PMI®

Eurozone economy suffers fresh contraction at end of third quarter

Key findings:

HCOB Eurozone Composite PMI Output Index at 49.6 (Aug: 51.0). 7-month low.

HCOB Eurozone Services PMI Business Activity Index at 51.4 (Aug: 52.9). 7-month low.

First month since December 2023 that contraction is seen in all big-three eurozone economies

Data were collected 12-25 September 2024

The euro area economy suffered a fresh setback at the end of the third quarter as total business activity decreased for the first time since February. According to the latest HCOB PMI® survey data, which are compiled by S&P Global, private sector output decreased marginally when compared to August. Notably, the currency bloc's big-three nations – Germany, France and Italy – recorded contractions simultaneously for the first time in 2024 so far. Demand for euro area goods and services meanwhile fell at the quickest pace in eight months, leading to backlog reductions and a slightly faster rate of job cutting. Business confidence also weakened fractionally, taking it further beneath its long-run average.

September survey data revealed another marked easing of cost pressures faced by eurozone companies. The increase in input prices was the softest in 14 months, and the second-weakest since November 2020. Output charges were also lifted to the smallest extent in just over three-and-a-half years.

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 – fell into contraction territory in September for the first time since February. Down from August's three-month high of 51.0 to 49.6, the headline index was indicative of a marginal decrease in private sector business activity at the end of the third quarter. Trends at the sector level worsened in September. Euro area factory production recorded an accelerated decline that was the fastest in the year-to-date, while services growth slowed to a seven-month low.

The big-three economies of the currency bloc – Germany, France and Italy – all registered month-on-month contractions in business activity during September. Germany spear-headed the downturn, with private sector output here falling for a third month in a row and at the fastest pace since February. France suffered a renewed contraction, partly reflecting some payback following August's boost from the Paris Olympic Games. Italy meanwhile saw its first month of decline in the year-to-date, although the pace of contraction was only marginal. Expansions were seen in the two other countries for which Composite PMI data are available – Spain and Ireland – with the former registering a sharp and accelerated upturn.

According to the latest data, the level of new business received by private sector firms in the euro area shrank for a fourth successive month. Additionally, the pace of decrease quickened to the steepest since January. A renewed (albeit marginal) deterioration in demand for services was accompanied by a rapid drop in new factory orders. Export* sales performances worsened, with the fastest fall in new business from non-domestic customers since last December providing a considerable drag on total order book volumes.

Surveyed businesses in the euro area recorded another monthly fall in their volumes of outstanding workloads, extending the current period of backlog depletion to a year-and-a-half. The rate of decrease was also slightly faster than seen on average over this sequence. Completion rates picked up in both the manufacturing and services sectors in September.

Eurozone firms stepped up headcount reductions at the end of the third quarter. Although the rate of job shedding was marginal, it was the joint-fastest since December 2020 (matching January 2021, as well as November and December 2023).

Lower employment levels were entirely a reflection of the manufacturing economy as factory lay-offs were sufficiently strong to more than offset modest job creation within the service sector.

Meanwhile, euro area business confidence continued to weaken in September, marking a fourth month in a row that firms' sentiment has deteriorated. Albeit still optimistic overall, 12-month expectations for activity were at their lowest in the year-to-date.

Finally, the HCOB PMI data revealed a further marked easing of cost pressures across the eurozone. Overall, the rate of input cost inflation was the second-slowest November 2020, with July 2023 narrowly undershooting that seen in September. The extent to which euro area companies raised their own prices also eased at the end of the third quarter. Overall output charges increased only modestly and to the weakest extent in just over three-and-a-half years.

**includes intra-eurozone trade.*

Countries ranked by Composite PMI Output Index: September

Spain	56.3	4-month high
Ireland	52.1	3-month low
Italy	49.7	9-month low
France	48.6 (flash: 47.4)	6-month low
Germany	47.5 (flash: 47.2)	7-month low

HCOB Eurozone Services PMI®

The **HCOB Eurozone Services PMI Business Activity Index** signalled an eighth consecutive month of growth at the end of the third quarter. Registering above the 50.0 no-change mark, as has been the case since February, the latest figure indicated sustained growth in services output. However, falling to 51.4 in September, from 52.9 in August, the index pointed to an expansion that was only modest and the weakest for seven months.

Higher business activity levels were achieved despite the level of incoming new work decreasing. This was the first time since February that demand for services has fallen, although the contraction was only marginal. Outstanding orders provided services firms with a means to support activity. Backlogs of work fell for the fourteenth time in the past 15 months, and to the quickest extent since February.

Employment levels continued to rise across the eurozone's service sector in September. While the rate of job creation was fractionally faster than in August, it was weaker than seen on average since data collection began in July 1998.

Services inflation cooled in the euro area at the end of the third quarter. Notably, rates of increase in input costs and output prices were their softest in 42 and 41 months, respectively.

Finally, expectations for growth over the next 12 months strengthened in September. This marked the first month since May that business confidence has improved. That said, the level of optimism was subdued by historical standards.

Comment

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

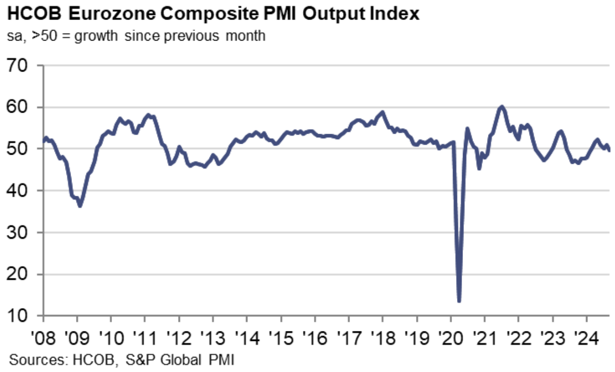
"At first glance, the services sector in the eurozone seems to be holding up fairly well. It's still growing, and the slowdown is not too steep just yet. But when you dig a little deeper and look at individual countries, the picture is not as rosy – except for Spain. Here, we are rubbing our eyes in amazement. Service providers there are booming, with the index shooting up to 57 points. The situation in the other three leading eurozone economies is quite different. In France, service providers' business activity slowed down after the Olympics effect and in Germany and Italy, growth almost hit a wall in September. Even if Spain manages to avoid getting pulled down by the struggles of its neighbours, the eurozone's services sector as a whole seems to be headed for more sluggish growth.

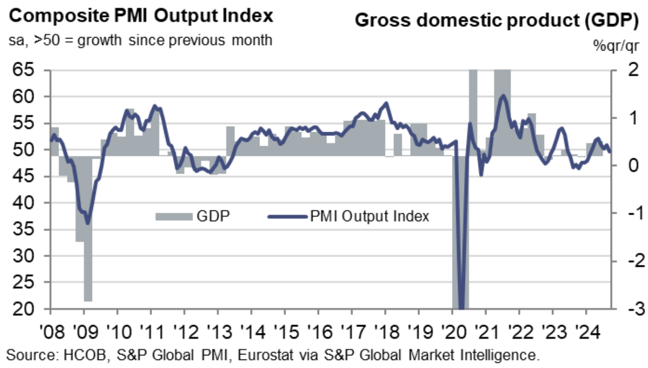
"On the ground, most service sector employees have not really felt the pinch yet. In fact, the hiring rate picked up in Spain and France, and even in Italy, jobs growth only dipped slightly. It is Germany where things look bleakest, with companies there actually cutting staff. This is where the recession in manufacturing is making itself felt, as in this environment the corresponding companies are placing fewer orders with the service sector.

"The situation in the service sector in the eurozone will continue to deteriorate. This is indicated by the decline in new business. For the first time since February, it has fallen in the eurozone compared to the previous month. The development in Germany and France is similar. Factoring in the ongoing contraction in industry, the eurozone economy is likely to have grown only at a marginal rate in the third quarter. Our GDP nowcast model, which takes into account the PMI indicators, also points to only minimal growth.

"On the plus side, operating costs in the services sector saw their slowest rise since early 2021, and inflation in selling prices is also easing off. Given the overall economic weakness, this is a good case for the ECB to cut interest rates in October. And indeed, only recently, ECB president Christine Lagarde did hint at a rate cut this month."

-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 82% 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

75% 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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We are widely sought after by many of the world's leading organizations to provide credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help the world's leading organizations plan for tomorrow, today.

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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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