NEWS RELEASE
MARKET SENSITIVE INFORMATION
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HCOB Eurozone Composite PMI®

Eurozone economy starts fourth quarter in stagnation

Key findings:

HCOB Eurozone Composite PMI Output Index at 50.0 (Sep: 49.6). 2-month high.

HCOB Eurozone Services PMI Business Activity Index at 51.6 (Sep: 51.4). 2-month high.

Economy stalls amid further reductions in new orders and employment

Data were collected 10-28 October 2024

Euro area businesses began the final quarter of 2024 in stagnation, latest HCOB PMI® survey data revealed, as shrinking levels of business activity in the currency bloc's two largest economies – Germany and France – offset expansion elsewhere. The absence of growth came amid a further weakening of demand conditions and the sharpest drop in employment since December 2020. Business confidence also slipped for a fifth month in a row to its lowest level in the year-to-date.

As for prices, rates of inflation in both input costs and output charges were little-changed and therefore among the weakest seen in 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 – recorded 50.0 in October, which indicates no change in private sector output levels when compared with the month prior. This did mark an increase from 49.6 in September but was well beneath the survey average of 52.5.

The stagnation of the euro area economy masked considerably different trends at a sector level, however. Services activity rose for a ninth straight month and growth even ticked slightly higher, while manufacturing production decreased solidly.

Of the eurozone nations which have Composite PMI available, the October survey data showed mixed results. It was the currency bloc's two biggest economies, Germany and France, which continued to drag on the union's performance. However, while France fell deeper into contraction, Germany's downturn cooled. Declines in activity in these two nations were sufficient to counteract growth elsewhere across the euro area. Spain remained the fastest-growing euro area country in October, despite a slight loss of momentum. Ireland and Italy saw modest upturns, with the latter signalling a renewed expansion.

The level of new work received by private sector firms in the eurozone shrank for a fifth successive month as the final quarter of 2024 got underway. A sharp (albeit softer) deterioration in demand for goods was accompanied by the quickest drop in sales at services companies since January. Factory order books fell at a much stronger margin than that seen for services, in part due to manufacturers experiencing a more pronounced drag on sales from abroad*. Aggregate new export business decreased for a thirty-second month in a row during October.

October saw the volume of outstanding business across the euro area shrink as lower demand allowed firms to focus more resources on backlogged orders. The monthly reduction, which was the nineteenth in a row, was solid overall and broad-based by sector. Subsequently, euro area companies lowered their staffing capacity at the start of the fourth quarter. Albeit marginal, the rate of job shedding was the quickest since December 2020. Cuts to headcounts were exclusive to goods producers, although employment came close to stalling in the service sector.

Surveyed companies in the euro area were less optimistic towards the 12-month outlook for business activity in October. In fact, business confidence weakened for the fifth month running and was at its lowest in the year-to-date.

HCOB PMI data meanwhile indicated a continuation of benign cost pressures across the euro area. In addition to being well below its long-run average, the rate of input price inflation held close to that seen in September and was the third-softest for nearly four years. Eurozone companies raised their prices charged, but only modestly and to the second-slowest extent since February 2021.

*includes intra-eurozone trade.

Countries ranked by Composite PMI Output Index: October

Spain	55.2	2-month low
Ireland	52.6	2-month high
Italy	51.0	4-month high
Germany	48.6 (flash: 48.4)	3-month high
France	48.1 (flash: 47.3)	8-month low

HCOB Eurozone Services PMI®

The **HCOB Eurozone Services PMI Business Activity Index** edged slightly higher in October to 51.6, from 51.4 in September, therefore moving further inside expansion territory (above 50.0). Overall, this pointed to a modest and accelerated expansion in services activity across the euro area, although the pace of growth was subdued by historical standards.

Demand presented a drag for service providers in the single-currency market in October. New business receipts fell for a second month running and at the quickest pace since January. Sales made to non-domestic customers weakened in particular, with the respective HCOB index for new export orders registering beneath that for total new business. The decline in new business from abroad was the sharpest for ten months.

Backlogs of work across the service sector declined as less incoming new orders led firms to clear those pending completion. Employment levels rose nonetheless, although the rate of job creation was marginal and the weakest since February 2021. When anticipating activity levels in 12 months' time, survey respondents were optimistic of growth, although the degree of confidence slipped compared to September.

Lastly, October survey data showed accelerated increases in input costs and output charges, although rates of inflation held close to the lows seen in September.

Comment

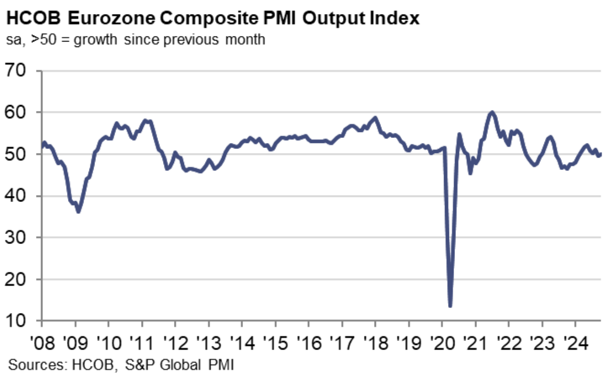
Commenting on the PMI data, Dr. Cyrus de la Rubia, Chief Economist at Hamburg Commercial Bank, said:

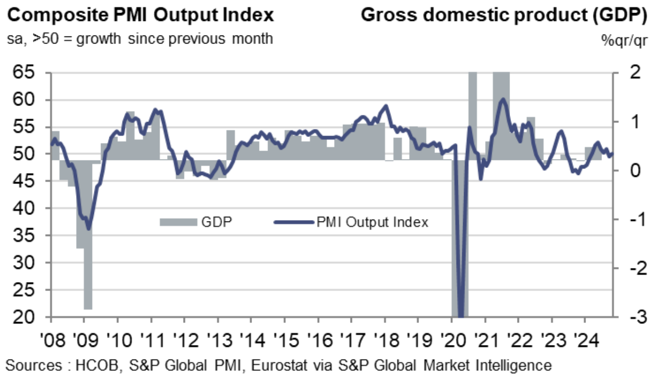
"Growth and stability are not the first words you would associate with the current economic situation in the euro area. But that is exactly what the services sector has been providing, with stable growth since early this year. The modest expansion of the services sector has been crucial in keeping the currency union out of recession. We are confident that service providers will continue to increase their activity, as lower inflation and higher wages mean higher private consumption, which supports demand for services. Therefore, we would also expect new business to recover, which has declined somewhat in the last two months.

"It is not clear if stagnation of the Eurozone economy will be prevented given the Composite PMI recorded 50.0 in October. Our GDP nowcast for the fourth quarter, based on the PMIs and several other indicators, signals a slight contraction, although GDP growth is still possible if the manufacturing sector improves over the next two months, for which the October figures provide some, albeit very tentative, hope.

"Christine Lagarde, President of the European Central Bank, noted at the last ECB press conference that services inflation remains rather sticky. The PMI price indicators support this view. Costs rose at a faster pace in October than in previous months, as did selling prices. In our view, this stickiness is a structural problem related to the demographically induced labour shortage, which is exerting upward pressure on wages. The ECB will find it difficult, if not impossible, to achieve the 2% inflation target in a sustainable manner in this environment."

-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 86% 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 83% 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
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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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