

NEWS RELEASE

MARKET SENSITIVE INFORMATION

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HCOB Eurozone Composite PMI[®]

Eurozone economy contracts at faster pace in August as services activity tips into decline

Key findings:

HCOB Eurozone Composite PMI Output Index at 46.7 (Jul: 48.6). 33-month low.

HCOB Eurozone Services PMI Business Activity Index at 47.9 (Jul: 50.9). 30-month low.

Input price inflation accelerates for first time in nearly a year

Data were collected 10-25 August 2023

Output in the eurozone economy declined at the fastest rate in nearly three years in August, latest HCOB PMI[®] survey data compiled by S&P Global showed. The overall retreat in activity was the fastest since November 2020, and broad-based across the manufacturing and services sectors as the latter contracted for the first time in 2023 so far. New orders also dropped the most since late-2020, leading to companies completing outstanding work at the fastest rate in over three years. This resulted in one of the softest 12-month outlook in 2023 so far and a near-stalling of jobs growth, with private sector employment rising at the slowest rate in the current 31-month sequence of increases.

The latest prices data were also cause for concern, as input price inflation accelerated on the month for the first time since September 2022. The average increase in prices charged for goods and services was the slowest in two-and-a-half years, but remained stronger than the long-run trend.

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 to 46.7 in August from 48.6 in July. The latest figure signalled a third successive monthly contraction in output and the fastest rate of decline since November 2020. Moreover, excluding the pandemic period, activity dropped the most in any month since March 2013 during the sovereign debt crisis.

For the first time in 2023 so far, output fell in both the services and manufacturing sectors. The service sector ended a seven-month run of growth with the steepest contraction since February 2021. Goods production meanwhile dropped for the fifth month running and at another rapid rate, albeit one that eased since July. By nation, Germany and France registered the steepest declines in output, while more modest falls were posted in Italy and Spain. Ireland bucked the overall trend with a renewed increase in activity.

The near-term outlook deteriorated in August as new business fell for the third month running and at the fastest rate since November 2020. Both manufacturers and service providers registered steeper declines, with the goods producers again faring comparatively worse. Exports¹ of both goods and services fell for the eighteenth consecutive month, and at one of the fastest rates on record*. The 12-month horizon improved slightly since July as the Future Output Index rose for the first time in six months, but it remained broadly in line with the subdued trend since the Russian invasion of Ukraine in February 2022.

The weakening demand picture was reflected in data on capacity, as the level of outstanding business declined at a faster rate in August. Excluding the pandemic, the drop in backlogs in the latest period was the steepest since the second half of 2012. Manufacturing backlogs have declined continuously since June 2022, while outstanding work at service providers has fallen six times in the past 12 months. The overall decline in Germany was the strongest since June 2009, excluding the pandemic.

With the declines in both new and outstanding business gathering pace in August, data signalled a near-stalling in employment growth. Jobs rose for the thirty-first consecutive month, but at the slowest rate in this sequence. Manufacturers shed staff for the

third straight month, albeit only slightly. Among the largest euro economies, Italy posted a decline in staffing while Germany registered almost no growth.

Average input costs at eurozone firms rose at the fastest rate in three months in August. This ended a survey-record ten-month sequence of slowing input price inflation. While the Composite Input Prices Index remained below its long-run trend level, cost pressures remained relatively high at service providers. Another sharp reduction in manufacturing input prices was registered, albeit the softest in three months. The overall rate of output price inflation across manufacturing and services eased to a two-and-a-half year low but remained historically strong.

Countries ranked by Composite PMI Output Index: August

Ireland	52.6	4-month high
Spain	48.6	10-month low
Italy	48.2	10-month low
France	46.0 (flash: 46.6)	33-month low
Germany	44.6 (flash 44.7)	39-month low

¹includes intra-eurozone trade. *Composite New Export Orders Index began September 2014.

HCOB Eurozone Services PMI[®]

The **HCOB Eurozone Services PMI Business Activity Index** fell below the no-change mark of 50.0 in August to 47.9, from 50.9 in July and indicating the first decline in activity since December 2022. Moreover, the rate of contraction was the fastest since February 2021. The four largest eurozone economies all posted declines, led by France and Germany. Italy and Spain registered only marginal contractions while Ireland posted a solid, albeit slower, increase in services output.

The volume of new business fell for the second month running, and at the fastest pace since February 2021. Demand for services has now contracted eight times since the second half of 2022. As was the case for total activity, France and Germany were the main drivers of weakness in August. New export business (including intra-eurozone trade in services) fell for the third month running, and at a faster rate. Looking ahead, expectations for business activity remained positive, although the degree of optimism was unmoved from July's 2023 low.

With new contracts at service providers drying up in August, the level of incomplete business continued to fall. The rate of contraction was the strongest in two-and-a-half years. This led to greater caution around hiring as employment in the services sector rose at the slowest rate since February 2021, the first month of the current upturn. Italian service providers cut staff for the second month running.

Input prices at service providers rose at the fastest rate in three months in August, and one that remained above the long-run survey average. That said, cost pressures remained well down on the record highs seen in 2022. Inflation of prices charged for services eased to a 23-month low, but remained very high in Germany in particular.

Comment

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

"The eurozone didn't slip into recession in the first part of the year, but the second half will present a greater challenge. For, the once stabilizing services sector turned into a drag for the economy while manufacturing has not bottomed out yet, most probably. The disappointing numbers contributed to a downward revision of our GDP nowcast which stands now at -0.1% for the third quarter."

"Input price increases surprisingly picked up putting the perspective of rapidly decreasing inflation into question. The prime suspect is likely the wage hikes, which are not necessarily in sync with the business cycle, given their often longer term nature."

"Employers weren't too keen on beefing up their teams. The way things have been going down lately, it's a sign they'll be moving towards job cuts sooner, not later. Still, the decline in unfinished tasks and new orders doesn't seem severe enough at this point to trigger aggressive cuts."

"Among the big eurozone countries, the main drag is coming from Germany and France, where activity in the service sector weakened at the fastest rate this year. In Italy and Spain, instead, there has been a relatively mild downturn in August. Judging by what occurred in Germany and France, it seems that Italy and Spain won't be able to dodge a more severe services sector downturn, though."

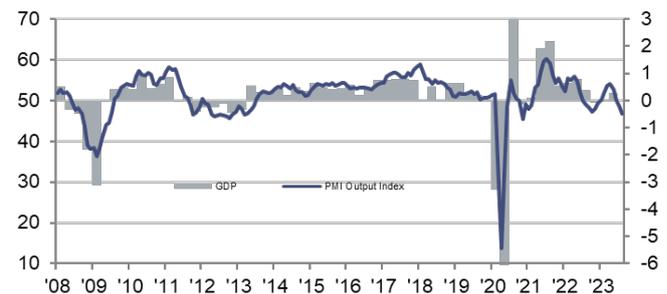
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HCOB Eurozone Composite PMI Output Index
sa, >50 = growth since previous month



Source: HCOB, S&P Global PMI.

Composite PMI Output Index **Gross domestic product (GDP)**
sa, >50 = growth since previous month %qtr/qtr



Source: HCOB, S&P Global PMI, Eurostat via S&P Global Market Intelligence.

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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 84% 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 78% 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.

S&P Global (NYSE: SPGI)

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