

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

Eurozone downturn deepens in October, price pressures cool

Key findings:

HCOB Flash Eurozone Composite PMI Output Index⁽¹⁾ at 46.5 (September: 47.2). 35-month low.

HCOB Flash Eurozone Services PMI Business Activity Index⁽²⁾ at 47.8 (September: 48.7). 32-month low.

HCOB Flash Eurozone Manufacturing PMI Output Index⁽⁴⁾ at 43.1 (September: 43.1). Unchanged rate of decline.

HCOB Flash Eurozone Manufacturing PMI⁽³⁾ at 43.0 (September: 43.4). 3-month low.

Data were collected 11-20 October

The eurozone economic downturn accelerated at the start of the fourth quarter, according to provisional PMI survey data for October, with private sector output declining at the steepest rate for over a decade if pandemic affected months are excluded. New orders also fell at an accelerating rate, pointing to a worsening demand environment for both goods and services. Companies cut employment as a result, representing the first drop in headcounts since the lockdowns of early 2021, and remained focused on cost-cutting inventory management.

Despite some upward pressure on costs from higher oil prices, the rate of inflation for goods and services moderated slightly in October, down to its lowest since February 2021. An ongoing sharp fall in manufacturing selling prices was accompanied by a moderation in service sector selling price inflation.

Output and demand

The seasonally adjusted **HCOB Flash Eurozone Composite PMI Output Index**, based on approximately 85% of usual survey responses, fell from 47.2 in September to 46.5 in October, signalling a fifth consecutive month of falling business activity and the steepest decline since November 2020. Excluding pandemic months, the fall in activity was the sharpest since March 2013. A broad-based downturn was again evident, as a seventh successive month of falling output in the manufacturing sector was accompanied by a third month of contracting service sector activity.

The **goods-producing sector** continued to report the steeper rate of contraction, the pace of output decline unchanged on the marked pace seen in September to indicate that factories remain in the deepest downturn since 2009 barring the early pandemic lockdowns. With the exception of a brief period of growth during the opening quarter of 2023, euro area manufacturing output has decreased continuously since the middle of 2022, reflecting 18 months of continuously falling inflows of new orders into the sector. New orders received by manufacturers fell sharply again in October, dropping at a slightly faster rate than September to sustain one of the sector's steepest downturns in demand since 2009.

Service sector activity meanwhile contracted at an accelerating rate in October, dropping at a rate not seen since early-2021 and since May 2013 if the height of the pandemic is excluded. Recent months have seen the service sector's performance alter markedly, as a strong resurgence of activity earlier in the year has moved into reverse, in part reflecting a cooling of a post-pandemic surge in spending on travel and recreation. Measured overall, new business received by service providers fell for a fourth straight month in October, the rate of decline accelerating to the fastest since January 2021.

Measured across goods and services, the resulting drop in **new orders** was the largest since May 2020 and, if early pandemic months are excluded, since May 2009. The drop in orders was also steeper than the reported decline in output, meaning companies once again relied on backlogs of previously-placed orders to help sustain activity levels. **Backlogs of orders** were consequently depleted at a rate not seen since June 2020, dropping at slightly faster rates in both manufacturing and services.

Employment, inventories and purchasing

The downturn in new orders and the accelerated depletion of backlogs of orders prompted firms to reduce **employment** for the first time since January 2021. A fifth consecutive month of job losses in the factory sector saw manufacturing headcounts drop at the sharpest rate since August 2020, while hiring came close to stalling in the service sector.

Input buying by manufacturers was likewise further pared back, dropping at one of the sharpest rates since April 2009 if the early COVID-19 lockdown months are excluded. The cut to buying activity resulted in the steepest fall in **inventories of purchases** since December 2012. A growing focus on costs meant **stocks of finished goods** were also lowered further in October, dropping at the sharpest pace since August 2021.

Prices

Reduced demand for inputs meant vendor **lead times** improved for a ninth consecutive month, with faster deliveries accompanied by a further cooling of supply chain price pressures. Despite reports of higher oil prices having added to firms' costs over the month, the average **cost of inputs into factories** fell sharply in October amid discounting as supply exceeded demand. Manufacturing input prices were down for an eighth consecutive month, although the rate of decline eased for a third month in a row.

Service sector input costs were also buoyed by higher fuel prices, though nonetheless rose at a slightly reduced rate compared to September. The overall rate of increase remained elevated, however, often linked to higher wage rates amid the rising cost of living. Although service sector cost inflation has fallen sharply compared to a year ago, the rate of inflation remains higher than at any time in the pre-pandemic period since 2008.

Encouragingly, average **prices charged** for goods and services rose at a marginally weaker rate in October, the rate of inflation edging down to its lowest since February 2021 and notably continued to run below the average seen in the three years preceding the pandemic. A further marked fall in manufacturing selling prices was accompanied by a cooling of service sector inflation to the lowest since May 2021.

Outlook

Looking ahead, eurozone businesses reported a marginal improvement in **confidence** about output levels in the year-ahead, though the overall level of sentiment remained among the weakest seen over the past year. Improved optimism in the service sector was largely offset by a deteriorating outlook in manufacturing.

National trends

October's downturn was broad-based across the eurozone, though France reported a steeper pace of decline than Germany for a second month running. France's contraction nevertheless moderated, thanks to a softer service sector decline helping offset a further steep factory downturn. In contrast, Germany's decline accelerated on the back of a renewed drop in services activity and a further manufacturing slump. France and Germany have now respectively seen five and four months of falling output, while the rest of the eurozone as a whole has seen three straight monthly declines. However, the latest fall in the rest of the region was the largest for a year thanks to a steepening manufacturing downturn and a renewed fall in services activity.

Comment

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

"In the Eurozone, things are moving from bad to worse. Manufacturing has been in a slump for sixteen months, services for three, and both PMI headline indices just took another hit. In addition, all subindices point very consistently downwards, too, with only a few exceptions. Overall, this points to another lacklustre quarter. We wouldn't be caught off guard to see a mild recession in the Eurozone in the second half of this year with two back to back quarters of negative growth."

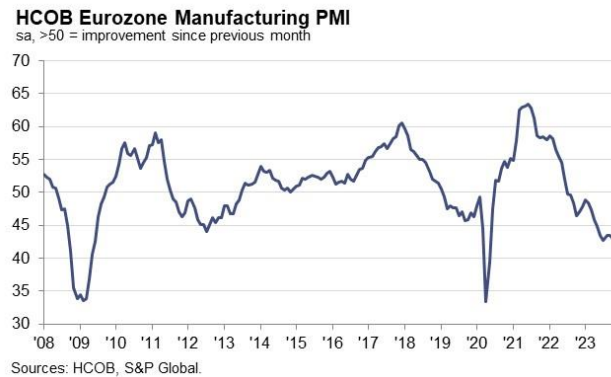
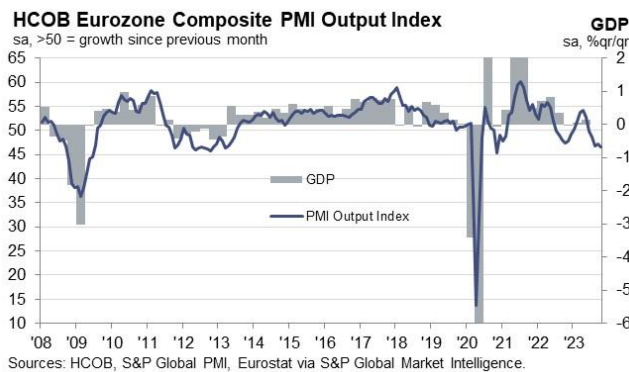
"The composite PMI fell to 46.5, with the downwards movement in the index driven mostly by service activity which is on a steeper downward slope than the previous month. The unrelenting slide in new and outstanding business is a red flag, signalling more trouble ahead for this sector. Against this backdrop service providers' hiring came almost to a standstill. Manufacturing companies are not just continuing to cut staff, they are ramping up job shedding plans. This led for the first time since January 2021 to an overall decrease in employment according to the composite PMI. Having said this, the reduction has been mild and given the structural shortage of labour we are not expecting the jobless numbers to spike up all that much in the near future."

"Comparing the top two Eurozone economies, France and Germany are pretty much neck and neck when it comes to the downturn in manufacturing. Both are struggling with output indices in the doldrums and a similar picture for new orders. Employment-wise, French companies are more aggressive in downsizing their staff. Looking at the services sector, the picture might be a little brighter for France, even though the activity index is lower than in Germany. In France, new business is not dropping as fast and companies are even adding jobs at a steady clip instead of cutting them. This more positive view"

is also supported by our nowcast model which sees France in the growth zone in the year's second half while Germany is bracing for a recession.

“Price increases in the services sector remain very high in October, the more so if you measure it against previous economic rough patches. There has been only a slight slowing down of inflation in both input prices and prices charged. For the European Central Bank, these figures reinforce the case of a pause in the interest rate cycle instead of thinking aloud about loosening monetary policy.”

-Ends-



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Note to Editors

Final October data are published on 2 November for manufacturing and 6 November 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

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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