

NEWS RELEASE
MARKET SENSITIVE INFORMATION
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HCOB Eurozone Composite PMI®

Eurozone economy stalls in June as services growth wanes and factory production falls

Key findings:

HCOB Eurozone Composite PMI Output Index at 49.9 (May: 52.8). 6-month low.

HCOB Eurozone Services PMI Business Activity Index at 52.0 (May: 55.1). 5-month low.

Disappointing end to second quarter after robust growth in both April and May

Data were collected 12-27 June

The eurozone economy ground to a halt at the end of the second quarter, ending a robust sequence of services-led growth seen since the beginning of the year. While services business activity growth continued, it slowed to a five-month low in June. Nevertheless, gains in output in the dominant services economy were counteracted by a sharp and accelerated decrease in factory production volumes during June. Weighing on performances was a weakening of demand, with an especially-steep drop in new orders at manufacturers. Private sector employment continued to rise, albeit with job creation confined to the service sector as factory headcounts declined for the first time since January 2021. There was also a loss of business confidence at the end of the second quarter, which fell to its lowest in the year to date.

Inflationary pressures continued to subside in June. A steeper drop in manufacturing costs was accompanied by the slowest rise in services firms' expenses for 25 months. Output charges continued to rise, but to the weakest extent since March 2021.

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, signalled a stalling of the eurozone economy in June, registering just a fraction below the 50.0 no-change mark at 49.9. This was down from 52.8 in May, and a considerable loss of momentum from April's 11-month high of 54.1. The latest survey data continued to portray significant differences in performance by sector as a deepening downturn in factory output compared with sustained, albeit softer, expansion in services activity.

The latest survey data revealed that the direction of travel was broadly downwards for the five monitored euro area nations, with the Composite PMI Output Index falling for Spain, Ireland, Germany, Italy and France. Notably, the latter two both saw private sector business activity fall for the first time in six and five months respectively. Growth was sustained in the largest eurozone country, Germany, but slowed markedly since May to just a marginal pace. Spain was the strongest performer, as has been the case since February.

Economic activity was restrained in June by declining intakes of new business. According to the latest survey data, new orders fell modestly and for the first time since January. Manufacturing demand conditions were considerably weak, with the sales of eurozone goods falling at the quickest pace in eight months. Demand for services increased, but the rate of growth slowed for a second month in succession to a five-month low.

There was an increased drag on sales from non-domestic clients, as evidenced by a sharper decrease in new orders from external¹ clients. The drop in new export business was broad-based, although manufacturers recorded a much steeper decline than services firms.

Fewer new business intakes led eurozone companies to allocate more resources to completing unfilled orders. Backlogs of work fell for a third successive month in June, with the rate of depletion quickening. Outstanding business volumes broadly

stagnated in the services sector, while manufacturers registered the steepest drop in outstanding orders for over three years. Private sector firms in the euro area continued to raise their staffing capacity in June, although jobs growth was confined to the services sector as factory employment declined for the first time since January 2021. The overall rate of increase in staffing levels was solid despite easing to a four-month low.

The loss of momentum in hiring coincided with a drop in euro area business confidence during June. Although firms remained optimistic overall, the level of positive sentiment dipped to its lowest in 2023 so far. Growth expectations softened in both the manufacturing and services sectors.

Price pressures across the eurozone continued to soften at the end of the second quarter. Notably, the overall rate of input cost inflation fell to a two-and-a-half-year low and was below its long-run average. The manufacturing sector was a considerable driver behind this, with their input prices falling at the most rapid pace since July 2009. Services expenses rose sharply, but at the slowest pace in just over two years.

Euro area businesses continued to raise their charges in June, albeit to the weakest extent since March 2021. Discounting accelerated at manufacturers amid falling costs and intensifying competition. By contrast, services charges rose at strong rate, although output price inflation here slid to a 20-month low.

Countries ranked by Composite PMI Output Index: June

Spain	52.6	5-month low
Ireland	51.4	6-month low
Germany	50.6 (flash 50.8)	5-month low
Italy	49.7	6-month low
France	47.2 (flash: 47.3)	28-month low

¹includes intra-eurozone trade

HCOB Eurozone Services PMI®

The **HCOB Eurozone Services PMI Business Activity Index** fell for a second month running in June to 52.0, from 55.1 in May. Although signalling sustained growth, the upturn was only modest and the weakest since January.

There was a slowdown in new business growth at the end of the second quarter. Having hit a one-year high only as recently as April, the increase in new workloads eased to a marginal pace in June that was the softest in five months. Dragging on demand was a renewed, albeit fractional, deterioration in sales performances to non-domestic customers. The respective seasonally adjusted index had reached its second- and third-highest levels in the series history in the two prior months.

Volumes of incomplete business broadly stabilised in June following four consecutive monthly increases. Eurozone service providers continued to recruit additional workers, with the rate of job creation remaining strong despite easing to a three-month low.

The latest survey data pointed to a cooling of price pressures across the eurozone services sector. The overall rate of input cost inflation remained sharp in June but fell to a 25-month low. Firms were less aggressive in their price setting behaviour as a result, with output charges rising at the slowest pace since October 2021.

Lastly, businesses' growth expectations for the coming 12 months weakened at the end of the second quarter. Although firms remained optimistic overall, the level of positive sentiment slid to the lowest in the year to date.

Comment

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

"In the services sector, which after a weak final quarter of 2022 had picked up speed at the beginning of the year, all major euro countries have again lost considerable momentum. The slowdown in business activity growth was accompanied by a weaker rise in new business, lower price increases and a decline in business expectations. However, job creation in the service sector last month remained roughly as solid as in the previous month. Overall, there is much to suggest that the slowdown in growth will continue in the coming months."

"Among the four major eurozone countries, the slump in service sector momentum was not only most pronounced in France, it is also the only country in which services companies reported a reduction in their activity compared to the previous month. In addition to general factors such as tougher financing conditions and a weaker demand situation, the pension reform protests and strikes of recent months are likely to have taken their toll here."

"Germany stands out in that companies increased their staff even more than in May. This contrasts with France, Italy and Spain, where employment growth has slowed. In all the big-4 eurozone nations, however, people are still being hired, a factor which is supporting private consumption and thus the economy or making any downturn milder."

"Price pressure in the services sector, to which the European Central Bank (ECB) is paying particular attention, has eased somewhat, but input costs are still rising strongly by historical standards and services firms are also still in a position to pass on at least some of these cost increases, some of which are due to higher wages, to end customers. This is reflected in stubbornly high core inflation, which is why the ECB is likely to continue to hike policy rates."

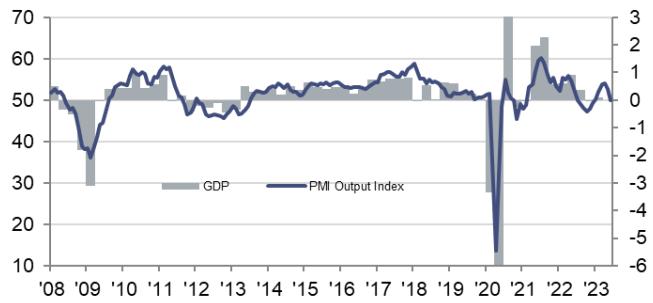
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HCOB Eurozone Composite PMI Output Index
sa, >50 = growth since previous month



Source: HCOB, S&P Global PMI.

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



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 85% 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 79% 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.

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