

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

Eurozone economy expands at fastest pace in nearly a year

Key findings:

HCOB Eurozone Composite PMI Output Index at 51.7 (Mar: 50.3). 11-month high.

HCOB Eurozone Services PMI Business Activity Index at 53.3 (Mar: 51.5). 11-month high.

Service sector recovery drives growth in April, but price pressures build

Data were collected 11-25 April 2024

The euro area's economic recovery progressed further at the start of the second quarter, according to the latest HCOB PMI[®] surveys, as overall business activity growth accelerated to an 11-month high. The expansion was once again driven by the service sector, which saw output levels improve solidly and at a slightly faster rate than seen on average since data were first collected in 1998. Increased inflows of new business supported higher activity and the quickest pace of job creation for ten months, while business confidence remained strong. However, inflationary pressures intensified during April.

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, posted above the 50.0 mark which separates growth from contraction for a second successive month in April. Rising from 50.3 in March to 51.7, the headline index pointed to a moderate expansion in total business activity, but one that was nevertheless the sharpest in close to a year.

A solid and accelerated increase in output across the service sector drove recovery efforts across the euro area in April as manufacturing production continued to decline.

All five of the euro area countries for which composite PMI data are available saw business activity levels rise at the start of the second quarter, albeit to varying degrees. As was the case in the opening quarter of 2024, Spain was the top-performing economy, with growth quickening to a one-year high. Italy recorded a fourth consecutive month of growth, despite the upturn cooling from March. Of note were trends in the eurozone's two largest economies, Germany and France, which saw overall levels of economic activity rise for the first time in ten and 11 months, respectively. Expansions here were only marginal, however.

Increased sales supported greater business activity in April. New orders placed with private sector firms in the eurozone rose for the first time since May last year, albeit only marginally, as a steeper fall in demand for goods partially offset greater new business at services companies. The latest survey data also suggest that the rejuvenation of sales activity was domestic-driven, as new export* business fell for a twenty-sixth consecutive month.

Backlogs of work were also a factor underpinning higher output levels in April. That said, the rate at which incomplete orders were depleted slowed for a third month in a row and was the weakest in a year. Looking ahead, companies in the eurozone were optimistic that activity levels would continue rising in the coming 12 months. The level of positive sentiment was only narrowly weaker than March's 25-month peak.

Euro area companies hired additional staff during April, extending the current period of job creation that commenced at the turn of the year. The rate of employment growth was the sharpest since mid-2023.

Turning to prices data, the latest HCOB PMI survey signalled stronger inflationary pressures across the euro area in April. After slowing in the previous month, increases in both input costs and output charges quickened and were above their respective series averages. Increases in operating expenses and selling prices remained historically steep in services, more than offsetting

continued (albeit slower) decreases across the manufacturing sector.

**includes intra-eurozone trade.*

Countries ranked by Composite PMI Output Index: April

Spain	55.7	12-month high
Italy	52.6	2-month low
Germany	50.6 (flash 50.5)	10-month high
France	50.5 (flash: 49.9)	11-month high
Ireland	50.4	6-month low

HCOB Eurozone Services PMI[®]

Having signalled growth in the two prior months, the **HCOB Eurozone Services PMI Business Activity Index** signalled a strengthening of the euro area's service sector recovery in April as it rose from 51.5 in March to 53.3. Overall, this pointed to the strongest expansion in services activity in just under a year.

Stronger demand conditions were a key reason for April's sharper upturn in output, with new business volumes rising for a second successive month and at the quickest pace since May last year. The pick-up in sales led to an increase in the amount of work pending completion for the first time in ten months. The rate of backlog accumulation was only marginal, however.

Rising new business, in tandem with growing capacity pressures, led euro area service sector employment growth to accelerate. The rate of job creation was solid and the fastest since mid-2023. Business confidence dipped slightly from March's 25-month peak but was strong overall and in line with the long-run average.

Price pressures crept up slightly across the euro area services economy in April. The rate of input cost inflation quickened from March's eight-month low, albeit only marginally. Output charges also rose at a faster pace.

Comment

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

"This looks pretty nice. Service providers have now expanded their activity for the third consecutive month, putting an end to the lack of dynamism observed in the second half of last year. Encouragingly, employment has increased at a faster rate, aligning with the uptick in new business and the growth of the order book, which has seen its strongest expansion in eleven months. These trends suggest a growing optimism among service providers, a sentiment further bolstered by business expectations, which are currently at much higher levels compared to the average of the past two years.

"Productivity poses a significant challenge for the services industry and the ECB. Since early 2021, service providers have consistently expanded their staff, even during the weaker phases of 2022 and 2023. This trend suggests that companies, faced with staff turnover, may need to hire multiple individuals to maintain the same level of output, indicating reduced productivity. Meanwhile, the PMI index for operating costs in the service sector, which largely comprises unit labour costs, has continued to increase at a rapid pace over the past twelve months, following a sharp uptick in 2022. The ECB is cognizant of this trend and is likely to proceed cautiously with regards to the extent of rate cuts.

"Service companies successfully passed on a portion of the increase in operating costs, indicating improving demand conditions. It means also that the market structure is characterized by healthy competition without being excessively destructive.

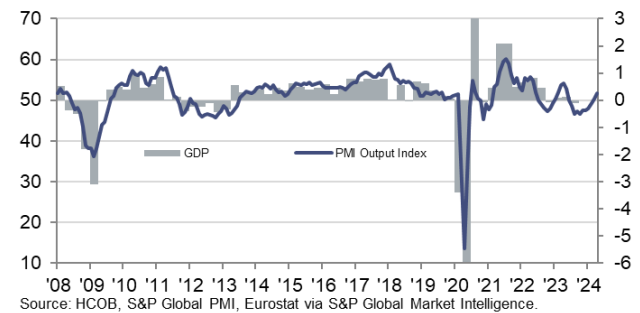
"Spain is outpacing Germany, Italy, and France, with its Services PMI remaining several points ahead of its peer economies. Despite political turbulences, Spain appears to be capitalizing disproportionately on tourism. Moreover, according to the IMF, the Spanish government is less focused on austerity measures compared to other top eurozone economies, meaning less of a break on the economy."

-Ends-

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



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



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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 83% 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 77% 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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