

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

Eurozone economy contracts marginally in final month of 2024

Key findings:

HCOB Eurozone Composite PMI Output Index at 49.6 (Nov: 48.3). 2-month high.

HCOB Eurozone Services PMI Business Activity Index at 51.6 (Nov: 49.5). 2-month high.

Sustained decline in new business weighs on activity and employment, but confidence improves

Data were collected 5-18 December 2024

The eurozone economy concluded 2024 in a fragile state, latest HCOB PMI[®] survey data revealed, as activity levels shrank amid sustained falls in new business and employment. There was also an intensification of inflationary pressures, while firms' growth expectations for the coming 12 months remained weak, despite improving to a three-month high.

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 in sub-50.0 contraction territory again in December, marking a second successive monthly decline in economic activity across the euro area. At 49.6, the index was up from November's 48.3, indicating a deterioration that was not only softer than the previous month, but just marginal overall.

Notably, the eurozone's contraction in December was entirely manufacturing-led as services activity bounced back. However, with the expansion in services limited to just a modest pace, it was more-than-offset by a sharp drop in factory production.

As was the case in November, the big-three eurozone economies of Germany, France and Italy all posted reductions in business activity during the final month of 2024. France was the weakest-performing, followed by Germany, while Italy saw just a marginal decrease in output. The other nations with Composite PMI available, Spain and Ireland, bucked the contraction trend and posted continued expansions in economic activity. Notably, private sector output in Spain rose at the fastest pace since March 2023.

Demand for euro area goods and services declined once again as 2024 came to an end, marking seven straight months of falling new orders. As was the case with output, services companies saw new business intakes rise (albeit only fractionally), but a sharp and accelerated fall in factory sales meant the overall trend in new orders remained a downward one. Euro area companies also received little support from their customers in export* markets, with demand from non-domestic clients decreasing, stretching the current sequence of decline that has been ongoing for almost three years.

Employment across the single-currency market subsequently fell in December, with firms reducing their workforce capacity. In fact, the rate of job shedding was the joint-sharpest in four years (matching that seen in October). Job shedding was again exclusively driven by the manufacturing sector as a fractional and slower uptick in headcounts at services firms failed to counteract factory retrenchment.

Nevertheless, despite lower staffing numbers, eurozone companies were able to reduce their volumes of work-in-hand (i.e. orders received but awaiting completion) during December. Backlogged work has fallen in every month since April 2023.

December survey data signalled an acceleration of price pressures across the euro area. Input costs rose at a pace that was the fastest since July and stronger than the pre-pandemic survey average. Eurozone factories recorded no change in their expenses, whereas services companies saw a notable uptick. Charge inflation for the two monitored sectors combined likewise quickened and hit a four-month high. The composite data did however mask discounting by goods producers, with more aggressive price setting in the services industry driving overall output charge inflation up.

Lastly, the latest survey data showed an improvement in business sentiment, with expectations for growth in the coming year picking up to their strongest since September. That said, when compared with the historical average, confidence remained subdued.

**includes intra-eurozone trade.*

Countries ranked by Composite PMI Output Index: December

Spain	56.8	21-month high
Ireland	52.1	3-month low
Italy	49.7	2-month high
Germany	48.0 (flash: 47.8)	2-month high
France	47.5 (flash: 46.7)	2-month high

HCOB Eurozone Services PMI[®]

After signalling the first decline in services output across the single-currency union for ten months in November, the **HCOB Eurozone Services PMI Business Activity Index** bounced back above the neutral 50.0 threshold to 51.6 in December (49.5 previously). This therefore pointed to a renewed upturn in output across the services sector, albeit one that was moderate and weaker than the survey average (52.6).

The rejuvenation in growth was achieved with little support from new sales, as new business intakes rose only fractionally. Nonetheless, this was the first month since August that demand for euro area services improved. Increased sales were a reflection of domestic client appetite, as new export business shrank for a nineteenth straight month.

Backlog reductions were a means for firms to expand activity, latest data suggested, as outstanding order volumes decreased in December. Euro area services companies remained in hiring mode, stretching the current period of job creation to nearly four years. That said, the rate of employment growth was only fractional and among the softest seen over this sequence.

Sustained hiring came amid a pick-up in firms' expectations for growth in the coming year. Albeit stronger than November's 14-month low, the level of optimism was historically subdued.

Services prices continued to rise at a quicker rate in December. Both input costs and output charges saw their rates of inflation accelerate for the third month running to reach five- and seven-month highs, respectively.

Comment

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

"At the ECB press conference, President Lagarde reiterated that services inflation is still too high. December's PMI survey for the services sector confirm this, showing costs rising even more sharply than the previous month, likely due to higher wages. Some of these higher costs have been passed on to customers, leading to a bigger increase in selling prices. For monetary policy, this means the central bank should remain cautious and make only small interest rate cuts in the first quarter of 2025.

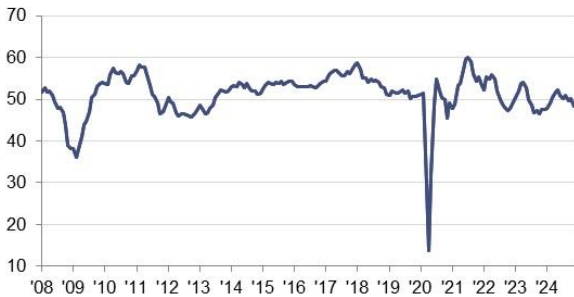
"Looking back, 2024 wasn't such a bad year for the service sector. The first half started moderately, growth then weakened, but it seemed to bounce back a bit towards the end. Services employment grew throughout the year, although the increase in December was only small. The steady decline in the order backlog is worrying, but it hasn't completely plummeted. Service providers have maintained their confidence, with future business prospects largely positive and even improving in December, despite the index measuring sentiment being below the long-term average.

"The December PMI data doesn't exactly lay a fantastic foundation for a service sector boom in 2025, but at least incoming business has stopped falling and the decline in order backlogs has softened. Service providers can count themselves lucky that, unlike manufacturers, they're not directly affected by the threat of US tariffs. Overall, they should help ensure that industrial weakness doesn't completely drag down the entire economy in 2025."

-Ends-

HCOB Eurozone Composite PMI Output Index

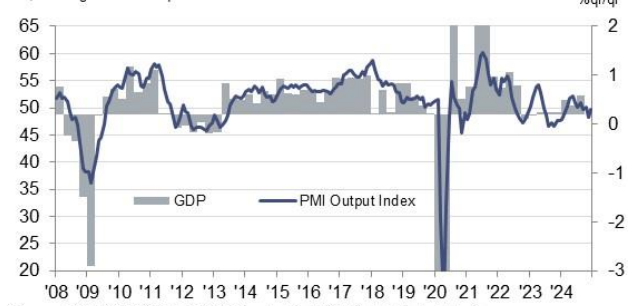
sa, >50 = growth since previous month



Sources: HCOB, S&P Global PMI

HCOB Composite PMI Output Index Gross domestic product (GDP)

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 81% 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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