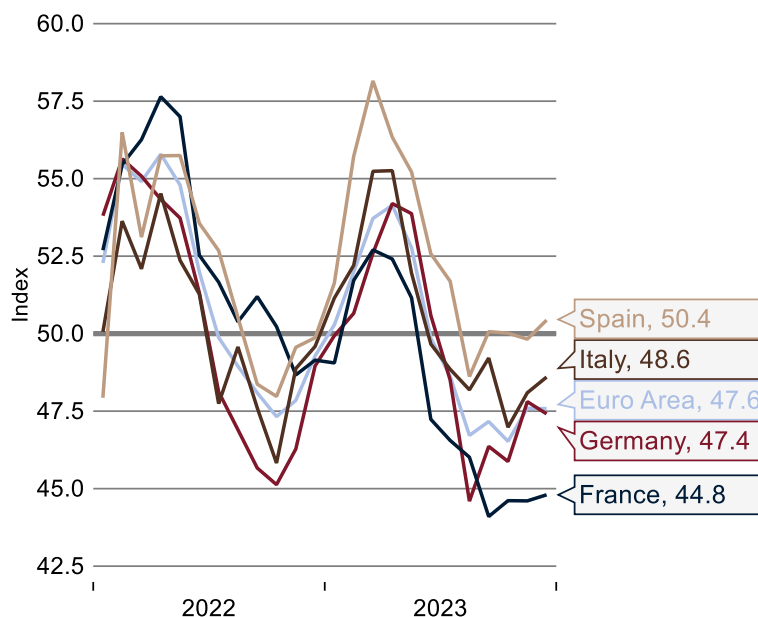


**THE PULSE OF THE EUROZONE: HCOB PMI – WRAP UP**

# Broad based slowdown

## HCOB Composite PMI, Output Index (Dec 2023)



Source: Macrobond, HCOB Economics, S&P Global

Anyone expecting signs of hope from the economy in the Christmas month of December was disappointed. All sectors remain below the expansion line of 50, signaling that the eurozone is in recession. The construction sector has been hit the hardest, followed by manufacturing.

Looking at the most important countries in the eurozone, France is in the red here. Spain, on the other hand, is bucking the recessionary trend and this is due to the robust services sector, which is benefiting from extended government aid commitments for private households, among other things, so that consumption remains stable. According to our nowcast model, the eurozone will shrink by 0.3% in the fourth quarter.

Despite this data, which is not particularly encouraging overall, we are confident that the situation will improve somewhat in the first half of this year. However, we are unlikely to see any great leaps forward; we expect growth of 0.8% for the eurozone, compared with 0.5% last year.

## Content

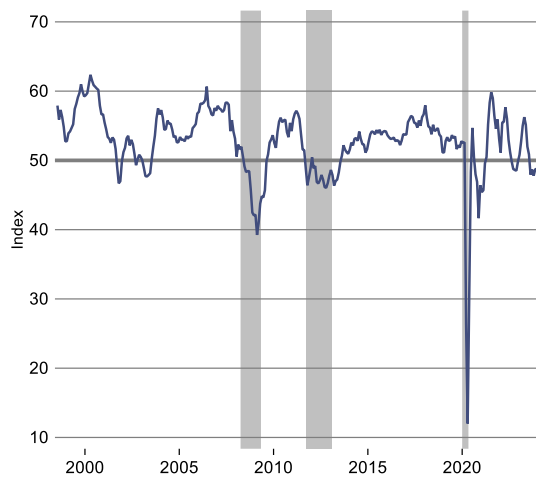
|   |           |
|---|-----------|
| <b>Summary</b>  | <b>1</b>  |
| ▪ Broad based slowdown  | 1         |
| <b>Eurozone</b>   | <b>2</b>  |
| ▪ Services sector: neither fish nor fowl                              | 2         |
| ▪ Manufacturing: continued recession                                  | 3         |
| ▪ Construction: housing suffering most                                | 3         |
| <b>Germany</b>  | <b>5</b>  |
| ▪ Services: mild recession  | 5         |
| ▪ Manufacturing: silver lining in the investment goods sector         | 6         |
| ▪ Construction: poised to contract by 2% in the final quarter of 2023 | 7         |
| <b>France</b>   | <b>9</b>  |
| ▪ Services: hands full of problems                                    | 9         |
| ▪ Manufacturing: stuck in a downward spiral                           | 10        |
| ▪ Construction: no recovery in sight                                  | 11        |
| <b>Italy</b>  | <b>12</b> |
| ▪ Services: Stagnation achieved                                       | 12        |
| ▪ Manufacturing: Industry ends the year in recession                  | 13        |
| ▪ Construction: Upswing continues                                     | 14        |
| <b>Spain</b>  | <b>16</b> |
| ▪ Services: resilient   | 16        |
| ▪ Manufacturing: wrapping up the year on a somber note                | 16        |
| <b>Forecasts</b>  | <b>18</b> |
| <b>Analysts</b>   | <b>19</b> |
| <b>Imprint/Disclaimer</b>   | <b>20</b> |

# Eurozone

## Services: neither fish nor fowl

The service sector across the Eurozone is experiencing a slight contraction, much like it did in November, while job numbers are still ticking up, albeit marginally. It's not quite recession territory, but the vibe is far from growth-oriented. There is a lack of clear signals indicating an imminent return to robust expansion.

### HCOB Euro Area Service PMI (Dec 2023)

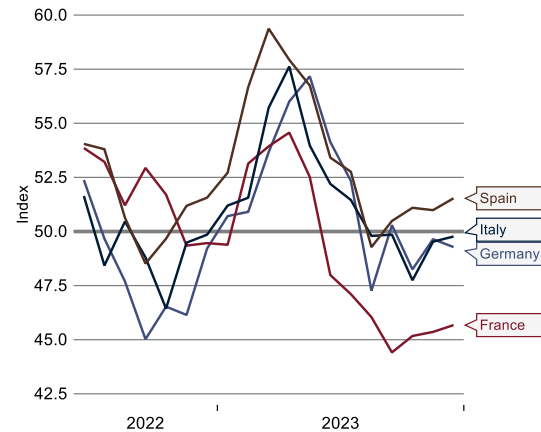


Source: Macrobond, HCOB Economics, S&P Global

Signs pointing to future activities are not painting an optimistic picture. New business opportunities continued to contract at a rate similar to previous months. Although there is a slight uptick in expectations for activity in the next 12 months, the index still lingers well below the long-term average.

The trajectory in the services sector of the top four Eurozone countries varies significantly. Spain stands out as the clear winner, with its service providers achieving growth for the fourth consecutive month. In contrast, Germany and Italy continue to languish in a state of stagnation for a similar duration. Meanwhile, France's service providers take the unfortunate title of worst performers, with their output consistently declining for seven consecutive months.

### HCOB Germany, France, Italy, Spain Services PMI, Business Activity (Dec 2023)



Source: Macrobond, HCOB Economics, S&P Global

In the face of a stagnant services sector, it's impressive that service providers are successfully transferring a portion of the growing input costs to their customers. Sales prices, in fact, saw a noticeable increase in December, with a slightly elevated pace. This will go against those members of the European Central Bank who are inclined to cut rates already in March 2024. We expect a first rate cut in June.

### HCOB Euro Area Services PMI, Prices (Dec 2023)

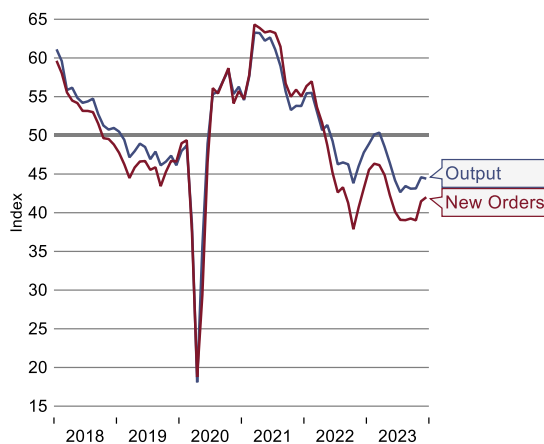


Source: Macrobond, HCOB Economics, S&P Global

### Manufacturing: Continued recession

Amidst a relentless slump in the manufacturing sector of the Eurozone, the HCOB PMI has shown little improvement compared to November. This indicates a sustained decline in both activity and demand for manufactured goods. The sluggishness of new orders echoes the gloom, retreating almost as swiftly as the previous month. Our Nowcast model aligns with this pessimistic trend, strongly suggesting a contraction in GDP for the fourth quarter. If this holds true, it paints a bleak picture for the Eurozone and would mean that the Eurozone entered a recession in the third quarter.

**HCOB Euro Area Manufacturing PMI (Dec 2023)**



Source: Macrobond, HCOB Economics, S&P Global

The destocking process is showing no signs of letting up. Stocks of purchases are shrinking at an accelerated pace and for the eleventh straight month, surpassing the rate observed in the previous month. The pivotal turning point in the inventory cycle is a key factor for initiating a recovery. Our projection places this anticipated shift in the first half of 2024, although the present indicators do not yet support this expectation.

Given that the Christmas season was in full swing in Europe, many readers may expect some positive notes. And indeed, a growing number of firms are expressing optimism about their future output over the next 12 months.

This optimism could be rooted in the anticipation of a potential decline in interest rates, which is significant issue for the manufacturing sector, known for its capital and debt-intensive nature. Additionally, companies may also look for lower energy prices as another potential factor contributing to their hopeful outlook.

**HCOB Euro Area Manufacturing PMI, Business Expectations (Dec 2023)**



Source: Macrobond, HCOB Economics, S&P Global

As for the top four eurozone economies, December's ranking by manufacturing sector performance made for ugly reading. The least ugly was Spain – here the PMI is signalling a fall of economic activity that is less pronounced than in Italy, whose industry, in turn, is shrinking at a slower pace than Germany's. France is carrying the red lantern.

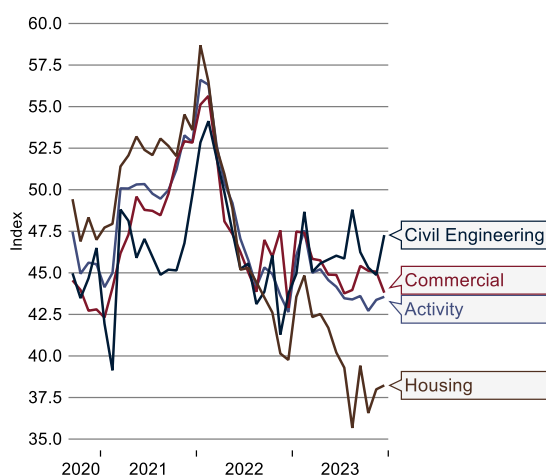
The composite PMI, a reliable indicator of overall economic performance, is sounding the recession alarm for the Eurozone. Adding weight to this observation is our GDP Nowcast model, which crunches the numbers and forecasts a back-to-back contraction in the region's output for the fourth quarter.

### Construction: housing suffering most

As anticipated, the construction sector of the Eurozone concluded the fourth quarter on a lackluster note. Among the segments –

housing, commercial real estate, and civil engineering – housing activity took the brunt of the impact, declining at a pace nearly as rapid as the preceding month. Commercial real estate activity contracted more swiftly than before, while the downturn in civil engineering activity exhibited a modest softening.

**HCOB Construction PMI (Dec 2023)**

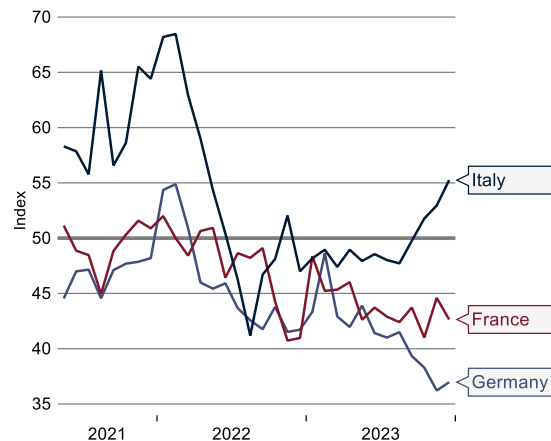


Source: Macrobond, HCOB Economics, S&P Global

While not exactly spreading optimism, there is a marginal improvement in some sub-indices. The decline in new orders is not as rapid as in the prior month, and the same holds true for the quantity of purchases. Interestingly, considering the serious downturn in the construction sector, job trimming is less severe than one would expect.

In the trio of leading Eurozone countries, Italy's construction sector continues to stand out as the top performer, boasting solid growth in December. The most plausible explanation lies in the lasting impact of the superbonus 110 tax credit scheme, even after its discontinuation in February 2023. It appears to have positively impacted construction projects initiated before this cutoff date.

**HCOB Germany, France, Italy Construction PMI, Activity (Dec 2023)**



Source: Macrobond, HCOB Economics, S&P Global

Casting an eye toward the future, business expectations are on a discouraging trajectory, and the descent in new orders persists at a considerable pace. Input prices are on the rise once more, albeit at much more modest levels than the preceding years of 2021 and 2022. This development doesn't exactly inspire confidence. However, there is a potential bright spot—the decline in interest rates. If the decline continued – it is not our base case scenario – this could serve as a lifeline, easing refinancing conditions for a multitude of construction companies and possibly providing crucial support to the sector this year.

Dr. Cyrus de la Rubia  
Chief Economist  
Tel.: +49 160 90180792  
E-Mail: [cyrus.delarubia@hcob-bank.com](mailto:cyrus.delarubia@hcob-bank.com)

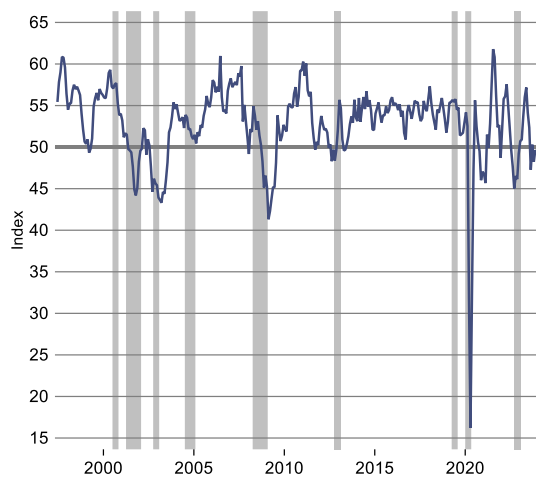
# Germany

## Services: mild recession

The downward trajectory of service sector output persists for the third consecutive month, with no clear indications of an imminent turnaround. Compounding the situation, the manufacturing PMI remained well below the 50 threshold throughout the entire fourth quarter. This strongly suggests a high likelihood that Germany will undergo two consecutive quarters of declining GDP. If this unfolds, it would signify that the Eurozone's largest economy is in a recession, aligning with our GDP Nowcast, which factors in the PMI indicators.

If Germany is indeed facing a recession, this one is likely to be categorized as relatively mild by service providers. Historical comparisons reveal more severe downturns in output seen not only during the Covid-19 crisis and the Great Recession of 2008/2009, but also in 2001 when the internet bubble burst.

### HCOB Germany Service PMI (Dec 2023)



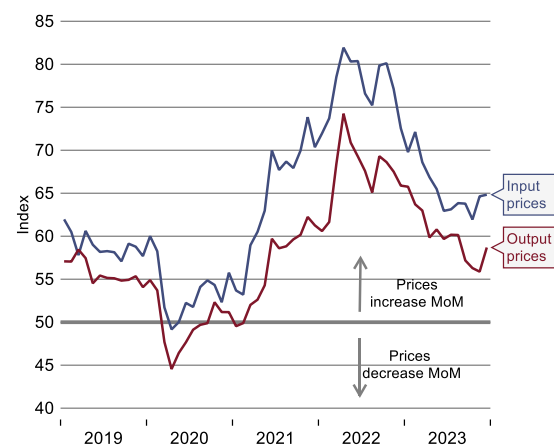
Source: Macrobond, HCOB Economics, S&P Global

Looking at 2023 as a whole, the service sector has experienced a modest expansion of an estimated 0.6%, signaling a considerable slowdown from the robust 3.0% average output increase observed in 2022. Importantly, the service sector is expected to close the year

with a negative growth rate, as suggested by PMI indicators. This sets the stage for the sector to kick off the new year with negative momentum.

In the service sector, inflation remains stubbornly high, defying the economic downturn. Input prices are on a surprisingly rapid ascent. Notably, companies have ramped up their pricing even more swiftly than in the previous month, transferring the rising input costs to their customers, at least partially. This phenomenon may be indicative of persistent labour market shortages, which drives wages. In addition, it suggests little concern among services companies about competitive pressures.

### HCOB Germany Services PMI, Prices (Dec 2023)



Source: Macrobond, HCOB Economics, S&P Global

## Manufacturing: silver lining in the investment goods sector

The situation in Germany's manufacturing industry can be likened to a hiker who has involuntarily descended into a valley. Progress is evident in the search for an exit, yet uncertainty lingers about the proximity of finding the right path. Thus, while it is encouraging that the PMI index has increased for five months in a row, it continues to signal a

rather fast decline of demand for manufactured goods.

#### HCOB Germany Manufacturing PMI (Dec 2023)

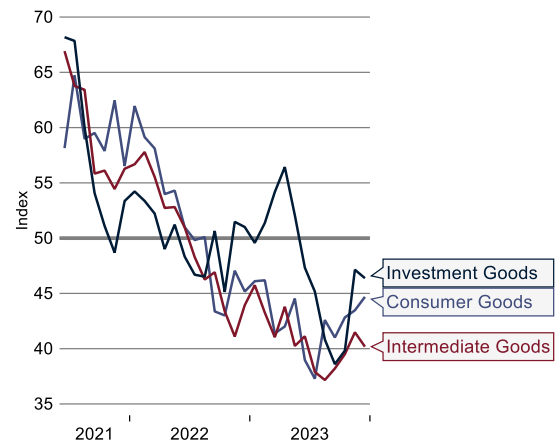


Source: Macrobond, HCOB Economics, S&P Global

Over the past few months, manufacturers have become more aggressive in reducing employment, especially in the segment of intermediate goods. This adjustment is likely a response to a trend where the backlog of orders for a significant number of companies has decreased to a level where maintaining all employees on the payroll is no longer viable. Therefore, the pathway to a reversal in employment trends hinges on a more favorable order situation.

In the realm of sectors, there is a silver lining in the investment goods segment. The decline in new orders has notably eased, with the corresponding index approaching the pivotal 50 threshold. Employment reduction in this sector has almost come to a standstill, and the dip in output is relatively minor. This contrasts with the intermediate goods sector, where output, new orders and employment are all experiencing a swifter decline.

#### HCOB Germany Manufacturing PMI (Dec 2023)



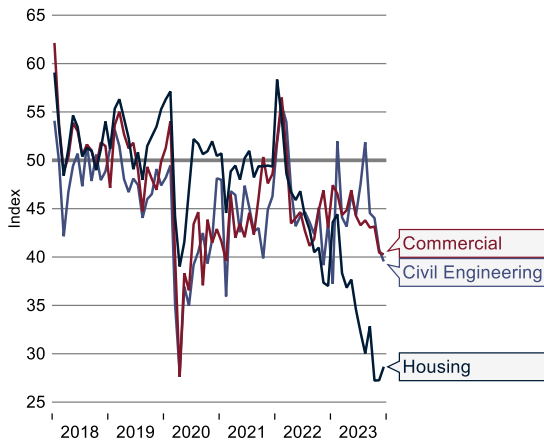
Source: Macrobond, HCOB Economics, S&P Global

Manufacturers have been consistently lowering their prices for seven consecutive months. One could think that this development puts pressure on profits. However, this is most probably not the case, because there has been a significant relief on the cost side. To be more precise, input prices began their descent eleven months ago and have experienced a much more substantial drop than output prices. Furthermore, in December, companies reduced output prices only minimally. Overall, even though output has taken a severe hit, it appears that profits have managed to weather the storm.

#### Construction: poised to contract by 2% in the final quarter of 2023

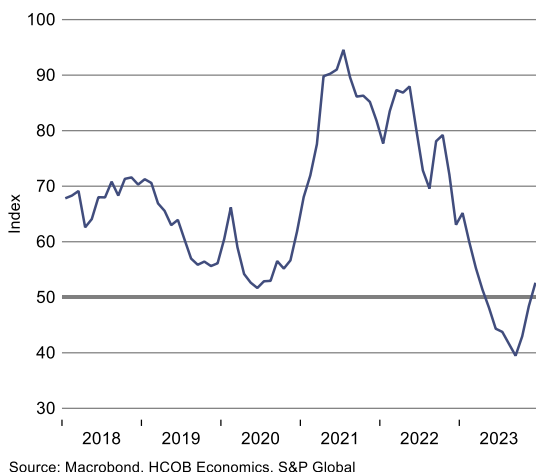
2023 has ended, the downturn in construction has not. The German construction sector finds itself mired in a broad based and substantial downturn, spearheaded by a significant decline in the housing sector. Both commercial real estate and civil engineering are also witnessing a rapid contraction in activity. According to our nowcast model, which takes into account the PMI indicators, construction activity is poised to contract by approximately 2 percent in the fourth quarter when compared to the previous quarter.

### HCOB Germany Construction PMI, Activity (Dec 2023)



The housing activity index showed a slight uptick. Still, given the extremely low index level, this is more like a boxer on the mat lifting their head a tad. There are no evident indications that the sector will regain strength in the near future, given the ongoing rapid decline in new orders. In a similar vein, future activity hovers not far from the all-time lows of the past.

### HCOB Germany Construction PMI, Input prices (Dec 2023)



Surprisingly, input prices have increased in December, as the index registered the third consecutive rise. Although we are a far cry from the soaring inflation levels of 2021 and 2022, the resurgence in the cost of input

factors is less than ideal for constructors. This added expense comes at a time when they are already grappling with tighter refinancing conditions.

Subcontractors bear the brunt of the downturn, and their situation has worsened in December. The corresponding PMI indicates a rapid plunge in demand for their services, accompanied by an increasing number of companies highlighting subcontractor quality concerns. To compound matters, subcontractor rates decreased at a pace similar to the previous month.

Dr. Cyrus de la Rubia  
Chief Economist  
Tel.: +49 160 90180792  
E-Mail: [cyrus.delarubia@hcob-bank.com](mailto:cyrus.delarubia@hcob-bank.com)

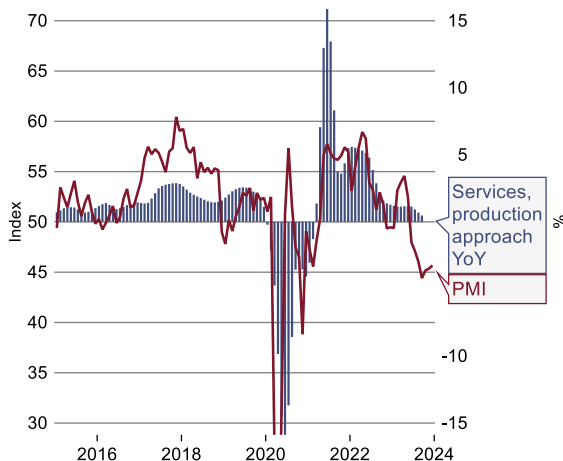


# France

## Services: hands full of problems

The French services sector has its hands full of problems. Business activity has gone down for the seventh consecutive month. The employment PMI is scratching at the expansion threshold of 50 and new business overall and abroad is declining in a fast pace. It's of small wonder, thus, that the companies' sentiment is pessimistic. Although the corresponding index rose in December, the Future Activity index stays below its long-term average, indicating more pessimism than optimism.

### HCOB France Services PMI, Business Activity vs. Services production (Dec 2023)

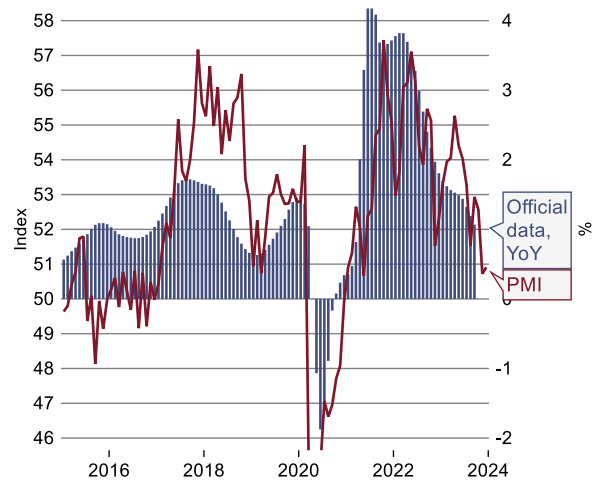


The French economy finds itself stuck in a recession. Overall output declined for another month in December, extending the series of negative growth since June this year. It looks like a recovery of economic growth will not happen all too soon with the composite output PMI stabilizing at a value significantly under 50 for the past three months. Our HCOB nowcast expects negative growth in the fourth quarter, leading the French economy in a recession.

The employment situation in the French services sector is set to cool off in the coming months. The employment PMI for December is just above 50 for the second month in a row,

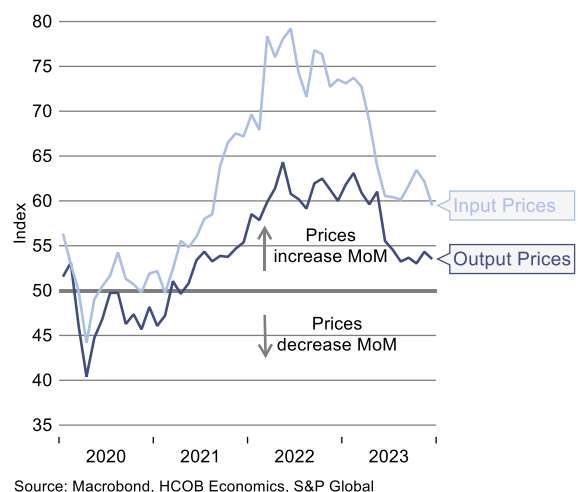
staying near the expansion threshold. According to the INSEE services survey, companies expect less hiring in the coming months, which aligns closely with the recent PMI numbers.

### HCOB France Services Employment PMI vs. official employment data in services



Services inflation makes it difficult for overall inflation to reach its 2% target. Both input and output prices are staying clearly above the 50 mark especially due to further wage increases and a corresponding pass-through of higher costs to the customer.

### HCOB France Services PMI, Prices vs. official price data





Expectedly, wage inflation further fuels overall inflation due to services inflation having a weight of 50 % in the French inflation basket.

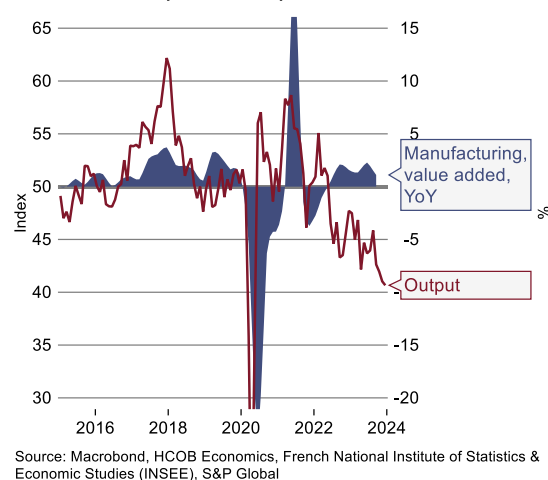
#### HCOB France Services PMI, Future Expectations (Dec 2023)



#### Manufacturing: stuck in a downward spiral

The French manufacturing sector is stuck in a downward spiral. Tighter financing conditions and higher prices weaken demand, which is also evident in the deteriorating order situation. This has obvious negative effects on both output and the employment numbers.

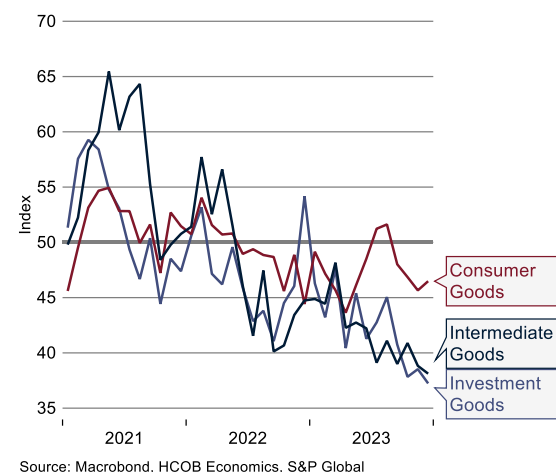
#### HCOB Manufacturing France PMI, Output vs. value added (Dec 2023)



Accordingly, our HCOB nowcast model signals negative growth for the French manufacturing sector in the fourth quarter. It would mean that the sector is in a technical recession as the output fell in the third quarter as well.

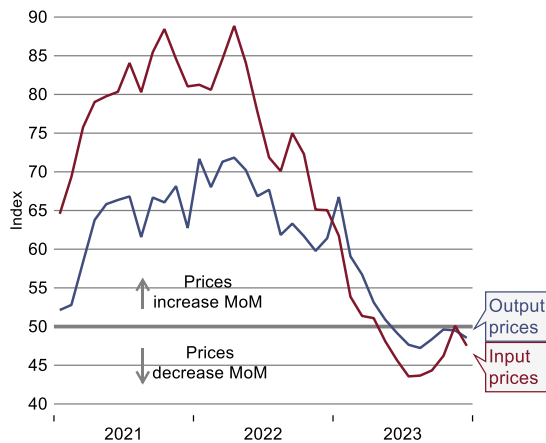
The manufacturing is in a broad-based recession. All three sectors – consumer, intermediate and capital goods – were in a sharp decline in December. In a general trend consumer goods are falling not as stark as the other two sectors. The discrepancy can best be seen in the order situation which is not as bad in the consumer goods sector as in the other sectors.

#### HCOB Manufacturing France PMI, Output by sector (Dec 2023)



Prices are continuing their path of deceleration in December. The recent PMI data suggest that manufactured goods inflation kept on dragging overall CPI inflation in December down, just like in recent months. On the one hand this is because of lower raw material costs such as metals and on the other hand due to lower competitive pressures, leading to manufacturers lowering their selling prices.

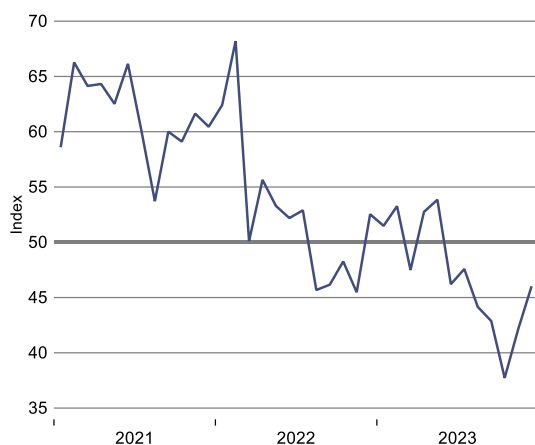
### HCOB Manufacturing France PMI, Prices (Dec 2023)



Source: Macrobond, HCOB Economics, S&P Global

French manufacturers continue to paint 2024 with dark colors. A possible downturn in economic activity, leading to a further weakening in demand was one of the main reasons for the prolonged pessimism. The negative sentiment is also seen in the employment PMI figures. Manufacturers continued to cut their workforce capacity at a fast rate, increasing the likelihood of a further increase in the official unemployment rate from INSEE.

### HCOB Manufacturing France PMI, Future Output (Dec 2023)

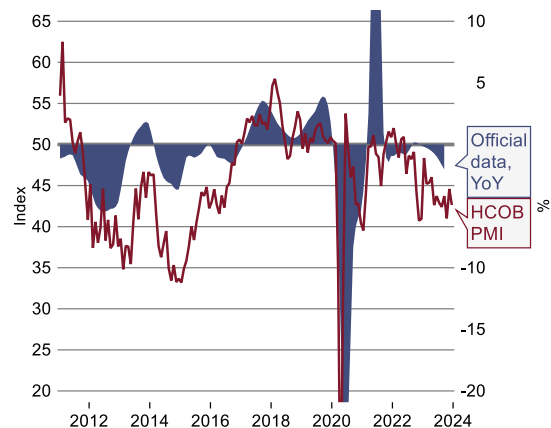


Source: Macrobond, HCOB Economics, S&P Global

### Construction: no recovery in sight

There is no recovery in sight for the French construction sector. In fact, the sector is being in a recession, according to recent HCOB PMI data and confirmed by official data from INSEE.

### HCOB France Construction PMI, Activity vs. official construction data (Dec 2023)

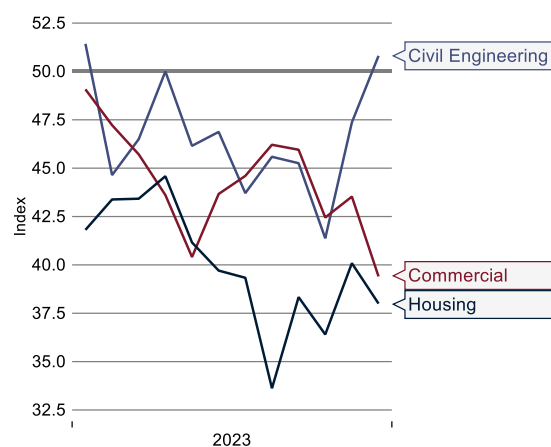


Source: Macrobond, HCOB Economics, French National Institute of Statistics & Economic Studies (INSEE), S&P Global

Output is plummeting, the demand situation is poor and the outlook is nearly as pessimistic as it was in times of covid.

The French civil engineering sector is doing surprisingly well. In contrast, the other two segments – housing and commercial – are doing way worse compared to last month.

### HCOB France Construction PMI, Activity (Dec 2023)

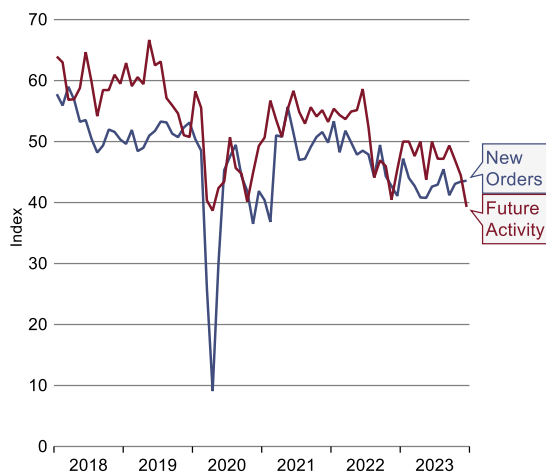


Source: Macrobond, HCOB Economics, S&P Global

Diminishing demand, caused by higher financing costs and uncertainty about the economic development led to a further slump in activity.

The future does not look bright for the French construction sector. Surveyed companies are expecting a gloomy 2024, anticipating less demand – especially from the public sector – and an overall dreary market environment with high interest rates and increasing prices. The pessimism is also reflected in the continuous decrease in employment since March 2023, confirmed by official employment figures by INSEE which have decreased for three consecutive quarters since the first quarter of 2023.

#### HCOB France Construction PMI (Dec 2023)



Source: Macrobond, HCOB Economics, S&P Global

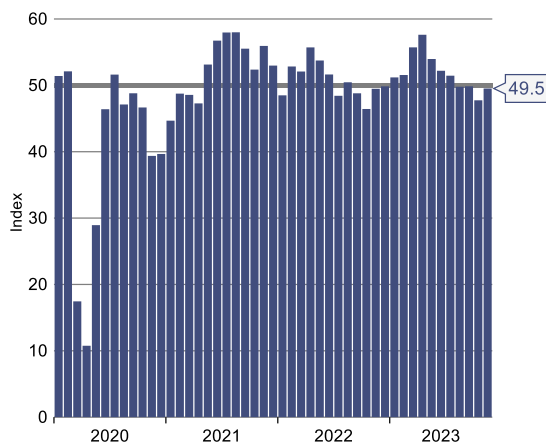
Norman Liebke  
Associate Economist  
Tel.: +49 171 5466753  
E-Mail: [norman.liebke@hcob-bank.com](mailto:norman.liebke@hcob-bank.com)

# Italy

## Services: Stagnation achieved

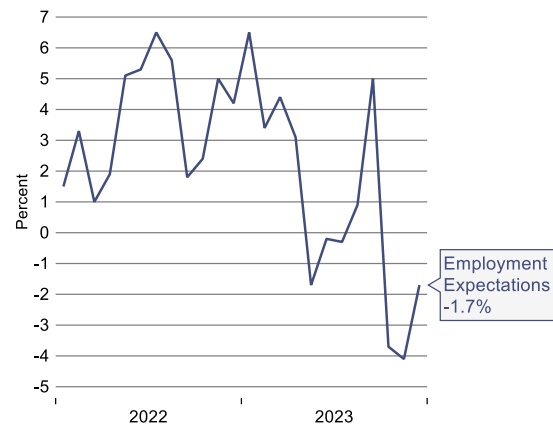
The Italian service sector is hitting the brakes right before the year-end. The HCOB PMI is stuck at 49.8 index points in December, signaling a standstill. This suggests that services are unlikely to give a significant boost to GDP growth in the fourth quarter. True to form, our HCOB Nowcast model isn't seeing any positive signs for Italy's GDP growth as we ring in the new year.

### HCOB Italy Services PMI, Business Activity (Dec 2023)



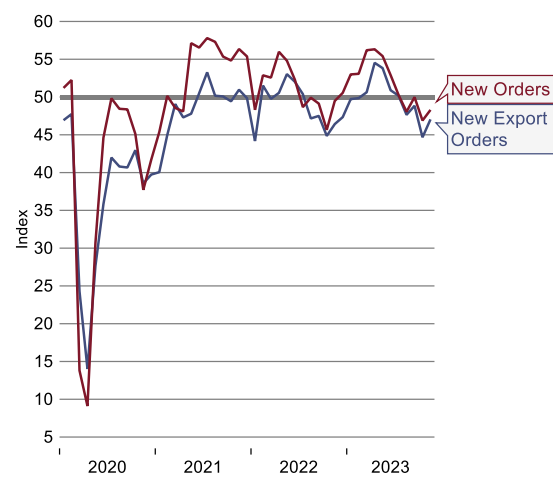
Italian service sector is still on a hiring spree, even with things chilling out on the economic front. The job growth rate might not be setting any records, but it's the quickest it's been in half a year. According to the Service Confidence Indicator published by ISTAT for November, the voices among respondents foreseeing a decrease in employment over the next three months have increased.

### Italy, ISTAT Services Confidence Indicator, Balance Next 3 Months (Dec 2023)



Inflation for service providers is still sky-high. Despite the fact that the Italian service sector hasn't been seeing any growth since July 2023, according to the HCOB PMI, inflation is still soaring. The only silver lining is that the gap between input prices and selling prices has shrunk compared to the previous month. Nevertheless, the lack of pricing power remains a headache for Italy's service providers.

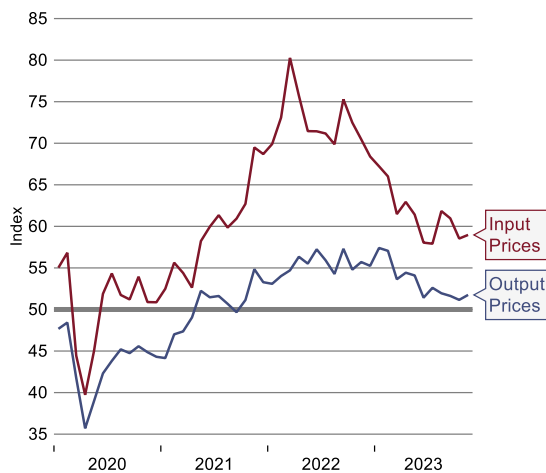
### HCOB Italy Services PMI (Dec 2023)



The prospects for the kick-off into 2024 look pretty sobering. Both domestic and international orders are on the decline, leading to a predictable dwindling of outstanding business. The outlook is particularly clouded by

economic uncertainty on the home front and the global economic downturn, along with geopolitical tensions abroad. The start of the year is set to be a challenging period for Italian service providers.

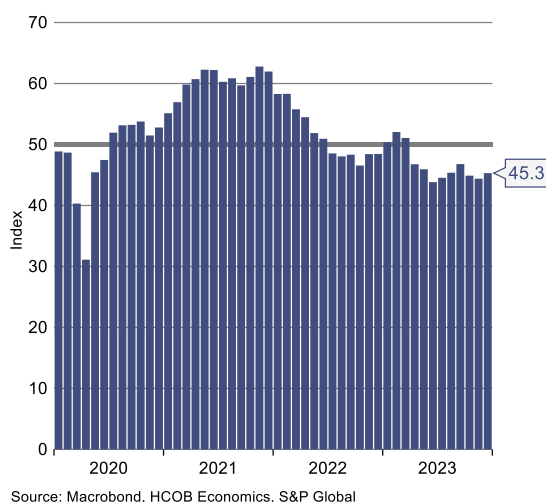
#### HCOB Italy Services PMI, Prices (Dec 2023)



#### Manufacturing: Industry ends the year in recession

Italy's industry wraps up the year with a lackluster quarter. Despite a slight increase to 45.3 in December, the HCOB PMI fails to convey any signals of hope, marking a decline in conditions from the previous month.

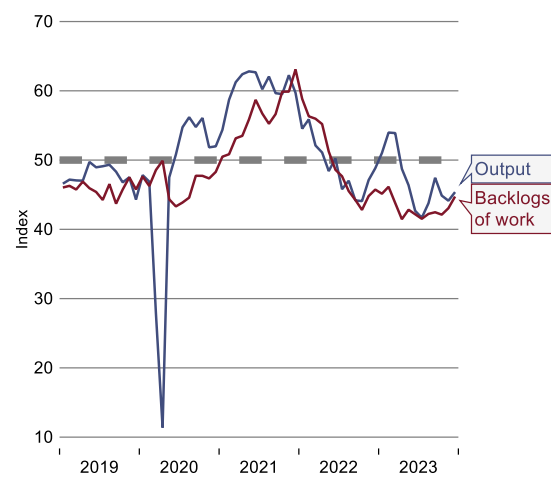
#### HCOB Italy Manufacturing PMI (Dec 2023)



Several companies attribute the production downturn to the persistent weakness in demand across the entire sector. According to our HCOB Nowcast, we anticipate a contraction in Italy's industrial production for the final quarter.

Italy's industry is in a bit of a rough patch. The output is taking a proper nosedive, and the buying is on the downswing. It seems like the industry is hardly got any backlogs of work – they have been shrinking steadily for a good year and a half now.

#### HCOB Italy Manufacturing PMI (Dec 2023)

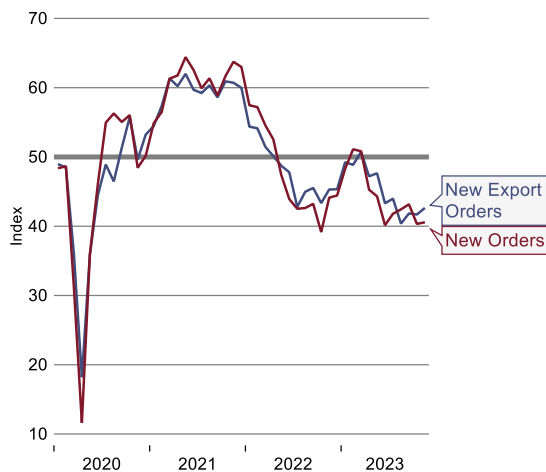


It looks like there are some faint glimmers of hope in the Italian industry. At least the employment front isn't taking any more hits, and input goods are getting cheaper by the day. Many firms chalked up the dip in inflation to the drop in energy and raw material costs. The Italian industry is benefiting in particular from the global slowdown in demand in the manufacturing sector.

The forecast for Italy's industry is looking a bit gloomy. Orders, whether they are coming from home or abroad, are taking a nosedive. Even though there is a bit of growth in future output compared to the previous month, it is not exactly knocking it out of the park when you consider the long-term balance. At the December Governing Council meeting, the

ECB signaled that interest rates will probably remain higher for longer. The high interest rates weigh particularly heavily from an industry perspective.

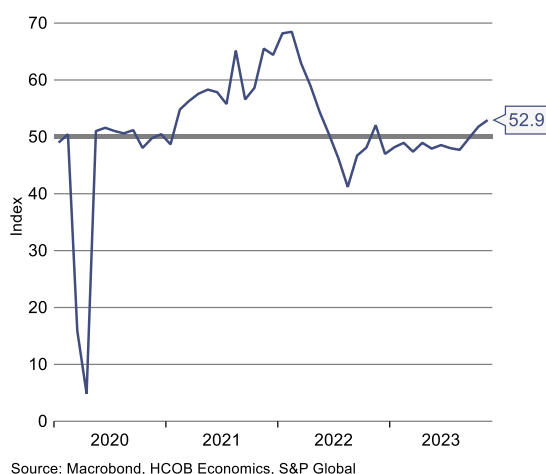
#### HCOB Italy Manufacturing PMI (Dec 2023)



#### Construction: Upswing continues

The Italian construction industry is currently experiencing a solid boost. The HCOB PMI has surged to a robust 55.2 index points in December. The optimism for an upswing is grounded in the positive signals that companies hinted at in last month's surveys.

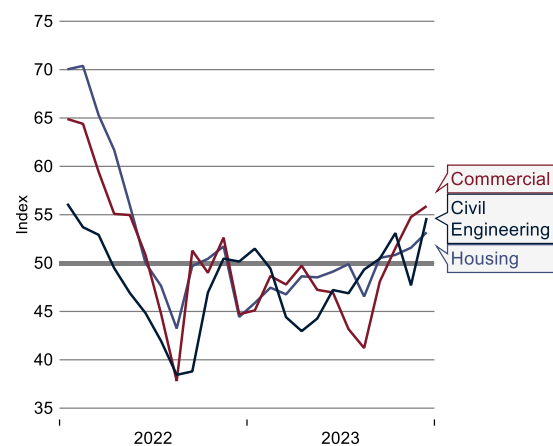
#### HCOB Italy Construction PMI, Activity (Dec 2023)



The whole scenario is further fueled by the approved access to funds from the EU Next Generation Program allocated to Italy. The only drawback: prices have continued to rise significantly.

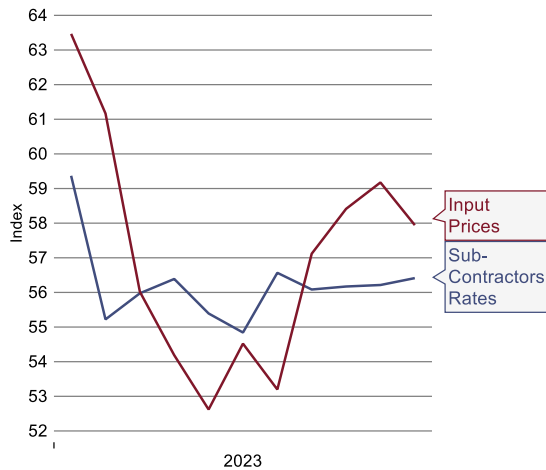
Growth in the construction industry is cross-sectoral. In addition to residential and commercial construction, civil engineering is now also experiencing a clear upswing. Anecdotal evidence suggests that the recent surge in activity can be attributed to both the EU Next Generation Program and the Superbonus, as companies rushed to finalize contracts before the impending shutdown.

#### HCOB Italy Construction PMI, Activity by sector (Dec 2023)



The positive trend in the construction sector doesn't seem to be just a snapshot. The high pace at which construction companies are hiring speaks to a sustainable boost. The job growth rate was the strongest since February 2022, signaling overall solidity.

### HCOB Italy Construction PMI (Dec 2023)



Source: Macrobond, HCOB Economics, S&P Global

The high demand in the Italian construction industry is unique compared to other major European states. The curse of higher demand comes with elevated prices. The significant price hikes in inputs and subcontractors persist as constant companions. The prospect of the remaining nearly 100 billion USD from the EU Next Generation Program ensures a growing influx of new orders and an uptick in future activity.

Dr. Tariq Chaudhry  
Economist  
Tel.: +49 171 9159096  
E-Mail: [tariq.chaudhry@hcob-bank.com](mailto:tariq.chaudhry@hcob-bank.com)



# Spain

## Services: resilient

In a bit of a contrast to the overall economic weakness in Europe, Spain's service sector appears to be charting its own course. Rather than succumbing to the broader economic downturn, service providers in Spain are still on an expansion trajectory. While it is far away from a full-blown boom, the resilience is surprising, especially considering the subdued mood in the manufacturing sector and the lackluster performance of the service sector in other parts of the Eurozone. This noteworthy performance may be attributed to two key factors: the new government's commitment to extend measures supporting private households and, secondly, the warm temperatures in recent weeks possibly inspiring residents of Spain to head to the beaches, leading to increased spending.

**HCOB Spain Services PMI, Output Index (Dec 2023)**



With the composite PMI edging into slightly expansionary territory, there's a strong indication that Spain's GDP will maintain its growth trajectory in the fourth quarter. Our GDP Nowcast, which takes into account the PMI indicators, reinforces this expectation.

In a fitting holiday spirit, December brought a gift to private households in the form of new jobs. Service providers ramped up their hiring pace. It's hardly surprising, then, that wage-driven input prices have risen at a similarly rapid pace compared to last month. This sets in motion a positive feedback loop, where increased employment and higher wages fuel greater consumer demand, resulting in elevated sales for businesses and so forth. As the year concludes, it appears that Spain is poised to enter the new year from a solid starting position.

The service sector in Spain is witnessing a brightening outlook. New business is on a solid upturn, and the contraction of outstanding business has, by and large, subsided. What's more, businesses are displaying increased optimism about their output in the next 12 months when compared to the preceding month – a promising note to wrap up the year.

**HCOB Spain Services PMI (Dec 2023)**



## Manufacturing: wrapping up the year on a somber note

While many people were hoping for 'El Gordo' lottery in December, manufacturers remained mired in the doldrums. The headline PMI dipped further from an already low level to

46.2, propelled by a swifter decline in new orders and an accelerated destocking.

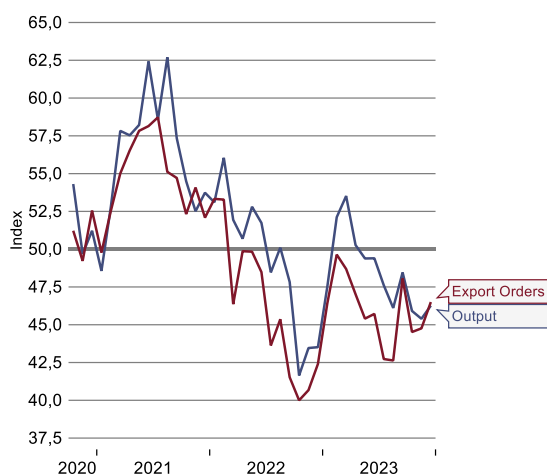
#### HCOB Spain Manufacturing PMI (Dec 2023)



Source: Macrobond, HCOB Economics, S&P Global

The Spanish manufacturing sector wraps up the year on a somber note. Our nowcast model, incorporating PMI figures for the sector, suggests a contraction in output for the fourth quarter. Key forward-looking indicators, such as new orders and backlogs of work, have declined at a faster rate than the previous month. The outlook for the beginning of next year appears to be rather lackluster.

#### HCOB Spain Manufacturing PMI (Dec 2023)



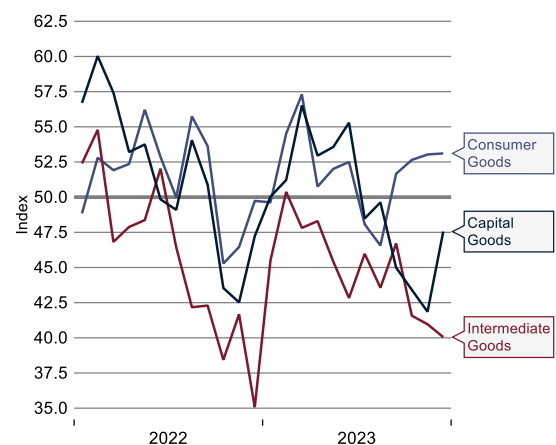
Source: Macrobond, HCOB Economics, S&P Global

Despite the overall negative signals for Spanish manufacturers, there's a resilience present as

certain indicators suggest there's no sign of capitulation. Both output contraction and export orders have slowed their decline, offering a ray of hope. Additionally, a mild increase in optimism is observed among most companies regarding their output in the coming 12 months.

Within the manufacturing sector, consumer goods emerge as a stabilizing force. This segment continues to exhibit growth in terms of output, employment, and new orders. In stark contrast, intermediate and investment goods face significant challenges in these categories. These segments hold a dominant position within the manufacturing sector and their weak performance could not be compensated by the consumer goods.

#### HCOB Spain Manufacturing PMI, Sectoral Output (Dec 2023)



Source: Macrobond, HCOB Economics, S&P Global

As the composite PMI, which reflects the development of the economy as a whole quite well, is moving into slightly expansionary territory, there are many indications that Spanish GDP will continue its growth trajectory in the fourth quarter. Our GDP Nowcast underpins this expectation. According to this, GDP will have expanded by 0.4% in the fourth quarter.

Dr. Cyrus de la Rubia  
Chief Economist  
Tel.: +49 160 90180792  
E-Mail: [cyrus.delarubia@hcob-bank.com](mailto:cyrus.delarubia@hcob-bank.com)

## FINANCIAL INDICATORS

# Forecasts

## Forecasts of Hamburg Commercial Bank

|                             | 1/5/2024 | 3/31/2024 | 6/30/2024 | 9/30/2024 | 12/31/2024 | 3/31/2025 |
|-----------------------------|----------|-----------|-----------|-----------|------------|-----------|
| <b>Interest rates</b>       |          |           |           |           |            |           |
| <b>USA</b>                  |          |           |           |           |            |           |
| fed funds (Target rate) (%) | 5.50     | 5.50      | 5.25      | 4.75      | 4.75       | 4.75      |
| SOFR (%)                    | 5.39     | 5.30      | 5.05      | 4.55      | 4.55       | 4.55      |
| 2 year Treasury             | 4.38     | 4.30      | 4.20      | 4.40      | 4.60       | 4.70      |
| 5 year Treasury             | 3.97     | 4.65      | 4.55      | 4.45      | 4.30       | 4.30      |
| 10 year Treasury            | 3.99     | 4.15      | 4.00      | 4.20      | 4.40       | 4.55      |
| 2 year Swap rate (SOFR) (%) | 4.48     | 4.20      | 4.10      | 4.30      | 4.50       | 4.60      |
| 5 year Swap rate (SOFR) (%) | 3.94     | 4.55      | 4.45      | 4.35      | 4.20       | 4.20      |
| 10 year Swap rate(SOFR) (%) | 3.87     | 4.05      | 3.90      | 4.10      | 4.30       | 4.45      |
| <b>Eurozone</b>             |          |           |           |           |            |           |
| Tender rate (%)             | 4.50     | 4.50      | 4.25      | 4.00      | 4.00       | 4.00      |
| Deposit rate (%)            | 4.00     | 4.00      | 3.75      | 3.50      | 3.50       | 3.50      |
| 3 month Euribor (%)         | 3.92     | 3.90      | 3.80      | 3.70      | 3.80       | 3.80      |
| 2 year German Bond (%)      | 2.51     | 2.50      | 2.30      | 2.55      | 2.70       | 2.90      |
| 5 year German Bond (%)      | 2.04     | 2.25      | 2.10      | 2.40      | 2.55       | 2.75      |
| 10 year German Bond (%)     | 2.10     | 2.15      | 2.00      | 2.30      | 2.50       | 2.70      |
| 2 year Swap rate (%)        | 2.90     | 3.05      | 2.85      | 3.10      | 3.25       | 3.45      |
| 5 year Swap rate (%)        | 2.53     | 2.80      | 2.65      | 2.95      | 3.10       | 3.30      |
| 10 year Swap rate (%)       | 2.56     | 2.65      | 2.50      | 2.80      | 3.00       | 3.20      |
| <b>Exchange rates</b>       |          |           |           |           |            |           |
| Euro/US-Dollar              | 1.10     | 1.10      | 1.12      | 1.14      | 1.15       | 1.17      |
| Euro/GBP                    | 0.86     | 0.86      | 0.87      | 0.88      | 0.89       | 0.88      |
| US-Dollar/Yen               | 144.62   | 144.00    | 139.00    | 135.00    | 131.00     | 131.00    |
| US-Dollar/Yuan              | 7.12     | 7.25      | 7.20      | 7.15      | 7.10       | 7.10      |
| <b>Oil price</b>            |          |           |           |           |            |           |
| ÖI (Brent), USD/Barrel      | 77.18    | 75        | 80        | 75        | 70         | 70        |
| <b>Stock markets</b>        |          |           |           |           |            |           |
| Dax                         | 16617.29 | 16400     | 16500     | 16600     | 16900      | 17100     |
| Stoxx Europe 600            | 477.68   | 470       | 473       | 476       | 485        | 492       |
| S&P 500                     | 4688.68  | 4630      | 4650      | 4670      | 4700       | 4720      |

Source: Bloomberg, Hamburg Commercial Bank Economics

| GDP forecasts (in %) | 2023 | 2024 | 2025 | Q4 2023 | Q1 2024 | Q2 2024 | Q3 2024 | Q4 2024 | Q1 2025 | Q2 2025 |
|----------------------|------|------|------|---------|---------|---------|---------|---------|---------|---------|
| World                | 3.0  | 2.9  | 2.7  |         |         |         |         |         |         |         |
| USA                  | 2.5  | 1.4  | 1.4  | 2.0     | 0.4     | -0.1    | 0.8     | 1.1     | 1.9     | 1.4     |
| China                | 5.6  | 3.7  | 3.5  | 1.2     | 0.8     | 0.8     | 0.8     | 0.8     | 0.9     | 0.9     |
| Eurozone             | 0.5  | 0.8  | 1.6  | 0.0     | 0.2     | 0.5     | 0.2     | 0.4     | 0.4     | 0.5     |
| Germany              | -0.2 | 0.5  | 1.8  | -0.3    | 0.0     | 0.5     | 0.6     | 0.5     | 0.4     | 0.4     |
| France               | 0.6  | 1.0  | 1.2  | 0.2     | 0.3     | 0.3     | 0.3     | 0.3     | 0.3     | 0.3     |
| Italy                | 0.6  | 0.9  | 1.1  |         |         |         |         |         |         |         |
| Spain                | 1.5  | 1.4  | 2.0  |         |         |         |         |         |         |         |

Source: Macrobond, IMF, Hamburg Commercial Bank Economics

Hamburg Commercial Bank's forecasts are reviewed approximately every six weeks and adjusted if necessary. Adjustments at shorter intervals are possible. A detailed presentation of the forecasts and changes to the forecasts can be found in the publication Financial Market Trends. From the perspective of a euro investor, yields on foreign bonds such as US government bonds may rise or fall as a result of currency fluctuations. Note: Forecasts are not a reliable indicator of future performance.

**ANALYSTS**

Dr. Cyrus de la Rubia  
Chief Economist  
Tel.: +49 160 90180792  
E-Mail: [cyrus.delarubia@hcob-bank.com](mailto:cyrus.delarubia@hcob-bank.com)



Dr. Tariq Chaudhry  
Economist  
Tel.: +49 171 9159096  
E-Mail: [tariq.chaudhry@hcob-bank.com](mailto:tariq.chaudhry@hcob-bank.com)



Norman Liebke  
Associate Economist  
Tel.: +49 171 5466753  
E-Mail: [norman.liebke@hcob-bank.com](mailto:norman.liebke@hcob-bank.com)

## IMPRINT

# Hamburg Commercial Bank

## Hamburg

Gerhart-Hauptmann-Platz 50  
20095 Hamburg  
Phone 040 3333-0  
Fax 040-3333-34001

## Editorial & Shipment

Dr. Cyrus de la Rubia  
Chief Economist  
Phone: +49 160 90180792

Christian Eggers  
Senior FX Trader  
Phone: +49 171 8493460

Jonas Feldhusen  
Junior Economist  
Phone: +49 151 22942945

Norman Liebke  
Associate Economist  
Phone: +49 171 5466753

Dr. Tariq Chaudhry  
Economist  
Phone: +49 171 9159096

Nils Müller  
Junior Economist  
Phone: +49 1713534492

## Other contact persons

### Institutional & Liability Sales

Thomas Benthien  
Phone: +49 151 14833046

### Corporate Treasury Sales

Fritz Bedbur  
Phone: +49 151 14651131  
Boris Gettkowski  
Phone: +49 175 2281619

### Syndicate & Credit Solutions

Tim Boltzen  
Phone: +49 151 15244845

Editorial deadline for this issue: January 5, 2024

The glossary to our publications can be found on the Hamburg Commercial Bank homepage at [http://www.hcob-bank.de/publikationen\\_glossar](http://www.hcob-bank.de/publikationen_glossar)

## Disclaimer

The market information contained in this presentation is for informational purposes only. It can not substitute own market research or separate legal-, tax- and financial advice and information. This information is a marketing communication by the meaning of Section 63 Paragraph 6 German Securities Trading Act ["Wertpapierhandelsgesetz", "WpHG"] and Article 24 Paragraph 3 of the Directive 65/2014/EU. This information does not contain 'information recommending or suggesting in investment strategy' or 'investment recommendations' ("investment research") by the meaning of Section 2 Paragraph 9 Point 5 WpHG or Article 3 Paragraph 1 Point 34 and Point 35 of the Regulation (EU) No. 596/2014. Therefore this information is not prepared in accordance with legal requirements designed to promote the independence of investment research and it is not subject to any prohibition on dealing ahead of the dissemination of investment research. This presentation does not constitute an offer to buy or sell certain assets.

Hamburg Commercial Bank AG points out that the herein published market information is only meant for investors with own economical experience, who are able to evaluate the risks and chances of the herein discussed market / markets and who are themselves able to conduct research through a variety of sources. The statements and data contained in this presentation are based on either thorough research by Hamburg Commercial Bank AG or on sources that are considered reliable but cannot be verified. Hamburg Commercial Bank AG regards the sources used as reliable but can not assess their reliability with absolute certainty. Single pieces of information could only be assessed regarding their plausibility; an assessment regarding their accuracy has not been made.

Furthermore, this presentation contains estimates and predictions based upon numerous assumptions and subjective evaluations made by Hamburg Commercial Bank AG as well as outside sources. This information is only meant to provide non-binding perceptions of markets and products as of the time this presentation was issued. Hamburg Commercial Bank AG and its respective employees thoroughly conducted work on this presentation but can not guarantee completeness, actuality and accuracy of the provided information and predictions.

This document may only be distributed in compliance with the legal regulations in the respective countries and persons obtaining possession of this document should inform themselves about and comply with the applicable local regulations.

This document does not contain all material information needed for economic decisions and the information and predictions provided can vary from those made by other sources / market participants. Hamburg Commercial Bank AG as well as their organizational bodies and employees can not be held responsible for losses resulting from the use of this presentation, its contents or for losses which in any way are connected to this presentation.

Hamburg Commercial Bank AG points out that it is not allowed to disseminate this presentation or any of its contents. Damages to Hamburg Commercial Bank AG resulting from the unauthorised dissemination of this presentation or any of its contents have to be compensated for by the disseminator. The disseminator has to keep Hamburg Commercial Bank AG free from all claims arising from the unauthorised dissemination of this presentation or any of its contents and all legal cost in connection with those claims. This particularly applies to a dissemination of this presentation to U.S. Persons or persons situated in United Kingdom.