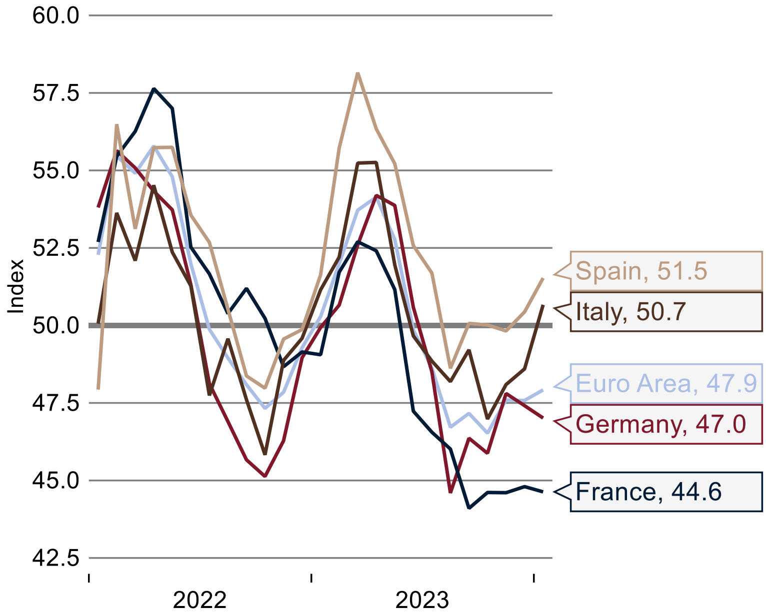
THE PULSE OF THE EUROZONE: HCOB PMI – WRAP UP

The south leads the recovery

HCOB Composite PMI, Output Index (Jan 2024)



Source: Macrobond, HCOB Economics, S&P Global

Content

The start to the year was not a complete failure for the eurozone. In particular, it should be noted that the south of the four major eurozone countries performed relatively well. In Spain and Italy, for example, the service sector has grown so strongly that the overall economy is back on course for growth. However, Germany and France are still lagging behind. Here, the manufacturing and construction sectors are the biggest brakes, but the service sector is not providing any impetus either.

The persistent inflationary pressure in the service sector in all eurozone countries is striking. The above-average wage demands, which are particularly noticeable in this labor-intensive sector, are making themselves felt here. In our opinion, this development is the main reason why the European Central Bank is reluctant to ease monetary policy.

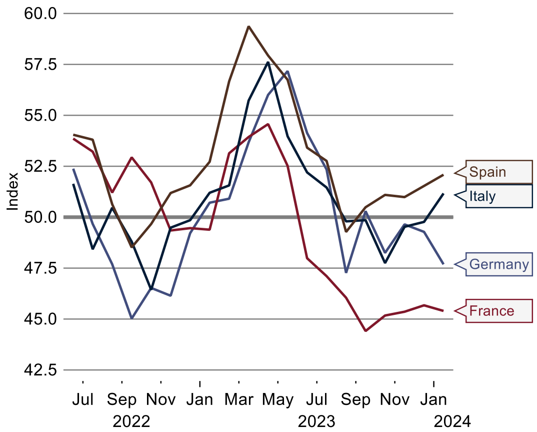
Overall, the first quarter is still likely to be relatively difficult. For the year as a whole, driven by the southern eurozone countries, the eurozone could gradually return to growth territory.

Eurozone

Services: southern Europe dominates

In the service sector of the Eurozone there is a north south divide, but perhaps not the way you may expect. Contrary to the general view that Southern European Countries are the weak link of the currency union, these economies are presently performing relatively well. This positive trend serves as a counterforce, mitigating the decline in eurozone service activity driven by Germany and France. Thanks to the resilience exhibited by Italy, Spain and Greece, the PMI for services experiences only a marginal dip to 48.4, maintaining proximity to the expansionary threshold of 50.

HCOB Germany, France, Italy, Spain Services PMI, Business Activity (Jan 2024)



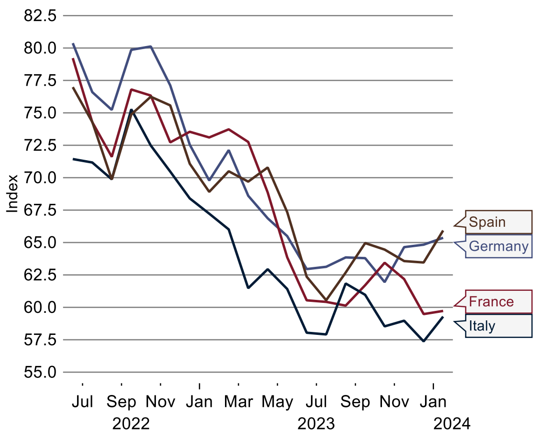
Source: Macrobond, HCOB Economics, S&P Global

The European Central Bank's hesitancy to cut interest rates gains clarity when considering the surge in the PMI price indices. With both input and output prices in the services sector on the rise, the ECB is reluctant to ease monetary policy. However, it finds itself in a tricky situation. This is accentuated by the latest official GDP data for the fourth quarter of 2023, indicating that the economy narrowly avoided a technical recession.

A shortage of labor is a pervasive reality across the entire eurozone, evident in the noteworthy wage increases in the top four euro countries.

The inflation of input prices within these economies underscores the impact of this phenomenon. Remarkably, companies demonstrate a marked unwillingness to reduce their workforce, a trend observed even in Germany and France, where the service sector remains in poor condition.

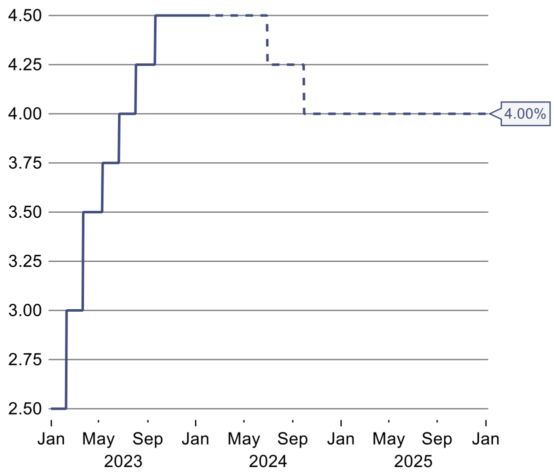
HCOB Germany, France, Italy, Spain Services PMI, Input Prices (Jan 2024)



Source: Macrobond, HCOB Economics, S&P Global

Business expectations have improved a bit, hinting at better times ahead. However, given the fall of new business for seven months straight, an imminent recovery is unlikely.

HCOB Forecast, ECB policy rate

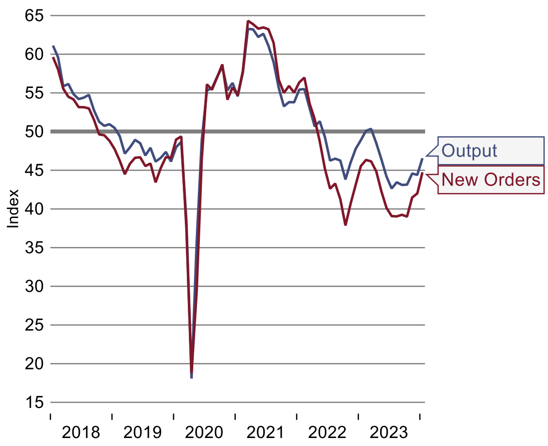


Source: Macrobond, HCOB Economics, ECB

Manufacturing: expectations recover

Let's face it, there is a real chance that the manufacturing sector's year-long recession in the eurozone could stretch into the first quarter of this year. Even though the PMI is higher than it was at the end of last year, it is still not hitting the expansion mark. However, ECB president Christine Lagarde is playing it cautiously optimistic. During the January 25th press conference, she said, "If we try to look at PMI numbers in particular (...), we are seeing some encouraging numbers."

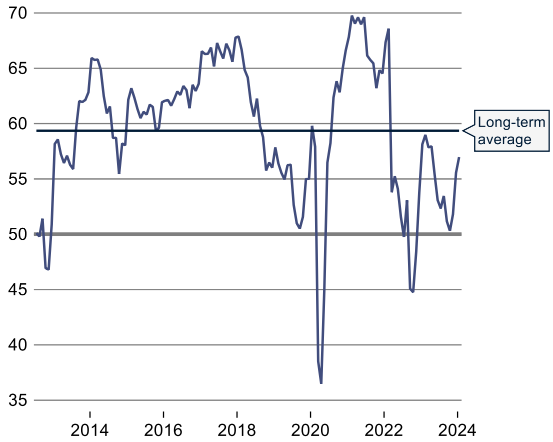
HCOB Euro Area Manufacturing PMI (Jan 2024)



Source: Macrobond, HCOB Economics, S&P Global

For those with a glass-half-full perspective, the set of manufacturing PMI indicators offers a dose of optimism. Firstly, the headline PMI has marked three consecutive months of increase, a trend mirrored in the forward-looking indicator for new orders. Secondly, there is a broad-based upward trend in sub-indicators, encompassing factors like stock of purchases, backlog of works, and output. Plus, more companies than during the last nine months are looking ahead with optimism, expecting higher output in one year. Despite these encouraging signs, a word of caution is in order, as both the headline index and the majority of sub-indices persist within the contraction zone.

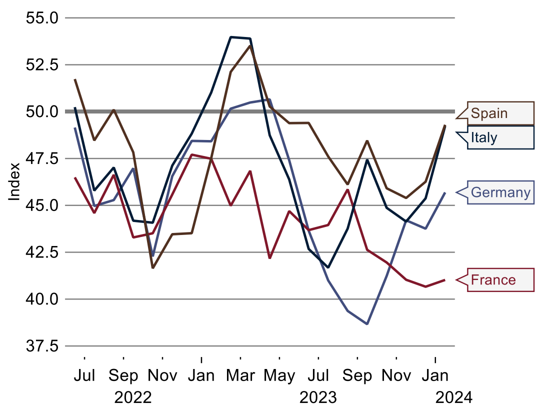
HCOB Euro Area Manufacturing PMI, Future Expectations (Jan 2024)



Source: Macrobond, HCOB Economics, S&P Global

The Eurozone's road to recovery in the manufacturing sector may see its kickoff in the southern economies, potentially acting as a catalyst to lift the larger economies out of the recessionary quagmire. Among the top four Eurozone countries, Spain and Italy stand out as the most encouraging, with PMIs climbing by around 3 points and inching closer to the crucial threshold of 50. Although Germany has witnessed a notable improvement in the PMI, it still lingers in contractionary territory, and France's economic situation has remained nearly as dire as it was at the year's end.

HCOB Germany, France, Italy, Spain Manufacturing PMI, Business Activity (Jan 2024)



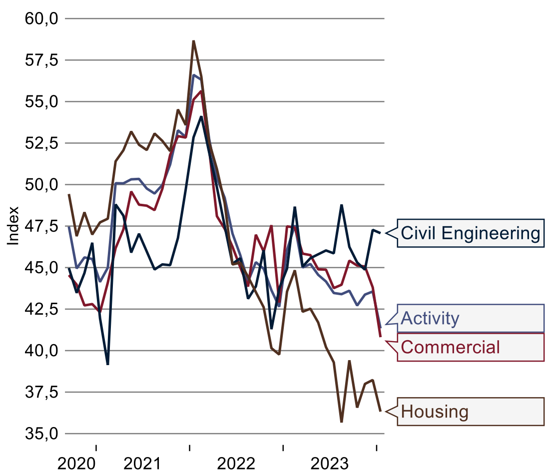
Source: Macrobond, HCOB Economics, S&P Global

Taking a sector-focused perspective, we are spotting some early signs of improvement. In Italy, the output of intermediate goods increased for the first time in ten months. Over in Spain, the consumer goods' PMI stands solidly in the expansionary territory, and the investment goods sector is edging towards growth. Meanwhile, in Germany, the order situation for investment goods and intermediate goods is trending upward, although it might still take a few months to witness growth.

Construction: Italy dancing to another rhythm

Many people would have been cool if the construction sector in the Eurozone just kept shrinking like it did in December. But no, things got even worse. The downturn in total activity accelerated at the year's kickoff, propelled by the malaise in the housing sector, while commercial real estate has also caught up in this respect. Under these circumstances, civil engineering can be considered as a force of stability as activity has continued to shrink only moderately.

HCOB Construction PMI (Jan 2024)

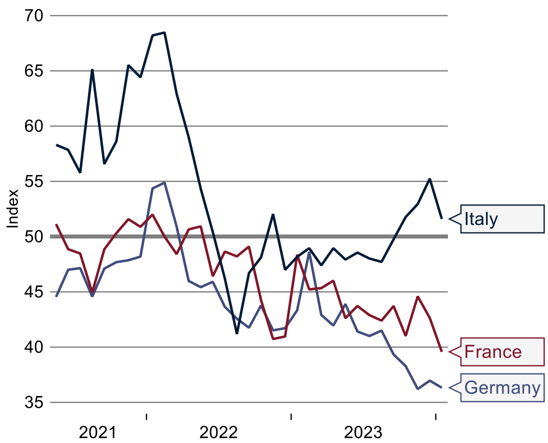


Source: Macrobond, HCOB Economics, S&P Global

There are limited signs that the construction sector has a chance to get off the ground any time soon. The most forward-looking indicator of new orders is hovering near the index level of 40 for almost one year, which means that the incoming number of fresh projects is continuously diminishing at a fast pace.

Italy is still dancing to another rhythm than the other eurozone countries, with the construction sector experiencing growth for the fourth consecutive month. However, the expansion has softened considerably in January. It may be a sign that the public spending which has been propping up construction sector is running out of steam. The heavyweights Germany and France are experiencing an uninterrupted fall in activity since spring of 2022. The downturn kicked in shortly before the European Central Bank embarked on a series of interest rate hikes. As a result, there's a possibility that construction companies might find some breathing room if the ECB decides to lower interest rates this year.

HCOB Germany, France, Italy Construction PMI, Activity (Jan 2024)



Source: Macrobond, HCOB Economics, S&P Global

Presumably, the Houthi Rebels are adding hurdles to Eurozone's construction sector. This is because commercial vessels are opting for the longer route around South Africa instead of using the Suez Canal, extending the journey by at least seven days. Consequently, delivery times, which had been decreasing over most of the past year, are now on the rise again. Although input prices have risen, the increase is less severe compared to December, indicating no direct impact from the issues in the Red Sea in the latest data.

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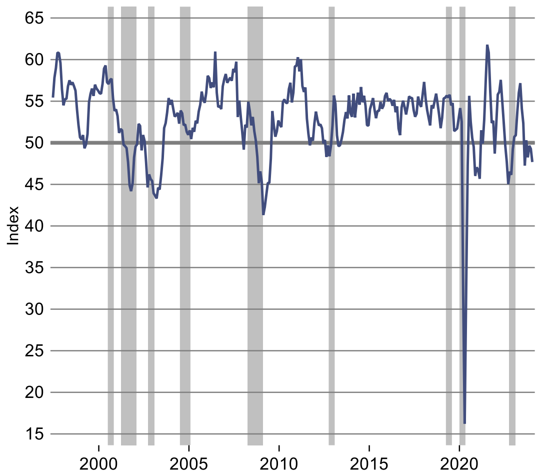
Germany

Services: Bad start to the new year

Ending bad, starting worse. This is the summary of the German service sector at the start of the year, as the corresponding PMI has deteriorated further in January from the subdued December level. One painful fact is that new business has shrunk for the seventh month straight and its downward momentum gained pace for the second straight month. Remarkably, outstanding business is experiencing its most rapid decline since June 2020. This is possibly hinting at a wave of order cancellations by clients.

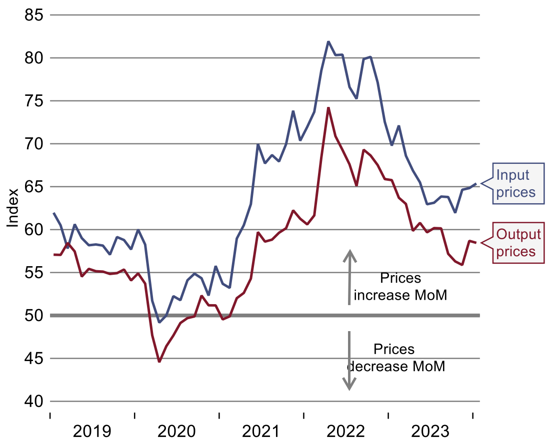
HCOB Germany Service PMI (Jan 2024)



Source: Macrobond, HCOB Economics, S&P Global

Unlike in the manufacturing sector, the service sector remains firmly entrenched in inflationary territory. The PMI metrics for both output prices and input prices maintain levels significantly above their long-term averages, even as the indices fall short of their 2022 peaks. Notably, what raises eyebrows, especially for the European Central Bank, is the recent reversal in the downward trend in cost inflation over the past three months.

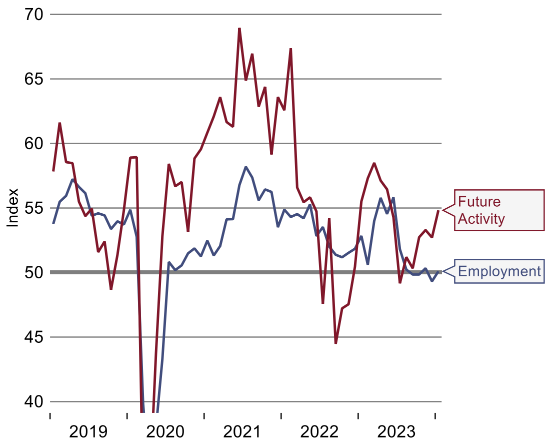
HCOB Germany Services PMI, Prices (Jan 2024)



Source: Macrobond, HCOB Economics, S&P Global

Service providers have a tough time in maintaining their profit margins. Demand is down, while input price rises are speeding up. The surge in input costs outpaces the ascent of output prices, putting profits under pressure. Rising input prices are largely the result of higher wage increases, according to surveyed businesses. The more intense strike activities of the last weeks and months are evidence of the new-found self-confidence of unions when it comes to claiming higher wages.

HCOB Germany Services PMI, Employment vs. Future Activity (Jan 2024)



Source: Macrobond, HCOB Economics, S&P Global

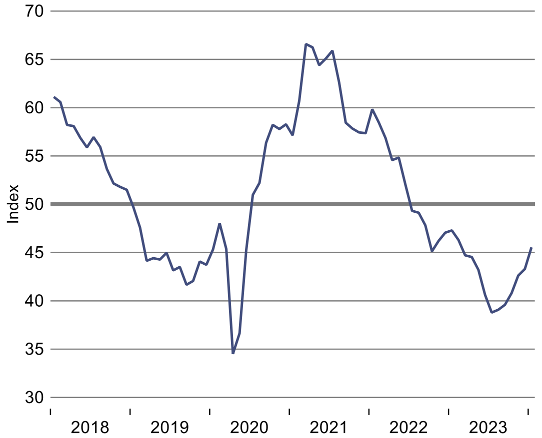
This is mainly due to structural labor market shortages. Therefore, we expect a protracted period of higher inflation in the services sector, which is heavily reliant on labor.

It looks as if service providers are not willing to be captured in a downward spiral. Instead, the share of companies expecting a brighter future in terms of output has increased. This positive spirit is also underlined by the fact that employment has remained broadly stable, according to the corresponding PMI.

Manufacturing: Better management of supply chains

It could have been worse. Although the German manufacturing sector remains entrenched in recessionary territory in January, the pace of the downturn is unmistakably slowing. This marks a continuation of a trend that has persisted for six consecutive months. Such a trajectory suggests that growth might make a comeback within the next few months.

HCOB Germany Manufacturing PMI (Jan 2024)

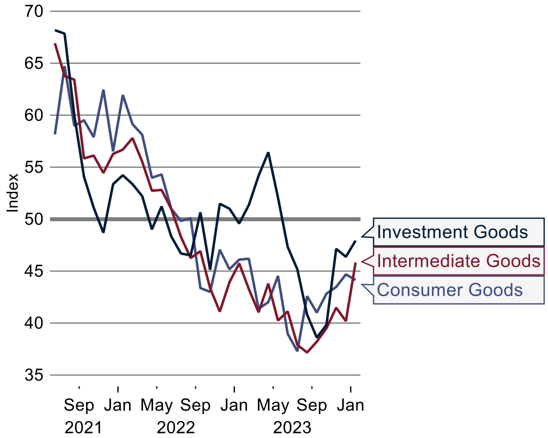


Source: Macrobond, HCOB Economics, S&P Global

Surprisingly, companies in Germany appear to be weathering problems in the Red Sea quite well, according to the supplier delivery times index. While the index has dipped noticeably, it remains above 50, suggesting that, on average, delivery times have not yet stretched. This is remarkable as, courtesy of the ongoing Houthi attacks at Bab el-Mandeb strait, most commercial vessels are opting for the longer route around South Africa, tacking on at least an additional seven days to their voyages. The resilience of German companies may be attributed to an improved supply chain management, namely through strategic diversification of suppliers. The five-day strike at the German railway company in late January, encompassing freight trains, however, poses a new obstacle to the industry.

Demand is still in the doldrums, as new orders have been contracting for 22 consecutive months. This kind of prolonged decline has not been seen since the PMI series kicked off in 1996. However, amidst this challenging scenario, there is a silver lining. The new orders subindex has marked its fifth consecutive monthly increase. This upward trend extends across consumer, intermediate, and investment goodsHistorically, such rallies have culminated in a scenario of burgeoning new orders, as witnessed in 2009 and a decade earlier in 1999.

HCOB Germany Manufacturing PMI (Jan 2024)



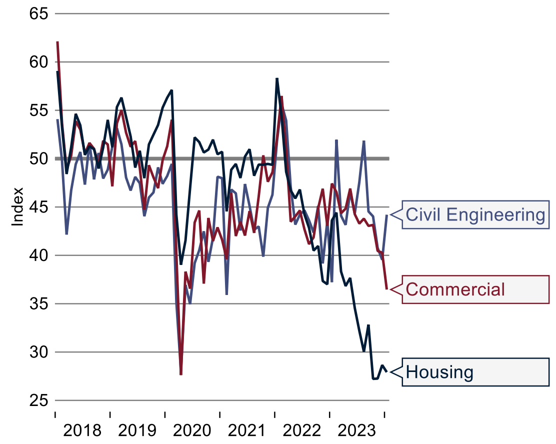
Source: Macrobond, HCOB Economics, S&P Global

Companies are taking advantage of the deflationary environment. Indeed, input prices continue to fall much faster than output prices do, which should help firms to prop up their margins. This is nothing unusual as prices charged are usually adjusted at a much slower pace than the input prices like raw materials which are a given on the world market. Whereas when inflation starts to pick up like it did in 2022, output prices increase much slower than input prices, putting pressure on profits.

Construction: bottom not yet reached

Just when you think it cannot get any worse, it can. According to the PMI, the German construction sector is extending and deepening its downturn which is in place since April 2002 for another month, with no near end in sight. The driver of this downturn remains the housing sector, which is in a much more depressive state than commercial real estate and civil engineering. Adding to the woes, the rising reports of insolvencies in the commercial real estate sector suggest that the bottom in this segment has not been reached.

HCOB Germany Construction PMI, Activity (Jan 2024)

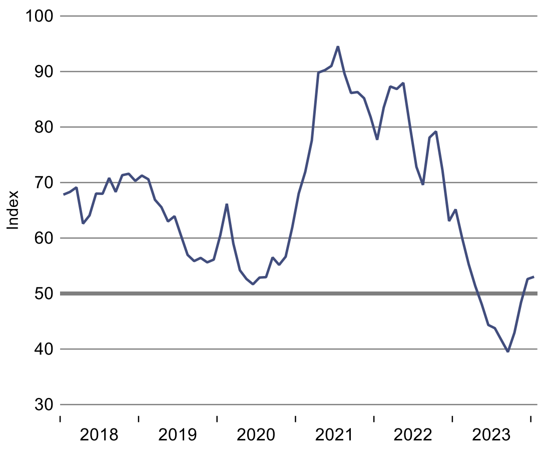


Source: Macrobond, HCOB Economics, S&P Global

An eye catching development is the hefty increase of the time of supply deliveries. While the corresponding time series is rather volatile, the sudden fall of the index - indicating longer delivery times – does not fit to the dire demand situation. We link this movement to the problems commercial vessels are encountaring in the Red Sea. In an effort to avoid drone or rocket attacks from Houthi rebels, most vessels are taking the detour through the Cape of Good Hope, which prolongs the voyage by at least seven days. Strikes at the German railway company may also have contributed to the prolonged supply delivery times. This shift aligns with a slight uptick in input price inflation, posing an additional burden for the construction sector.

The outlook for new orders remains bleak, with the subindicator showing minimal improvement while remaining firmly entrenched in recessionary territory. Faced with these challenges, firms have curtailed their material purchases at a pace almost as fast as in the previous month. Despite a slower pace, companies continue to reduce their staff. However, this is unlikely to signify a turning point given the persistently weak order situation.

HCOB Germany Construction PMI, Input prices (Jan 2024)



Source: Macrobond, HCOB Economics, S&P Global

For optimists, the set of PMI construction indicators may resemble a desert, offering limited signs of hope. While there is some solace in the reduced number of companies expecting output deterioration in the coming year, it's important to acknowledge that the majority still holds a pessimistic view. In the same vein, subcontractor usage indicator is increasing from rock bottom levels. Having said this, given the perspective that interest rates will most probably be cut eventually this year, some investors may be able to breathe a bit easier.

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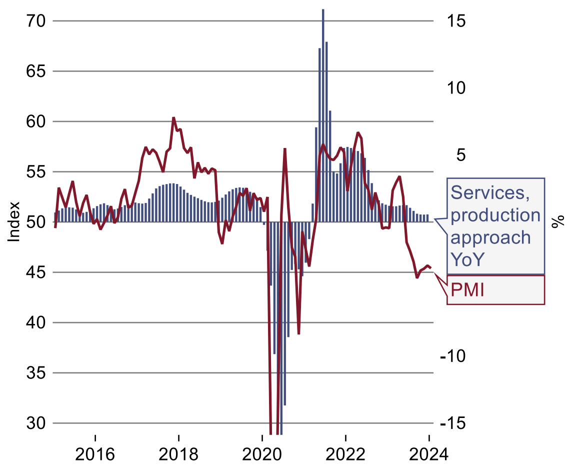
France

Services: hopes of interest rate cuts spreading

The French service sector is continuing to perform poorly. Business activity declined for the eighth straight month, new business overall and abroad are still on the decline and employment is scratching the expansion threshold. In addition, price pressures intensified, heating up inflation again thereby feeding the narrative of stagflation. However, optimism for future business picked up again in January, showing a little bit of hope for the coming months.

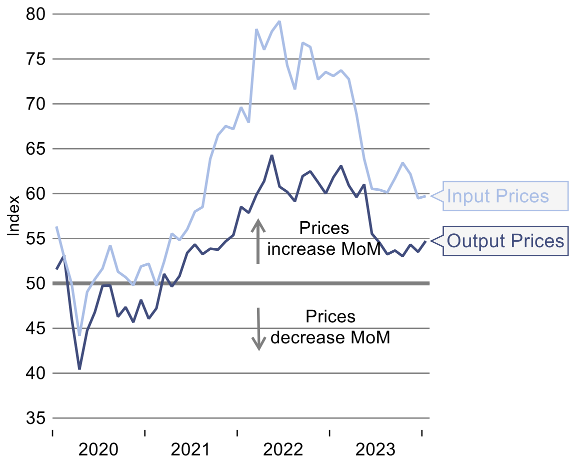
HCOB France Services PMI, Business Activity vs. Services production (Jan 2024)



Source: Macrobond, HCOB Economics, INSEE, S&P Global

The wage development has the potential of delaying ECB rate cuts. In January, input prices in the service sector increased again, and even speeding up a bit. Output prices increased at an accelerated pace as well. Service inflation is the current main contributing factor to still official consumer price inflation rates, meaning that the 2% inflation target remains out of reach in the short term. The HCOB PMIs are indicating higher service inflation for a longer time which poses a severe risk for ECB rate cuts that are expected in the coming months.

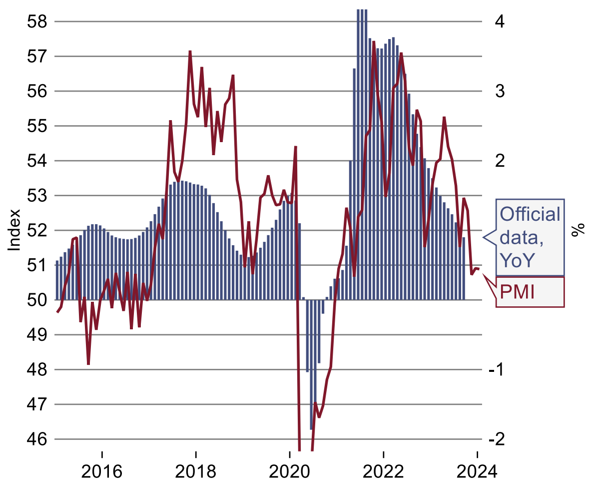
HCOB France Services PMI, Prices vs. official price data



Source: Macrobond, HCOB Economics, S&P Global

While the current situation look dire the panelists show some optimism with respect to future service output, which contrasts with the view of manufacturers. According to anecdotal evidence, this is mainly due to hopes of soon interest rate cuts this year. However, the best we can say for the first quarter is that we expect a stagnation of the French economy with a bit of upside potential.

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

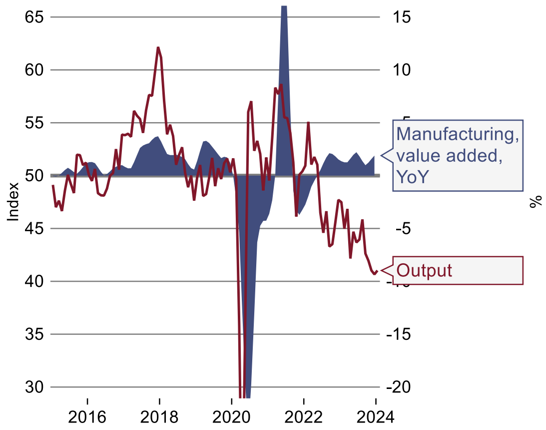


Source: Macrobond, HCOB Economics, INSEE, S&P Global

Manufacturing: No recovery in sight

The French manufacturing sector is off to a bad start into the new year. Production has once again fallen at a rapid pace and the employment situation additionally indicates weak activity.

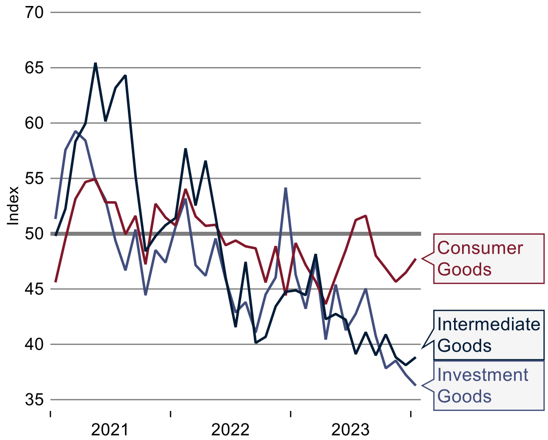
HCOB Manufacturing France PMI, Output vs. value added (Jan 2024)



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

This is mainly due to sluggish demand, as also shown by the PMI for new orders. With the latest PMI figures, our HCOB Nowcast points to a further contraction in the manufacturing sector in the first quarter of 2024.

HCOB Manufacturing France PMI, Output by sector (Jan 2024)

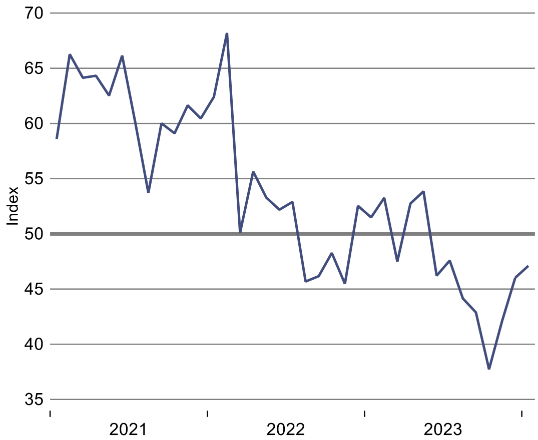


Source: Macrobond, HCOB Economics, S&P Global

The recession in the manufacturing sector is broad-based. All three sectors - consumer, intermediate and capital goods - have been in recessionary territory for some time and there are no signs of a quick and imminent improvement in any of the sectors. Companies in the intermediate goods segment in particular are experiencing longer delivery times due to the attacks in the Red Sea.

The attacks in the Red Sea are leaving their mark. In January, the PMI for delivery times deteriorated by almost five points. However, if you look at the history of the delivery times PMI, you can see that the current development is a far cry from the delivery difficulties in 2022. If the Red Sea is avoided as a trade route in the coming months, this could have consequences in the form of price increases.

HCOB Manufacturing France PMI, Future Output (Jan 2024)



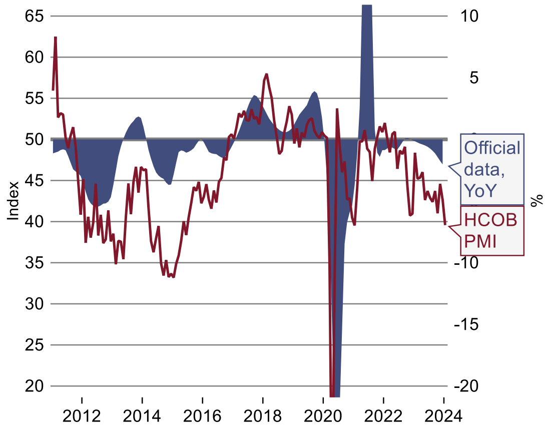
Source: Macrobond, HCOB Economics, S&P Global

Manufacturers are becoming less pessimistic. The corresponding PMI is still well below the expansion threshold of 50, but has risen for the third month in a row. Some of the companies surveyed cited an improvement in the economic environment as a reason for hope, while others took the poor order book situation as a reason for a pessimistic view of the future.

Construction: High interest rates and prices are putting pressure on the sector

The French construction sector is starting poor into the new year. Business activity declined for another month at the fastest pace in three years. Weak demand is putting further pressure on the sector, as also shown by the new orders PMI.

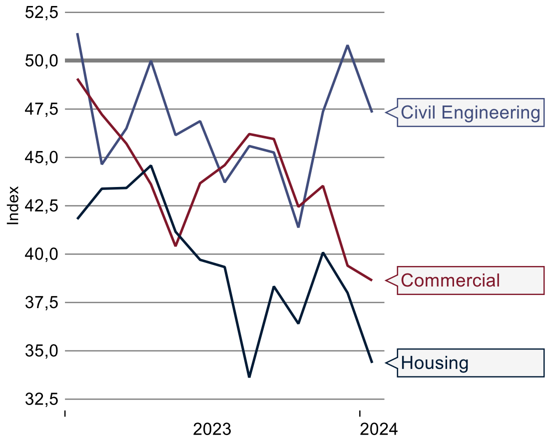
HCOB France Construction PMI, Activity vs. official construction data (Jan 2024)



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

There is no recovery in sight with an outlook for the coming twelve months being dominated by pessimism.

HCOB France Construction PMI, Activity (Jan 2024)

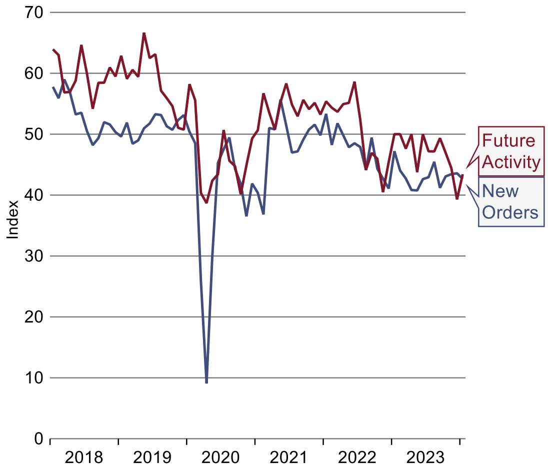


Source: Macrobond, HCOB Economics, S&P Global

The recession in the construction sector is broad-based. In all three segments – housing, commercial and civil engineering – activity declined. Activity in civil engineering fell relatively moderate compared to the commercial and housing sector, where business is still depressive. Official national accounts data confirm the picture the HCOB PMIs paint. High interest rates and rising prices are putting a lot of pressure on the sector.

The Houthi attacks are starting to have an impact on construction businesses. As seen in the corresponding PMI, the suppliers' delivery times have worsened significantly due to the attacks in the Red Sea. These delays are yet to be affecting prices as input prices increases are softening further . If the attacks continued, this might have an impact, although it should be relatively low compared to the supply shortage seen in 2021/2022.

HCOB France Construction PMI (Jan 2024)



Source: Macrobond, HCOB Economics, S&P Global

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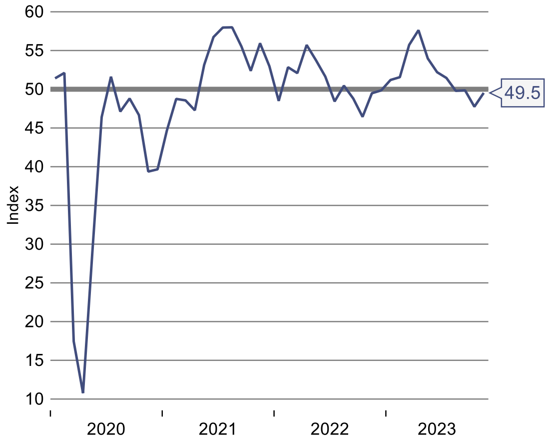
Italy

Services: Back in growth territory

Finally, some good news from Italian service providers. The corresponding HCOB PMI returned to growth territory in January after six months, reaching 51.2 index points. Despite global demand weakness and high prices, the sector is holding its ground, and our HCOB Nowcast, which considers the PMI indicators, anticipates a service sector growth in the first quarter of 0.2%.

HCOB Italy Services PMI, Business Activity (Jan 2024)

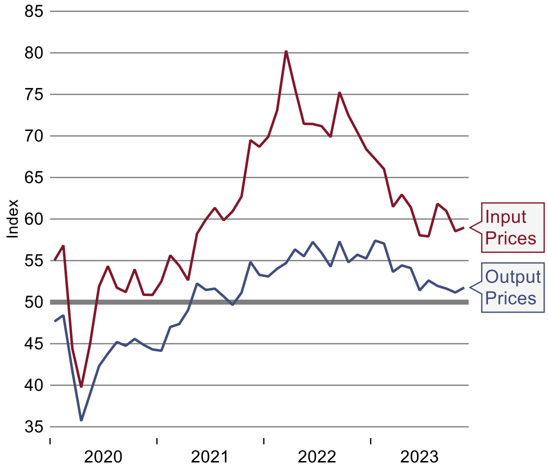


Source: Macrobond, HCOB Economics, S&P Global

In the Italian service sector employment has increased for the third month straight. Therefore we expect that unemployment, which stood at 7.5% in November 2023, will remain at historically low levels in upcoming months. This is supported by the return to growth of new business which helped dampen the fall of the backlog of orders.

The development of input prices is likely problematic for Italian service providers. They have increased compared to the previous month, climbing above their long-term average. According to HCOB services PMI survey participants, the recent rise was caused by increased fuel, utility, and labor costs. Firms were not able to increase output prices to the same degree, which means the profit margins will most likely suffer.

HCOB Italy Services PMI, Prices (Jan 2024)



Source: Macrobond, HCOB Economics, S&P Global

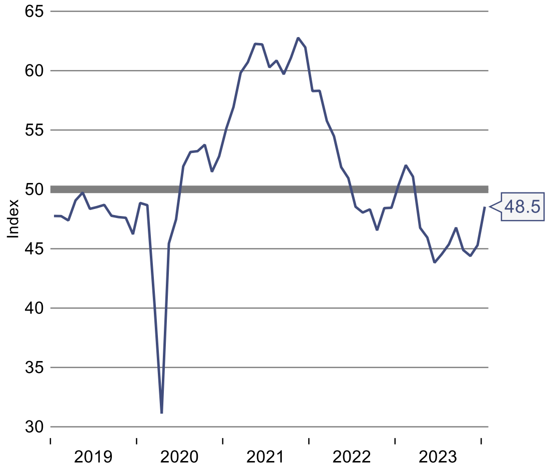
Looking ahead, the sector's situation is mixed. The sub-index of new business has seen a significant increase compared to the previous month and is now in the growing range. However, new export business suffers from global demand weakness, particularly due to the tense geopolitical situation and economic uncertainty. Even so, the degree of optimism was the highest in almost a year.

Manufacturing: Cautious optimism

Things are brightening up in Italy's industry. The HCOB PMI for manufacturing made a jump by more than 3 index points to 48. The subindex Output is catching its breath in terms of output. Despite the contraction, output is as close to the 50 mark as it has been in ten months. In the currently dismal situation across Europe, this is remarkable. If the two-month-old upward trend continued, this could mean better times ahead.

Despite clear jumps in the numbers, the sector still faces challenges. For example, in spite of a general shortage of skilled workers, employment is shrinking, inventories of manufactured products are decreasing, and purchasing volumes are declining. These are all signs that the recession is progressing for the time being. Surveyed companies attribute the blame to growing geopolitical uncertainty.

HCOB Italy Manufacturing PMI (Jan 2024)

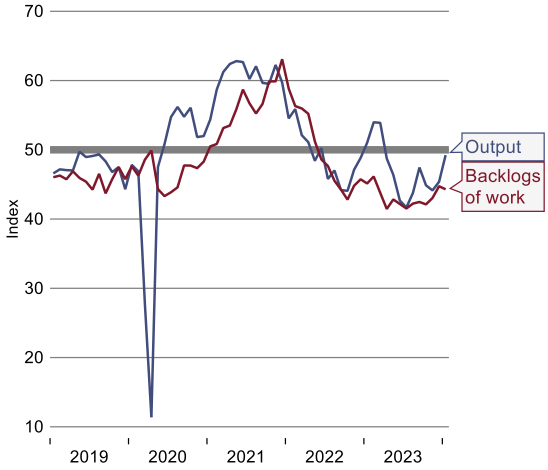


Source: Macrobond, HCOB Economics, S&P Global

Domestic orders continue to suffer from high-interest rates across the entire Eurozone. However, it's encouraging to note that the pace of contraction has significantly slowed down. Nevertheless, backlogs of work remain challenging as they continue to shrink significantly.. Foreign orders have shown a notable improvement compared to the previous month, but they increasingly suffer from supplier lead times due to the situation in the Red Sea. Italy, being an important recipient of goods through this crucial waterway, is impacted by the restricted maritime traffic due to ongoing attacks by Yemeni Houthi rebels. Having said this, supply chain issues are not yet as acute as in the spring of 2020.

Italian industrial companies are cautiously optimistic, looking towards the long term. Future output has climbed back above its long-term equilibrium. The optimism of surveyed companies was fueled by promising growth expectations and the hope for a market revival. Our HCOB Nowcast anticipates a slight contraction of the overall GDP by 0.1% in the first quarter, primarily due to the still acute weakness in the Italian industry. However, there are some early signs of hope for better times ahead.

HCOB Italy Manufacturing PMI (Jan 2024)



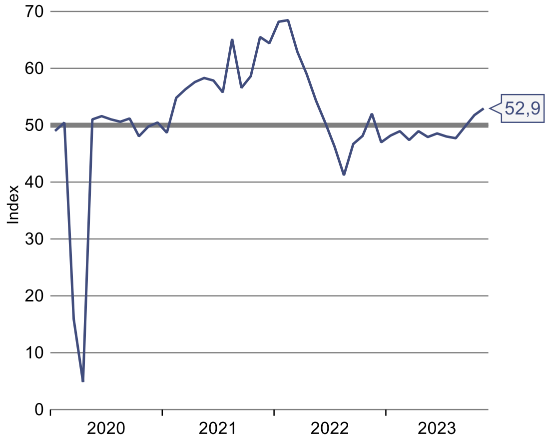
Source: Macrobond, HCOB Economics, S&P Global

Construction: Growth is weakening

After a cracking growth spurt in the Italian building game, things took a bit of a nosedive in January. The HCOB PMI for the sector dropped by 3.7 index points compared to the previous month, but it's still hanging in there in the growth zone at 51.6 points. The building business in Italy is a bit of a one-off compared to the big four economies, mainly because of government handouts rather than the hustle of private players. Our HCOB Nowcast reckons the building sector will see a 1.8% growth this quarter.

Weaker but still showing signs of growth, the numbers were visible across all subcategories of the construction sector. Commercial building activity has suffered particularly strongly compared to residential properties and civil engineering. It remains to be seen how sustainable the downward trend will be in the coming months.

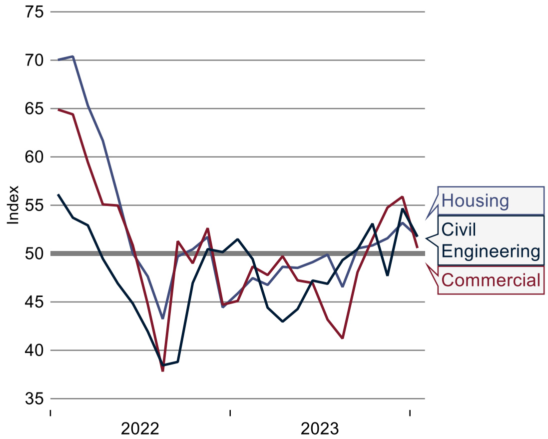
HCOB Italy Construction PMI, Activity (Jan 2024)



Source: Macrobond, HCOB Economics, S&P Global

Despite losing ground in index values compared to the previous month, employment is on the rise, along with the overall volume of purchases. This sets the construction sector apart from others because it indicates a demand surge perceived as robust and sustainable by Italian builders.

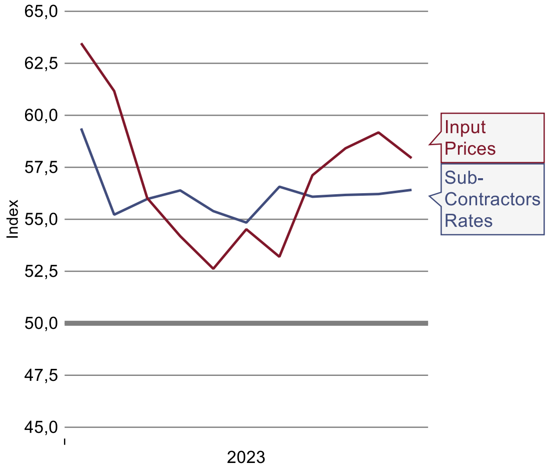
HCOB Italy Construction PMI, Activity by sector (Jan 2024)



Source: Macrobond, HCOB Economics, S&P Global

The only downside to the nevertheless stable situation is the persistently high inflation. This is evident not only in input prices but also in subcontractor rates, despite an overall decrease in subcontractor usage. Nevertheless, surveyed companies have expressed extremely optimistic expectations for future activity, supported by ongoing growth in orders. According to respondents, the new contracts are attributed to the EU's National Recovery and Resilience Plan (PNRR).

HCOB Italy Construction PMI (Jan 2024)



Source: Macrobond, HCOB Economics, S&P Global

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Spain

Services: Optimism for the new year

Spain once again underscores its current strength among the major European economies. The Services PMI sparks optimism, suggesting that the momentum from a robust 0.6% GDP expansion in the fourth quarter could carry forward into the first quarter of the new year. The PMI signals faster growth in January than the previous month, reaching 52.1 points. The activity of Spain's services providers has further improved, fueled by two key factors. Firstly, according to panellists, the introduction of new business and marketing measures in the new year has led to increased activity. Secondly, companies report benefiting from a general increase in demand, mainly from the domestic market. Consequently, outstanding orders for companies have increased – the corresponding index has entered the growth zone for the first time since June 2023. Orders from abroad continue to decline, which not surprising given the weakness in the Eurozone.

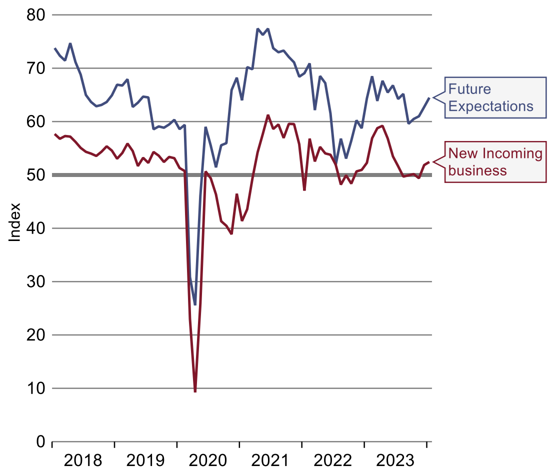
HCOB Spain Services PMI, Output Index (Jan 2024)

Source: Macrobond, HCOB Economics, S&P Global

Services companies have accelerated their hiring activities for the third consecutive month. With more people getting jobs and salaries rising, it fits the narrative of a general increase in demand. The latest GDP numbers confirm this view as private consumption has supported GDP growth in the fourth quarter.

In line with the increased demand, inflation pressure remains elevated. Input and output prices rose at a faster rate in January compared to the previous month. In the realm of input prices, there are reports of higher wages, increased pensions, and general price increases. The increased input costs are passed on to customers by companies, reflected in the official inflation data. Contrary to general expectations, Spain's inflation rate in January has increased, now standing at 3.4%.

HCOB Spain Services PMI (Jan 2024)



Source: Macrobond, HCOB Economics, S&P Global

Manufacturing: Refreshing impetus

As the new year kicks off, Spain's manufacturing sector is receiving a breath of fresh air. The PMI index takes a significant leap from 46.2 to 49.2 in January, indicating only a slight contraction. Although the downturn persists, its intensity has notably diminished. Other crucial indicators, such as new orders and quantity of purchases, are experiencing a slower decline compared to December.

HCOB Spain Manufacturing PMI (Jan 2024)

Source: Macrobond, HCOB Economics, S&P Global

Business expectations have seen a remarkable boost at the year's outset, reaching a two-year peak. Companies surveyed are embracing an optimistic outlook, projecting increased demand for 2024. This optimism may stem from the waning inflation dynamics, leading to enhanced purchasing power for households and increased speculation among businesses regarding future interest rate cuts. According to our HCOB forecast, we anticipate two interest rate cuts this year, set to commence in June. Corresponding to the heightened business expectations, the decline in both domestic and foreign new orders has significantly eased.

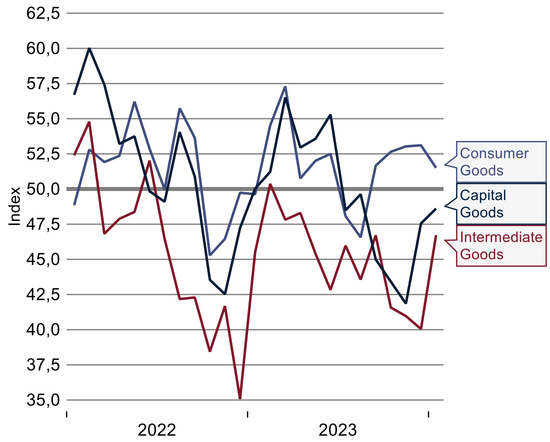
HCOB Spain Manufacturing PMI, Suppliers' Delivery Times (Jan 2024)

Source: Macrobond, HCOB Economics, S&P Global

January witnessed tangible delays in lead times for inputs, primarily attributed to the crisis in the Red Sea. However, input prices have not seen an increase, maintaining a downward trend. The missing impact of higher transport costs for container shipments on prices can be attributed to transport costs constituting less than 2% of the overall expenses for these transported goods.

Within the manufacturing landscape, consumer goods continue to act as a stabilizing force, with new orders and production showing sustained growth. While indices for capital goods and intermediate goods remain in the contraction zone, the declines in output and new orders have perceptibly decelerated, fostering cautious optimism in these sectors.

HCOB Spain Manufacturing PMI, Sectoral Output (Jan 2024)



Source: Macrobond, HCOB Economics, S&P Global

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FINANCIAL INDICATORS

Forecasts

Forecasts of Hamburg Commercial Bank

	2/5/2024	3/31/2024	6/30/2024	9/30/2024	12/31/2024	3/31/2025
Interest rates						
USA						
fed funds (Target rate) (%)	**5.50**	5.50	5.25	4.75	4.75	4.75
SOFR (%)	**5.32**	5.30	5.05	4.55	4.55	4.55
2 year Treasury	**4.46**	4.30	4.20	4.40	4.60	4.70
5 year Treasury	**4.13**	4.65	4.55	4.45	4.30	4.30
10 year Treasury	**4.17**	4.15	4.00	4.20	4.40	4.55
2 year Swap rate (SOFR) (%)	**9.06**	4.20	4.10	4.30	4.50	4.60
5 year Swap rate (SOFR) (%)	**8.26**	4.55	4.45	4.35	4.20	4.20
10 year Swap rate(SOFR) (%)	**8.23**	4.05	3.90	4.10	4.30	4.45
Eurozone						
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 (%)	**2.72**	2.50	2.30	2.55	2.70	2.90
5 year German Bond (%)	**2.26**	2.25	2.10	2.40	2.55	2.75
10 year German Bond (%)	**2.33**	2.15	2.00	2.30	2.50	2.70
2 year Swap rate (%)	**3.05**	3.05	2.85	3.10	3.25	3.45
5 year Swap rate (%)	**2.68**	2.80	2.65	2.95	3.10	3.30
10 year Swap rate (%)	**2.70**	2.65	2.50	2.80	3.00	3.20
Exchange rates						
Euro/US-Dollar	**1.07**	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	**148.83**	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
Oil price						
Öl (Brent), USD/Barrel	**79.54**	75	80	75	70	70
Stock markets						
Dax	**16904**	16400	16500	16600	16900	17100
Stoxx Europe 600	**484**	470	473	476	485	492
S&P 500	**4943**	4630	4650	4670	4700	4720

Source: Bloomberg, Hamburg Commercial Bank Economics

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

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