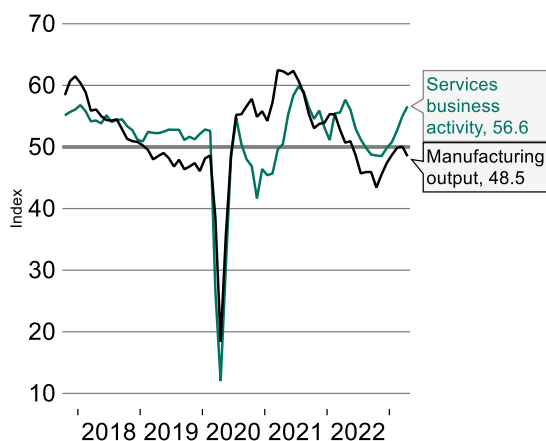


# Eurozone: Different economic worlds

While the service sector in the eurozone accelerated in April, industry is slowing down. In addition, the HCOB Flash PMI holds rather unpleasant news for the ECB, as prices apparently do not really want to fall.

The HCOB PMI purchasing managers' indices for the eurozone show a very friendly overall picture of a further recovery in economic activity.

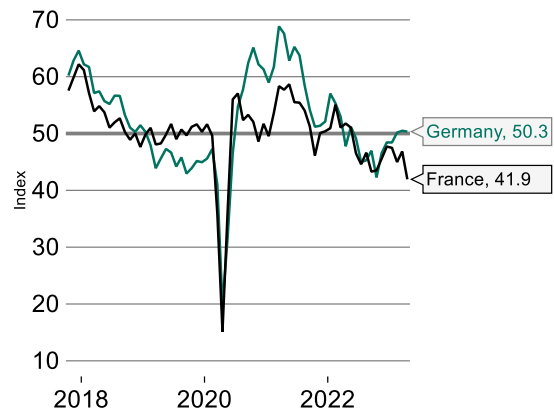
## HCOB Flash Eurozone PMI (Apr 2023)



Source: Macrobond, HCOB Economics, S&P Global

However, a closer look reveals that growth is very unevenly distributed. For example, the gap between the partly booming services sector on the one hand and the weakening manufacturing sector on the other has widened further. Also noteworthy is the sharp decline in output in France's manufacturing sector, while this sector is still expanding slightly in Germany.

## HCOB Flash Eurozone PMI Manufacturing, Output (Apr 2023)



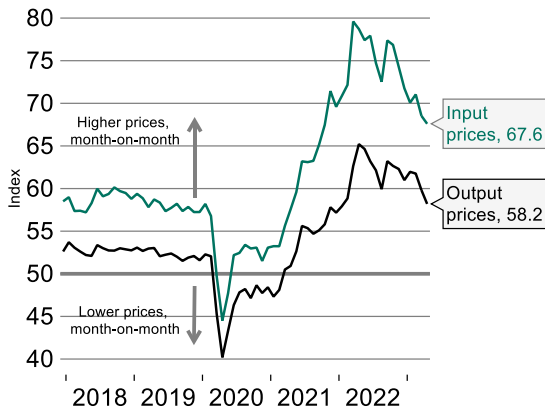
Source: Macrobond, HCOB Economics, S&P Global

## Unpleasant news from the price front

Price developments in the services sector are likely to remain a source of concern for the European Central Bank (ECB). Neither for input prices nor for selling prices is the upward momentum in prices slowing down appreciably according to the HCOB PMI survey. Services prices play a particularly large role in the core inflation rate on which the ECB is currently focusing. This increases the probability that the ECB will tighten its monetary policy more strongly or for longer than expected.

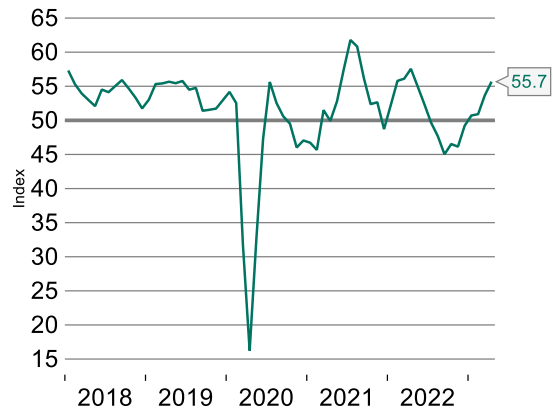
In the manufacturing sector, things look somewhat brighter on the price front. Here, the trend of falling input prices is continuing. This is matched by the observation that delivery times have shortened further considerably, so that buyers are apparently gaining the upper hand in price negotiations. In addition, the fall in energy prices is also playing a decisive role here.

### HCOB Flash Eurozone PMI Services, Prices (Apr 2023)



Source: Macrobond, HCOB Economics, S&P Global

### HCOB Flash Germany Services PMI, Business Activity (Apr 2023)

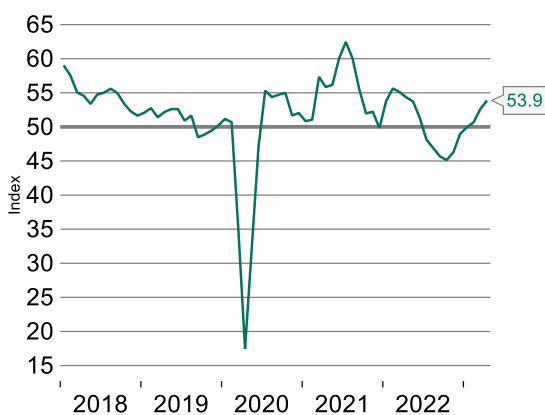


Source: Macrobond, HCOB Economics, S&P Global

#### Germany: Surprisingly good

According to the HCOB Flash PMI, the German economy continued the recovery in April that began in the first quarter of the year. Thus, the Composite PMI (composed of manufacturing and services) rose to a value of 53.9.

#### HCOB Flash Germany Composite PMI, Output (Apr 2023)



Source: Macrobond, HCOB Economics, S&P Global

The driving force is the services sector, which is characterized by sustained optimism according to the PMI survey.

The PMI index for the **services sector**, which measures activity, rose to a very robust 55.7 points, signaling accelerated growth at the start of the second quarter. This may indicate that the retail sector, whose retail sales have fallen massively in recent months according to Destatis - data are available up to February - is also gradually regaining its footing.

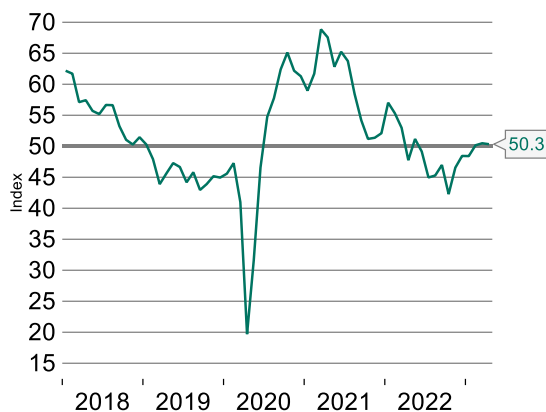
In the services sector as a whole, new business has increased in any case according to the PMI survey, and companies have also hired more people again.

The ability of companies in this sector to push through higher prices has weakened somewhat. At the same time, companies continue to face strong price increases at the input level. The expected high wage settlements could further complicate the situation for the services sector, although in macroeconomic terms they should benefit from higher incomes and correspondingly higher consumption.

**Manufacturing**, on the other hand, is more of a drag on the economy as a whole, although the situation is better than the PMI index suggests at first glance, with a value of 44.0 - the lowest since the Corona year 2020. This is because the production index, with a value of 50.3, indicates meager but still positive growth.

Moreover, supply chain bottlenecks continued to ease in April, according to the PMI survey. In view of the high order backlogs reported by the Federal Statistical Office, which rose again in February, this is good news.

#### HCOB Flash Germany Manufacturing PMI, Output (Apr 2023)



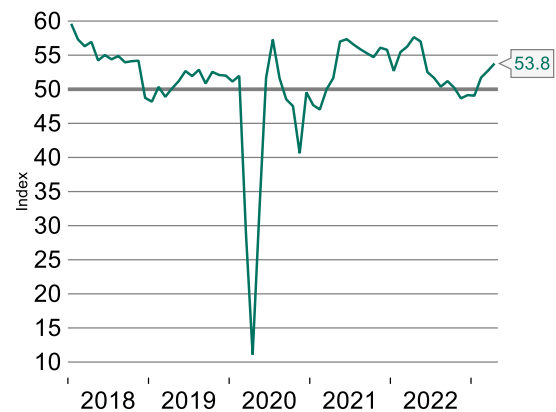
Source: Macrobond, HCOB Economics, S&P Global

Another positive factor for the sector is that companies are obviously still able to expand their profit margins. This is because the corresponding HCOB PMI sub-indices show that companies have once again been able to increase selling prices, while prices for inputs have fallen at an accelerated pace, which is also in line with the observation that delivery times have once again declined significantly.

#### France: Strike leaves its mark

In April, the French economy also continued the growth trend it had begun in the first quarter.

#### HCOB Flash France Composite PMI, Output (Apr 2023)



Source: Macrobond, HCOB Economics, S&P Global

France is thus starting the second quarter on a positive note. Similar to Germany, the good development of the French economy continues to be attributable to the services sector. The companies surveyed stated that new business and new export business in particular had improved.

The HCOB Flash PMI for the **services sector** grew more strongly than in the previous month, despite the strike activity that is currently dominating the media in the wake of pension reform, with the index value standing at 56.3 points.

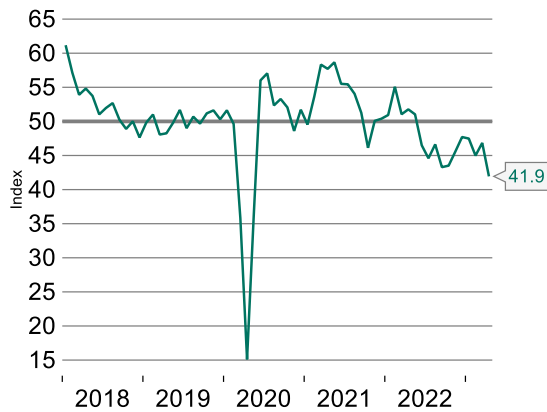
Among other things, France's services sector is likely to have benefited from increased spending by tourists, which is also reported by companies in the luxury retail segment.

Service providers were once again able to push through higher prices. According to the PMI input price index, the situation for intermediate inputs has eased, albeit only very moderately.

In contrast to the services sector, the situation in **manufacturing** deteriorated for the third month in a row. Here, the current widespread protest activities against the pension reform pushed through by the government are leaving very visible traces in the PMI survey results. The corresponding production index fell from

46.8 in March to 41.9 in April. If the low of 2020 is excluded, this is the lowest value since 2012.

**HCOB Flash France Manufacturing PMI,  
Output (Apr 2023)**



Source: Macrobond, HCOB Economics, S&P Global



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This development is accompanied by a significant decline in new orders, so that the trend of falling order backlogs that started from a high level in the middle of last year is likely to continue, especially as supply chain problems have been further reduced according to the PMI survey.

The weakness in the manufacturing sector is also reflected in the fact that companies are far less able than before to push through higher selling prices.

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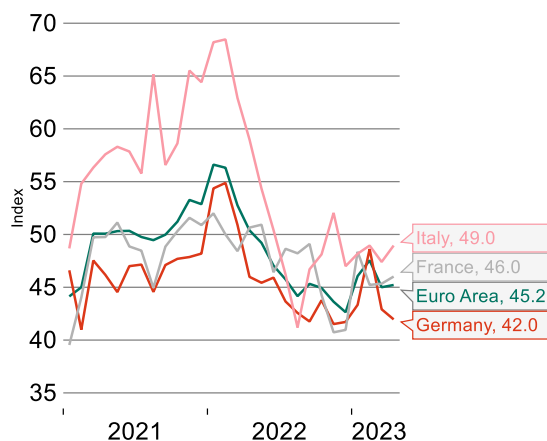
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# Eurozone: Pronounced weakness in the construction sector

In the construction sector, activity declined again according to the HCOB PMI, continuing the phase of weakness that has lasted for some time and was briefly interrupted at the beginning of the year.

**Activity** in the eurozone construction sector is **weakening**, according to the HCOB PMI survey. **Rising interest rates** have impacted all sectors, with the residential sector being the hardest hit. Germany's construction sector in particular stands out here with an accelerated decline in construction activity, while **Italy** is **relatively stable**.

**HCOB Construction PMI Total Activity Index (Apr 2023)**

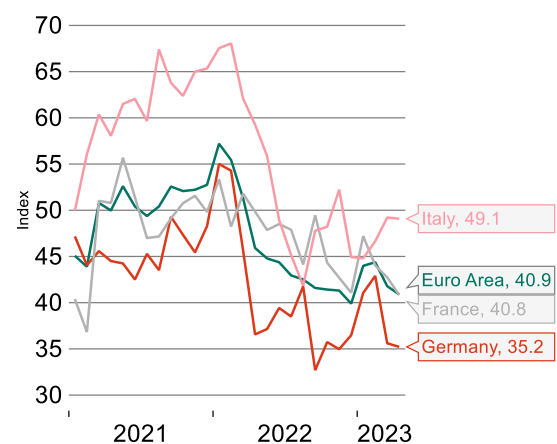


Source: Macrobond, HCOB Economics, S&P Global

What can also be observed is a continued **decline** in **new orders**, which already started a year ago. Here, too, Germany has taken the lead, where the corresponding PMI index has fallen again from a low level. The situation is **similar** in **France**. In Italy, on the other hand,

this index remains above the long-term average.

**HCOB Construction PMI New Orders Index (Apr 2023)**



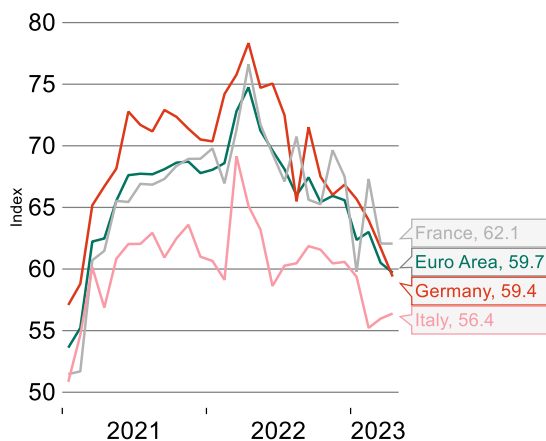
Source: Macrobond, HCOB Economics, S&P Global

This means that the **strong growth** in the **construction** sector reported by Eurostat for the first two months of the year is **unlikely** to **continue**, at least not in the two largest eurozone countries, Germany and France. Looking at the eurozone as a whole, we expect output in the construction sector to decline in the second quarter, mainly as a consequence of **higher interest rates**, to which this sector tends to be particularly sensitive.

It is noticeable that **prices** for **subcontractor** services in Germany, France and Italy, as well as in the Eurzone as a whole, **increased** at almost the same rate as in the previous month. For **input prices**, the increase has **slowed**, but even here **price pressure** remains relatively **high**, considering that real estate prices are falling significantly almost everywhere. We interpret this to mean that certain supply problems persist. This is also supported by the fact that, although **supply bottlenecks** have

eased somewhat, the easing according to the PMI delivery time index is less pronounced than in industry. With **construction activity** likely to **weaken**, **supply problems** are most probably to ease further in the coming months.

#### HCOB Construction PMI Prices Subcontractors Index (Apr 2023)



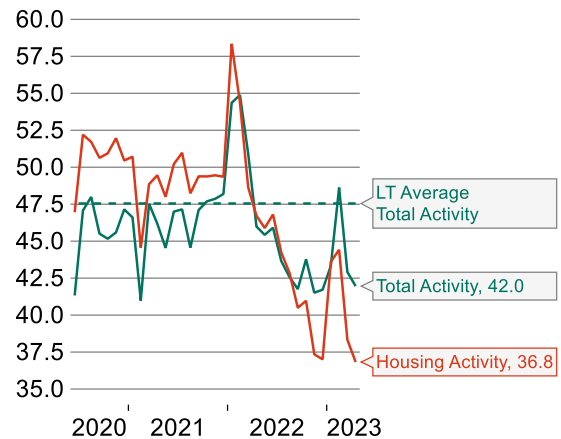
Source: Macrobond, HCOB Economics, S&P Global

#### Germany: Housing sector under particularly strong pressure

The **weakness** in **Germany's** construction sector **continued** in April, according to the HCOB PMI survey. For example, the **PMI** activity index continued to **fall** from its low level and, at 42 points, is well below its long-term average.

The combination of **higher interest rates** and continued **high construction prices** are causing an accelerated **slump in activity**, particularly in the residential construction sector, according to the HCOB PMI survey. Construction **activity** is also **declining** in the **commercial** real estate sector.

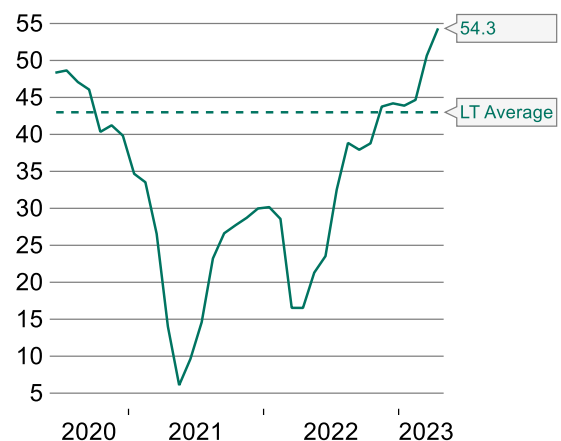
#### HCOB Germany Construction PMI, Total Activity vs. Housing Activity (Apr 2023)



Source: Macrobond, HCOB Economics, S&P Global

The lower construction activity means that the easing in supply chains, which has been evident for several months, continued at an accelerated pace in April. Accordingly, it has become much easier to engage subcontractors for construction projects. However, despite the weaker demand, subcontractors are hardly willing to concede on prices. It also appears from the HCOB PMI survey that clients are even less satisfied with the quality of subcontractor performance than before.

#### HCOB Germany Construction PMI, Suppliers' Delivery Times (Apr 2023)

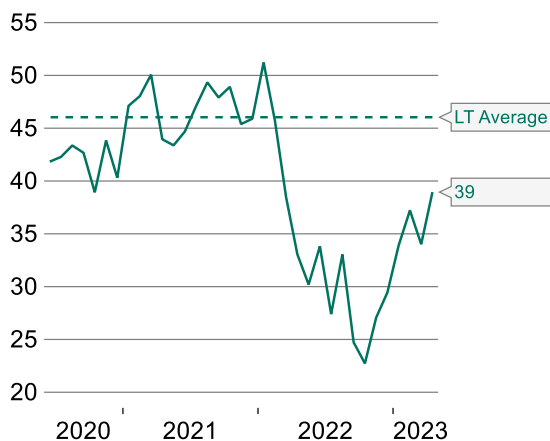


Source: Macrobond, HCOB Economics, S&P Global

There are some vague signs of stabilization in the PMI survey set. For example, reports of job losses are continuing, but at a slower rate. New

orders are declining at about the rate of the previous month, and pessimism about future business activity has diminished somewhat in recent months. However, there can certainly be no talk of an imminent turnaround.

#### HCOB Germany Construction PMI, Future Business (Apr 2023)



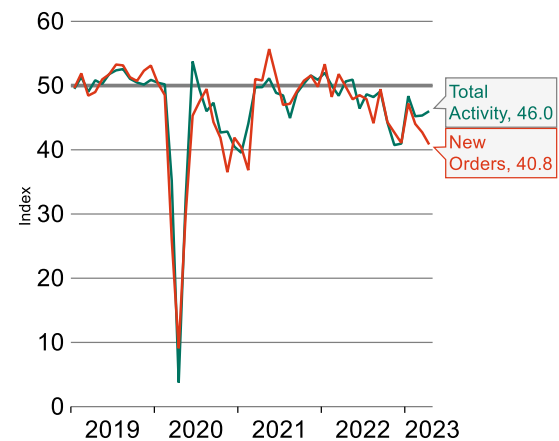
Source: Macrobond, HCOB Economics, S&P Global

#### France: difficult times

Construction **activity** in France has already been **weakening** since the second half of 2022. In the fourth quarter and the first two months, the index published by INSEE gave hope that the sector could recover. However, the HCOB Construction Activity PMI for April shows that the construction sector continues to **face difficult times**.

**New orders** in particular are a **concern** for companies, which **fell** at the **fastest pace** since February 2021, according to the PMI survey. In particular, the current market environment characterized by **high input prices**, exacerbated by the ECB's interest rate hikes, caused a **decline** in **demand** from customers, according to the companies surveyed.

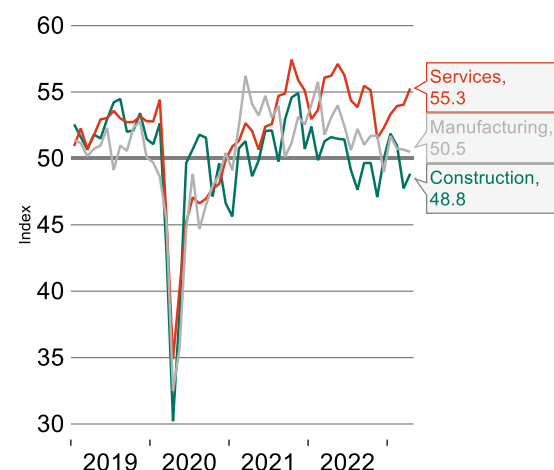
#### HCOB France Construction PMI, Total Activity vs. New Orders (Apr 2023)



Source: Macrobond, HCOB Economics, S&P Global

Against this background, it is not surprising that companies **reduced** their **staff** for the second month in a row. Given the historically **low unemployment rate** of 7% and increased employment in the manufacturing and service sectors, according to the HCOB PMIs, people who lost their jobs with the right skills should **find employment again** relatively quickly.

#### HCOB France Employment PMIs (Apr 2023)



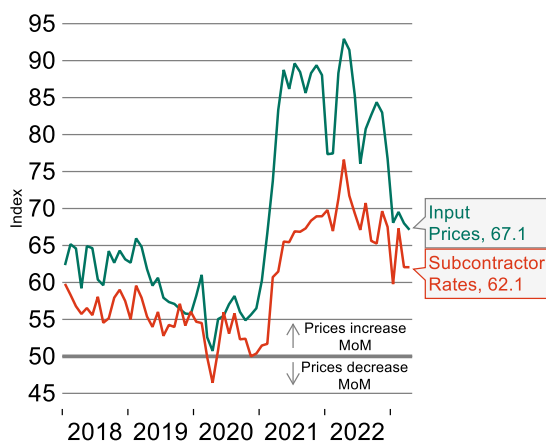
Source: Macrobond, HCOB Economics, S&P Global

While **supply chains** are improving in the manufacturing sector, **issues** are **still present** in the construction sector. This is reflected in the HCOB Suppliers' Delivery Times PMI, which, with an increase to 43.0, merely

suggests that **tensions** are **building** at a slower rate than the previous month.

Similar to the services sector, construction firms continue to **report high persistent input prices**. While only about 3% of surveyed firms reported a decrease in their input prices from the previous month, 37% reported an **increase** in their **costs**. Meanwhile, **rates** for **subcontractors** have **risen** at a consistently high rate.

#### HCOB France Construction PMI, Price Indexes (Apr 2023)

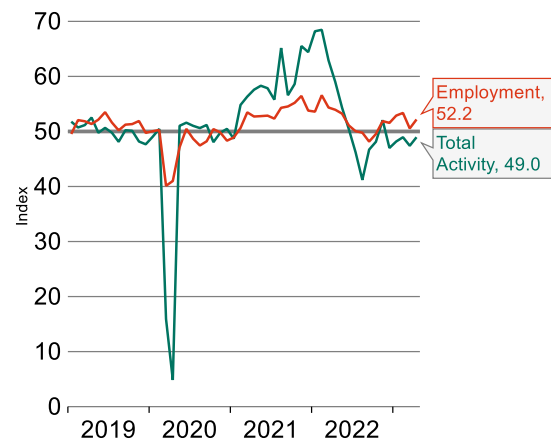


Source: Macrobond, HCOB Economics, S&P Global

#### Italy: Relatively robust

The HCOB PMI for activity in Italy's construction sector **rose above** its **long-term average** in April, but remained below the crucial 50.0 no-change mark. Nonetheless, given that official data has signaled a **strengthening in sector performance** since the final quarter of last year, the rise in the HCOB PMI means this underlying improvement has been sustained the start of the second quarter despite higher interest rates. This is also supported by the **rise in employment** reported by the PMI survey.

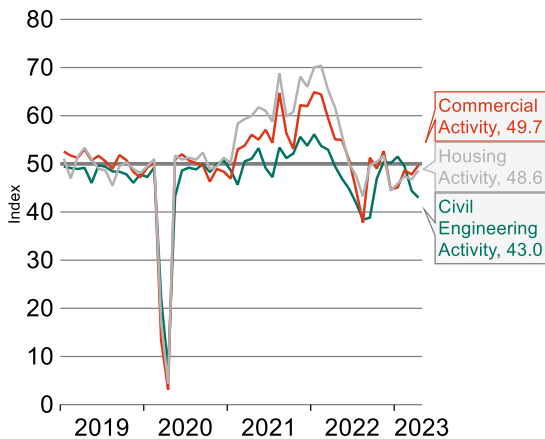
#### HCOB Italy Construction PMI, Total Activity vs. Employment (Apr 2023)



Source: Macrobond, HCOB Economics, S&P Global

In relative terms, according to the PMI survey, the **commercial sector** is showing **greater stability** than residential. Companies surveyed in both types of real estate state that they are struggling with more **difficult refinancing conditions**, especially in the form of sharply increased interest rates. However, greater **weakness** can be observed in **civil engineering**. The corresponding HCOB PMI index surveyed by S&P has **fallen** for the **third time** in a **row** and is deep in contraction. The Meloni government planning a controversial **bridge** across the **Strait of Messina** to connect Sicily with the mainland, implementation of the nearly 5 billion euro project could provide some much needed support.

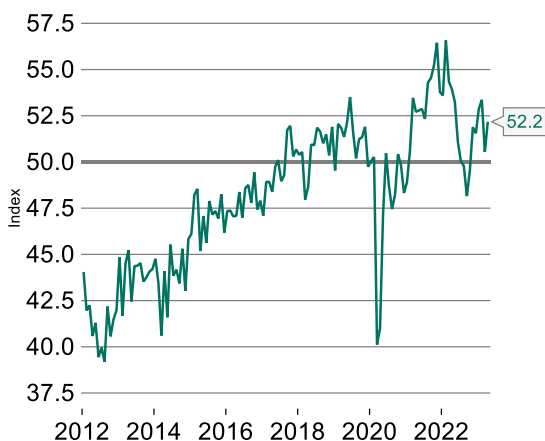
### HCOB Italy Construction PMI, Sectoral components (Apr 2023)



Source: Macrobond, HCOB Economics, S&P Global

Construction companies are being **relieved** somewhat by a **better** trend in **prices**, which again rose less sharply in April than in March, according to the PMI survey. The **availability** of **subcontractors** has also **improved**. The values for the **construction cost index** for residential properties collected by Istat fit this picture. This **fell** by around 0.2% MoM in March, and this trend is likely to continue in April according to the latest HCOB PMI figures.

### HCOB Italy Construction PMI, Employment (Apr 2023)



Source: Macrobond, HCOB Economics, S&P Global



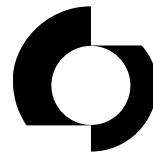
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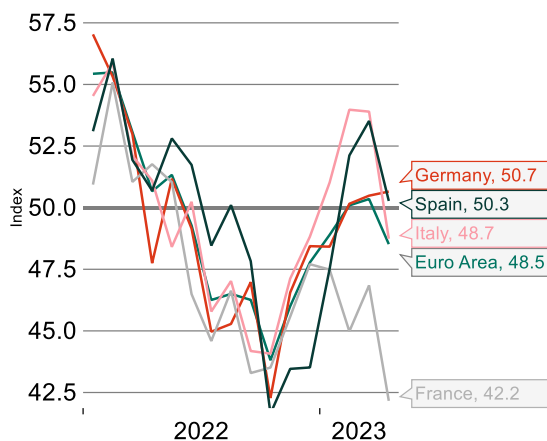
**THE PULSE OF THE EUROZONE: HCOB PMI - INDUSTRY**

# Eurozone: Companies have bought too much in stock

In the manufacturing sector of the eurozone, companies are finding that their corporate customers have been buying a lot in stock - too much. Now demand is falling and therefore less is being produced. At least there is also relief in the supply chains and on the price front.

In almost the entire eurozone, the manufacturing sector is struggling with weakening demand, and most companies are responding by scaling back production.

**HCOB Manufacturing PMI, Output Index (Apr 2023)**



Source: Macrobond, HCOB Economics, S&P Global

According to the HCOB PMI output index, the manufacturing sector in the eurozone produced less in April. This weakness has taken place across the board in the eurozone, as in France and Italy the regional PMI indices also indicate a decline in output, while in Germany and Spain, output is virtually stagnant. This weakness is

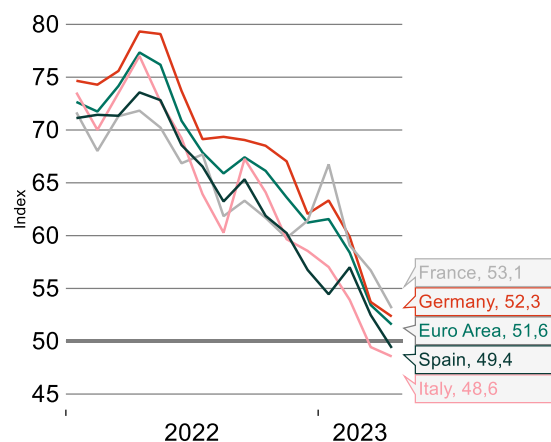
likely to have to do with the fact that many corporate customers have built up their inventories massively in the face of supply chains that have been strained for a long time and are now finding that they have done a bit too much of a good thing.

The renewed significant shortening of delivery times indicated by the PMI delivery times index is on the one hand a sign of normalization, but together with some other indicators must also be interpreted as a weakness in demand. The renewed decline in new orders, including those from abroad, fits in with this. The volume of purchases made by companies also points in the direction of declining demand and production.

## Goods inflation declining

If it were only a question of goods prices, the European Central Bank would be heading in the right direction.

**HCOB Manufacturing PMI, Output Prices Index (Apr 2023)**



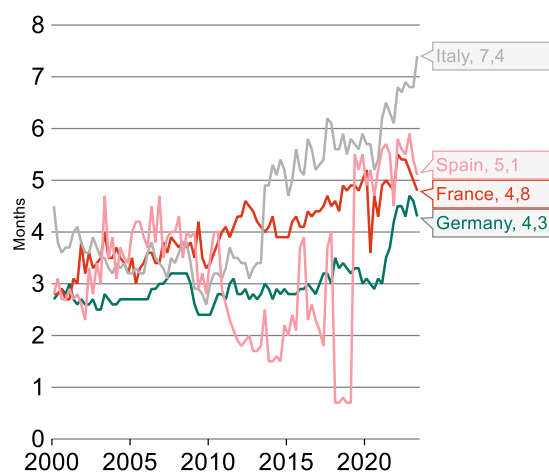
Source: Macrobond, HCOB Economics, S&P Global

This is because, according to the HCOB PMI survey, selling prices rose in April with a slowing momentum. In addition, input prices again fell significantly. Nevertheless, central bankers have no reason to sit back so far. Both the price data from the Flash PMI for services available up to March and the corresponding Eurostat inflation data for April - the most important component in measuring the inflation index - continue to reflect considerable price pressure.

### Companies remain relatively confident

The future business outlook was assessed somewhat more favorably in April than in the previous month.

#### Reach of Orderbooks in Months (2023 Q2)



This may come as a surprise in view of the declining order intake. However, according to Eurostat, order backlogs in the four major euro countries remain close to historic highs. The companies surveyed therefore do not expect their production to slump in the short term.

### Germany: High level of orderbooks stabilize production

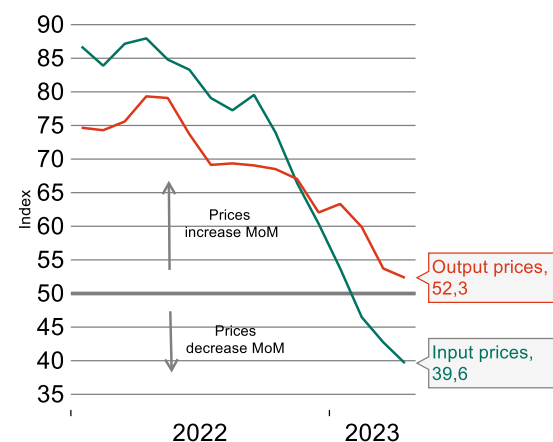
In Germany, unlike in France and Italy, the manufacturing sector again produced slightly more in April.

At the same time, signs of weak demand can be seen. The clearest indicator is the HCOB PMI index for new orders, which again signals a decline, including orders from abroad. But accelerated delivery times are also an indication that demand is weakening.

However, the weakness in demand indicated by the HCOB PMI is by no means that a crash in production is imminent. According to Eurostat, the order books will still last a good four months and, according to Destatis, even for seven to eight months of production, an extremely comfortable situation by historical standards.

The weakness in demand coupled with a high order backlog also has some short-term benefits for companies. This is because, as measured by the PMI price indices, they appear to be in a position to increase their profit margins.

#### HCOB Germany Manufacturing PMI, Price Indexes (Apr 2023)



For example, the PMI input price index has fallen sharply to below 40 points, while the PMI selling price index continues to be in rising territory, even if the gains are diminishing.

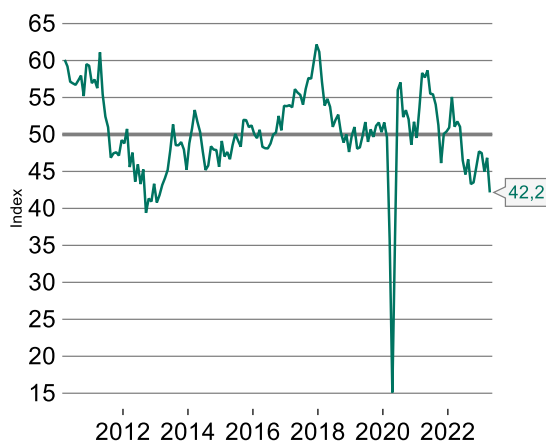
Compared with the rest of Europe, Germany's manufacturing sector is doing relatively well. According to the PMI survey, companies in France in particular have recently cut back their production sharply, possibly also due to the

strike activities in the country. Output has also fallen recently in Italy.

### France: Strike leaves its mark

In France, manufacturing output virtually collapsed in April. At 42.2, the PMI production index in April is at its lowest level since the outbreak of the Corona pandemic. In fact, if the pandemic is excluded, it is a new ten-year low. The companies surveyed attributed the decline in production primarily to weak demand from customers.

#### HCOB France Manufacturing PMI Output Index (Apr 2023)



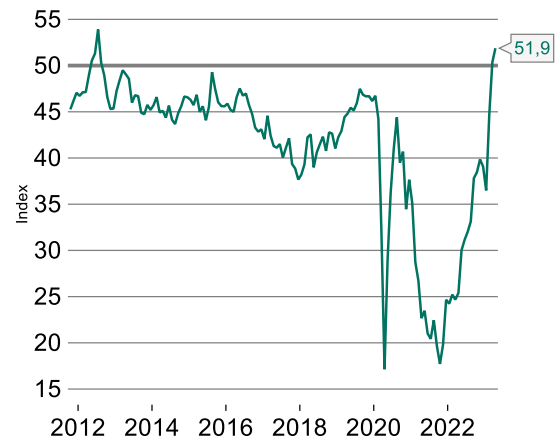
Source: Macrobond, HCOB Economics, S&P Global

Furthermore, the ongoing protests against the much-discussed and already-passed pension reform were cited as another reason why production has declined.

Order intake, including that from abroad, also decreased significantly. The companies surveyed reported weaker demand from the North American and European regions in particular. They justified the decline in order books by the drop in production and destocking by these customers, having previously built up high inventories to guard against supply bottlenecks.

But the supply bottlenecks had eased more quickly than generally expected.

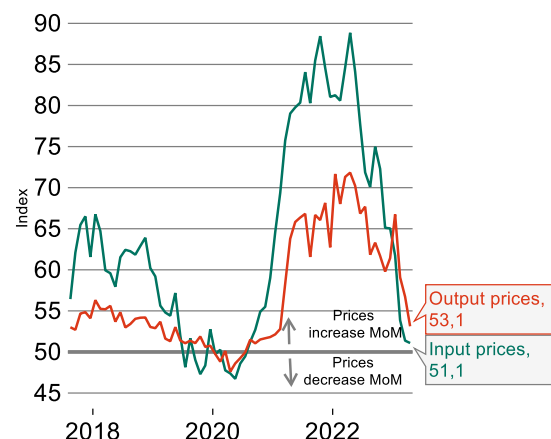
#### HCOB France Manufacturing PMI Suppliers' Delivery Times Index (Apr 2023)



Source: Macrobond, HCOB Economics, S&P Global

For example, the HCOB PMI delivery time index in France is above the critical threshold of 50 for the second month in succession. The extent of the easing is also shown by the fact that this index was last above the expansion threshold in August 2012. Furthermore, material inventories have risen for the first time in seven months. Usually, companies use this to prepare for higher demand, but this time the higher inventories were more the result of fears that supply chain bottlenecks could still persist. Here, companies seem to have miscalculated.

#### HCOB France Manufacturing PMI, Price Indexes (Apr 2023)



Source: Macrobond, HCOB Economics, S&P Global

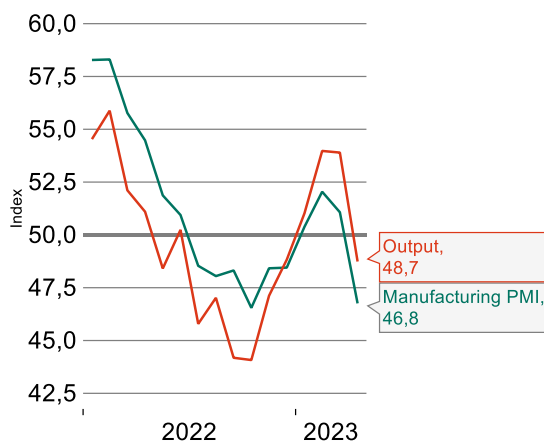
Input and selling prices continued to rise in April, but the rate of increase is slowing, as

shown by the corresponding HCOB PMI price indices, which are falling toward 50. A year ago, the two price indices were still at significantly higher levels.

## Italy

Following an encouraging first quarter, the beginning of the second quarter seems to have seen a

### HCOB Italy Manufacturing PMI, Headline and Output Index (Apr 2023)



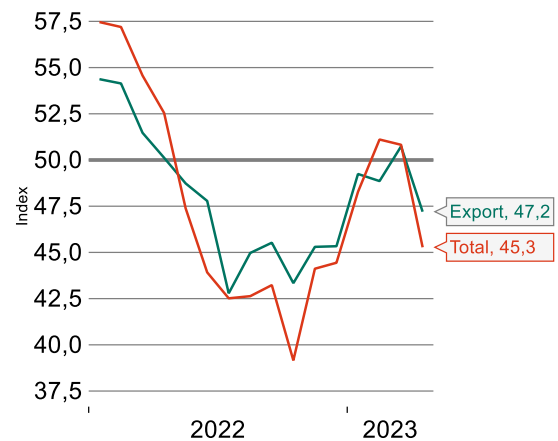
Source: Macrobond, HCOB Economics, S&P Global

Italian manufacturing sector to spread disillusionment.

The April reading of the HCOB PMI fell more than 4 points to 46.8. This is the worst value since October 2022.

A particular weakness can be seen in actual production and new orders, with both indices falling by around 5 points each compared with the previous month. The sentiment is also suffering from the global slowdown in economic momentum, with new export orders also contracting to 47.2.

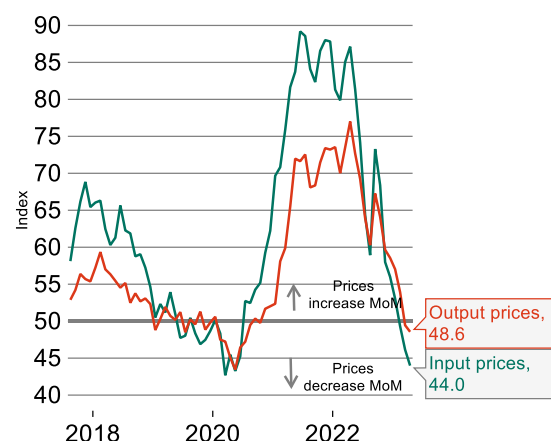
### HCOB Italy Manufacturing, New Orders Indices (Apr 2023)



Source: Macrobond, HCOB Economics, S&P Global

According to the most recently published export figures from February, which were up 10.8% year-on-year, producers of machinery, textiles, and pharmaceutical products were among the biggest winners. The HCOB PMI figures indicate that this trend is unlikely to continue in March.

### HCOB Italy Manufacturing PMI, Price Indexes (Apr 2023)



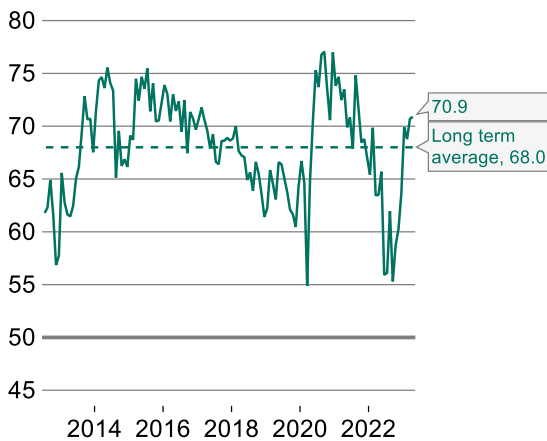
Source: Macrobond, HCOB Economics, S&P Global

On the other hand, there is positive news from the price front. The HCOB PMI index for input and output prices has fallen further and is now at the level seen before Russia's war of aggression against Ukraine. This confirms the trend of the recently published February figures of the producer price index, these had fallen by

1.7% compared to the previous month due to the price development in the energy sector.

Another reason for optimism is provided by the PMI employment index, which is lower but still signals expansion.

**HCOB Italy Manufacturing PMI Future Output Index Unadjusted (Apr 2023)**



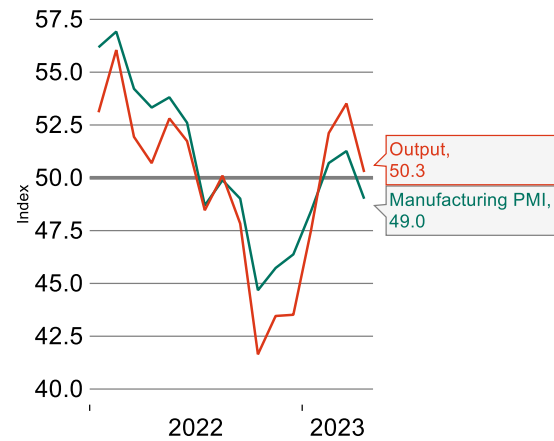
Source: Macrobond, HCOB Economics, S&P Global

The renewed improvement in the business outlook in a year also fits in with this. Although Italian entrepreneurs are obviously notorious permanent optimists - the average index for business prospects is 68 and throughout history the index has never been in the pessimism range of less than 50 - the current value of 70.9 nevertheless indicates a certain confidence.

**Spain**

The recovery in the manufacturing sector that had been emerging in Spain at the beginning of the year came to a temporary end in April. The HCOB PMI has fallen back below the 50 mark and the PMI production index is signaling only a marginal increase.

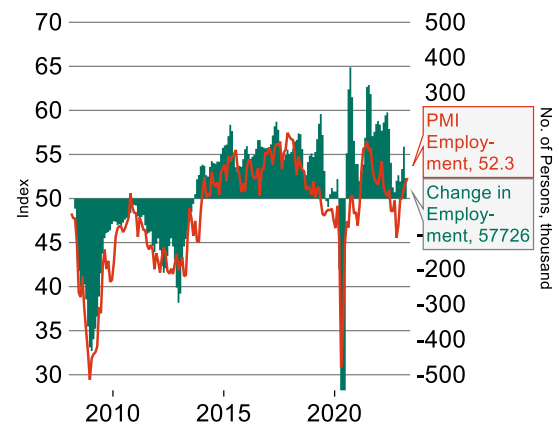
**HCOB Spain Manufacturing PMI, Headline and Output Index (Apr 2023)**



Source: Macrobond, HCOB Economics, S&P Global

New orders have declined according to the HCOB PMI survey and this also applies to orders from abroad. The slowdown in demand is also confirmed by the lower purchases of inputs and the slightly accelerated buildup of inventories of finished goods.

**HCOB Spain Manufacturing PMI Employment Index (Apr 2023) & Employment Change**



Source: Macrobond, HCOB Economics, Spanish Ministry of Labor, Migration & Social Security, S&P Global

Not everything is bad in Spain's manufacturing sector. For example, according to Eurostat, order backlogs are still at a historically high level with a range of 5.4 months, which justifies the expectation that output will remain stable. This is also supported by the fact that, according to the HCOB PMI survey, companies

are continuing to hire staff, even more than in the previous month.

Companies also benefited from lower input prices for the second month in a row in April, as the corresponding PMI component shows. As output prices fell only slightly, companies may have widened their profit margins somewhat.

While the decline in delivery times must be seen as an indication of lower demand, it also means that supply chains are once again operating more smoothly and thus at a lower cost.

Overall, it should be noted that the weak momentum already seen in Spanish manufacturing since the beginning of 2021 is continuing. However, an increase in employment and historically high order backlogs are indications that there should at least not be a recession in this sector in the short term.



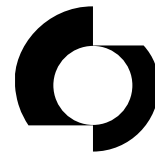
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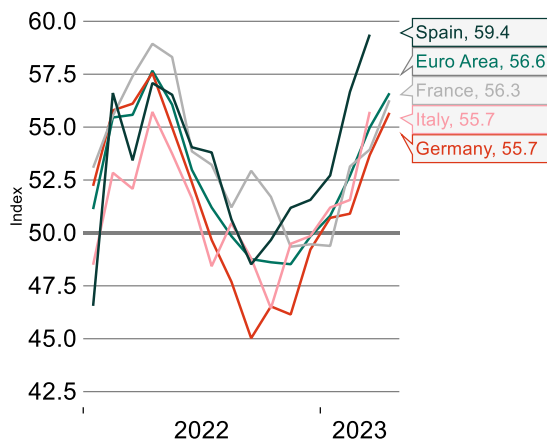
**THE PULSE OF THE EUROZONE: HCOB PMI – SERVICES**

# Eurozone: Tourism in Southern Europe drives growth in services

The service sector in the euro zone is starting the second quarter with robust figures, according to the HCOB PMI for the four major euro countries. Dynamic growth can particularly be observed in Italy and Spain. Unfortunately, this is also leaving its mark on the price data.

Italy and Spain are currently the driving forces behind service sector growth in the euro zone. This is shown by the corresponding HCOB PMI indices in April, which also signal expansion in Germany and France, but show particular strength in the two southern European countries.

**HCOB Services PMI Business Activity Index (Apr 2023)**

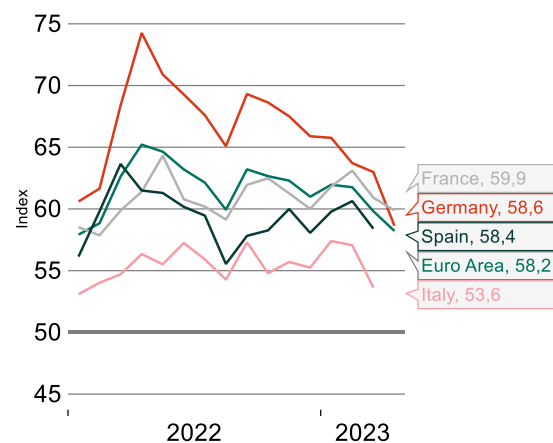


Source: Macrobond, HCOB Economics, S&P Global

This is probably due to the greater importance of tourism in these countries, as they are in a position to benefit more than average from the general travel boom.

The services sector is in robust shape throughout the euro area, which is also reflected in the fact that companies are able to pass on at least some of the inflation in intermediate inputs to consumers. This is shown by the HCOB PMI purchase price and selling price indices, which are well beyond the expansion threshold and have recently barely eased from these high levels.

**HCOB Services PMI, Output Prices Index (Apr 2023)**



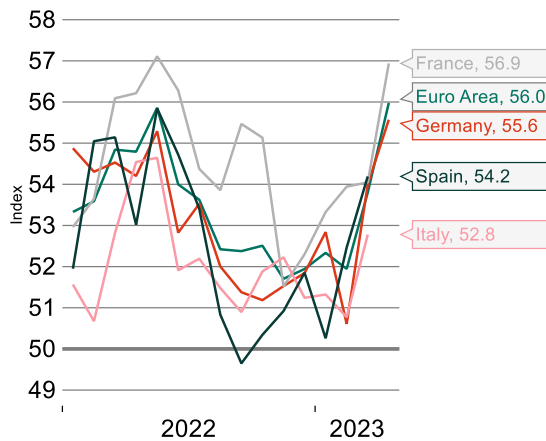
Source: Macrobond, HCOB Economics, S&P Global

Companies' confidence is reflected not only in the high index values for business expectations, but also in the fact that, according to the PMI survey, firms have increased their headcount more than in the previous month. This is also matched by the fact that new business has increased at an accelerated rate, across all four major euro countries.

However, one fly in the ointment that cannot be completely ignored is that the order backlog in the euro zone grew at a weaker pace, almost stagnating in Germany and falling slightly in Italy. Across all HCOB PMI indicators, however, everything suggests that growth in the eurozone

services sector will continue in the next months.

### HCOB Services PMI, Employment Index (Apr 2023)



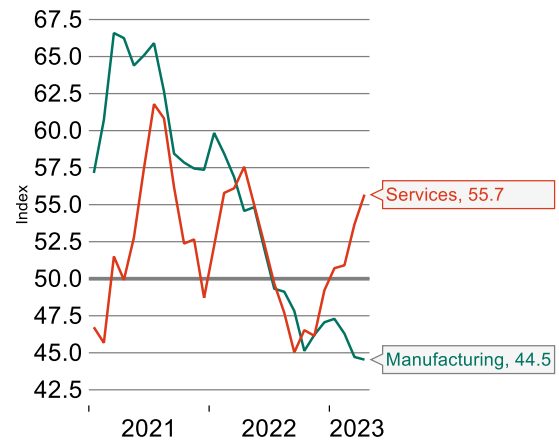
Source: Macrobond, HCOB Economics, S&P Global

### Germany: Surprisingly robust

How much longer can Germany's services sector decouple itself from the weak performance of industry? This question arises in view of the HCOB services PMI, which signaled accelerated growth in April with an increase of more than two points to 56, while the HCOB purchasing managers' index for manufacturing continued to fall.

The last time there was such a significant discrepancy between services and manufacturing - as measured by the PMI indicators - was at the beginning of 2021, when a large proportion of services were simply no longer allowed to be offered due to lockdowns. In this respect, part of the encouraging development here is probably still attributable to covid catch-up effects, for example in the tourism and hospitality sectors.

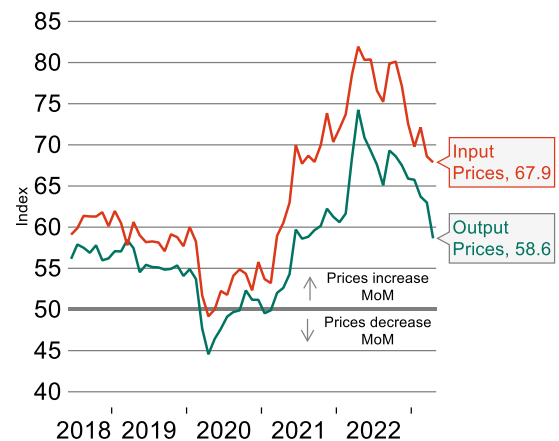
### HCOB Germany PMI, Manufacturing vs. Services (Apr 2023)



Source: Macrobond, HCOB Economics, S&P Global

Looking for signs of a slowdown in the services sector, which is what one would expect given the weakening industry, we can point to some PMI subcomponents, such as the stagnating order backlog index, a less-than-optimistic view forward, and weakening sales price inflation.

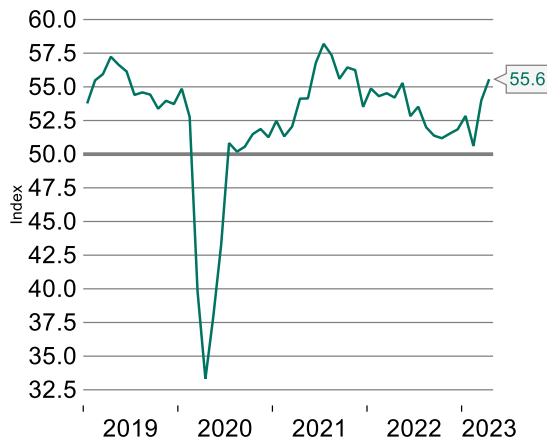
### HCOB Germany Services PMI, Price Indexes (Apr 2023)



Source: Macrobond, HCOB Economics, S&P Global

Other important indicators again suggest a continuation of the robust growth. These include the fact that more new orders were received than in the previous month and companies are increasingly hiring staff.

### HCOB Germany Services PMI, Employment (Apr 2023)



Source: Macrobond, HCOB Economics, S&P Global

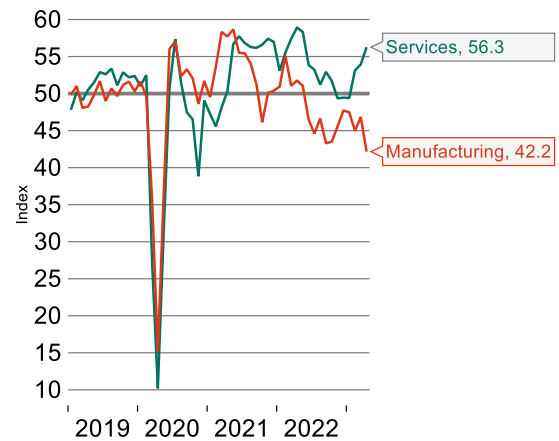
Against this backdrop, it is not surprising that these industry players are still in a position to raise their prices - which they are doing simply because their input prices have continued to rise sharply. Many respondents also reported that they are taking higher labor costs into account in their quotation prices.

### France: Prices continue to rise

According to the HCOB Business Activity PMI, France's service sector is off to a positive start in the second quarter. The higher activity is likely to be sustainable as it is supported by robust demand at home and abroad.

This sector is consequently the driving force behind growth in the economy as a whole, as production in the manufacturing sector has declined significantly according to the PMI survey.

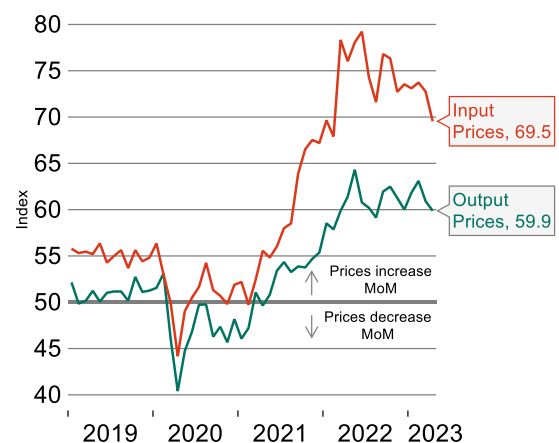
### HCOB France Output PMIs, Services vs. Manufacturing (Apr 2023)



Source: Macrobond, HCOB Economics, S&P Global

The HCOB Prices PMIs for purchasing and for selling prices are both still at historically high levels. Against the backdrop of continued high inflation, this is unwelcome news, as the inflation rate in France is increasingly driven by core inflation, which is dominated by the services sector, among others. Although this has fallen recently, the price indexes reveal that services inflation could remain at the level or even rise for the time being.

### HCOB France Services PMI, Price Indexes (Apr 2023)

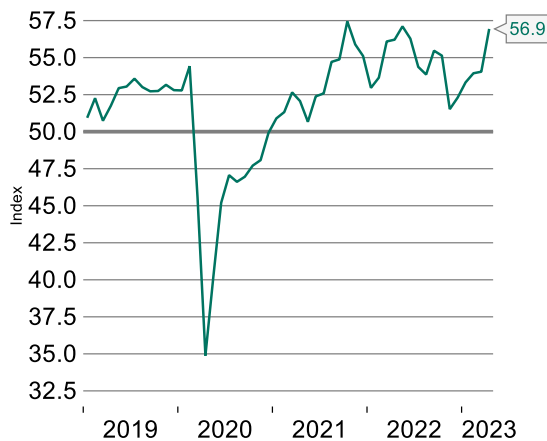


Source: Macrobond, HCOB Economics, S&P Global

The employment situation in the service sector improved again in April. In view of the historically low unemployment rate, which currently stands at 7%, the lowest rate since

2008, it stands to reason that the unemployment rate will also fall in the second quarter. Should this occur, the unemployment rate would be at its lowest level in 40 years.

#### HCOB France Services PMI, Employment (Apr 2023)



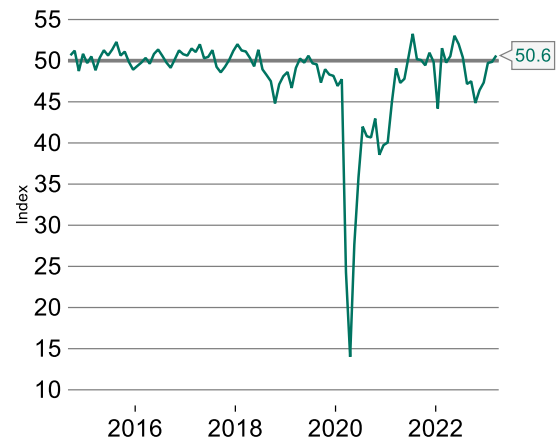
Source: Macrobond, HCOB Economics, S&P Global

#### Italy: Tourism helps

The services sector in Italy seems to be gaining in robustness and this is likely to be related to tourism, which has started the year with extraordinary growth rates according to the statistics authority. The April values for the HCOB PMI support this perception, as there was an increase of almost two points compared to the previous month to currently 57.6 points.

In particular, foreign demand for Italian services increased considerably compared with the previous month.

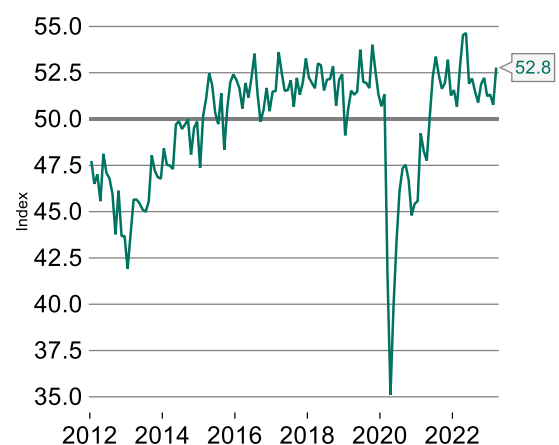
#### HCOB Italy Services PMI, New Export Orders (Mar 2023)



Source: Macrobond, HCOB Economics, S&P Global

In addition, the solid employment situation overall reflects the positive sentiment in the services sector, as the companies surveyed in the HCOB PMIs are looking at solid new business and their business expectations have improved again. Everything points to a strong second quarter in this sector. This was also confirmed by the ISTAT Consumer Confidence Index for the main services (tourism, transport and communications) in the month of April.

#### HCOB Italy Services PMI, Employment (Mar 2023)

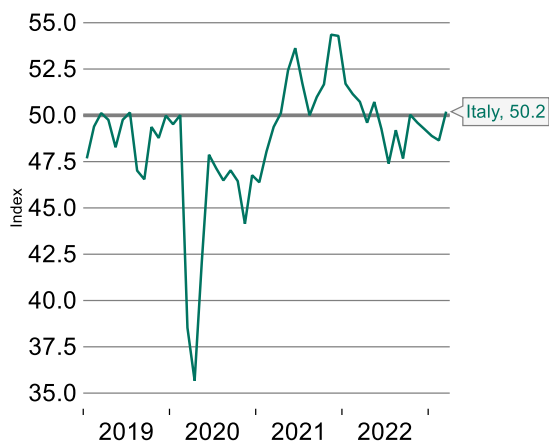


Source: Macrobond, HCOB Economics, S&P Global

However, the HCOB PMI for Italy's services sector also has less encouraging news to tell. This is because the backlog in order processing has slipped just below 50. In

addition, companies are again having to contend with rising costs, as input prices have risen more sharply again compared with March.

### HCOB Italy Services PMI, Backlogs of Work (Mar 2023)

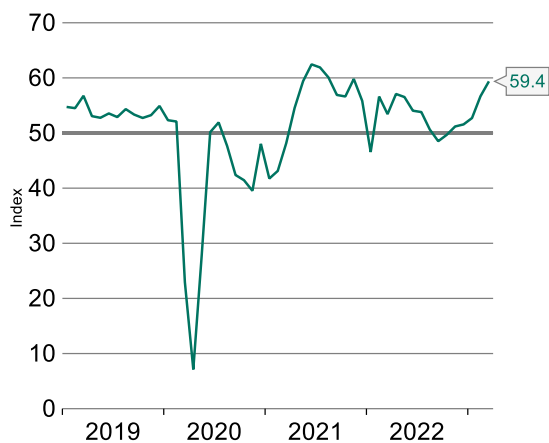


Source: Macrobond, HCOB Economics, S&P Global

### Spain: Hotel bookings rise sharply

The services sector in Spain remains in robust shape. economic activity, as measured by the HCOB PMI, grew somewhat less dynamically in April than in the previous month. Most other PMIs, such as new orders, business expectations, sales prices and employment, all increased, suggesting an excellent demand situation.

### HCOB Spain Services PMI, Business Activity (Mar 2023)

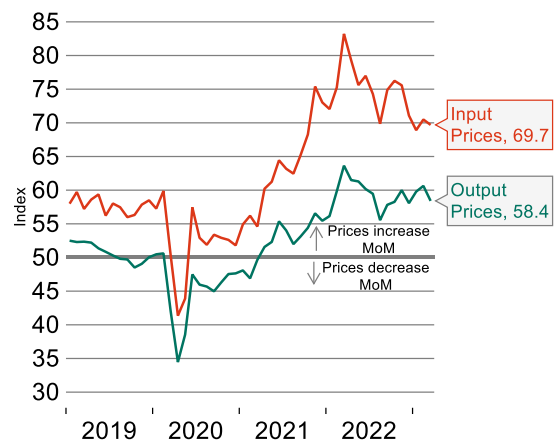


Source: Macrobond, HCOB Economics, S&P Global

In Spain, tourism plays a crucial role for the services sector. In this respect, it is positive news that, according to the statistics authority, the number of visitors to hotels increased by 17% in March compared with the same month last year. Therefore, we believe it is likely that tourists, who have a lot of catching up to do after the covid restrictions of previous years, have contributed significantly to the business satisfaction reflected in the HCOB PMI survey results.

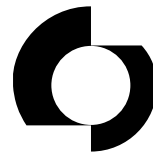
It is noteworthy that both the intermediate input price index and the selling price index show higher values. On the one hand, this contrasts with developments in Germany and France, where companies are facing somewhat less price pressure and at the same time have also been somewhat more restrained in raising their selling prices. On the other hand, this indicates that inflationary pressure in Spain - in April the core inflation rate was 6.7% - remains significant.

### HCOB Spain Services PMI, Price Indexes (Mar 2023)



Source: Macrobond, HCOB Economics, S&P Global

While the HCOB PMI is a good gauge of the state of the Spanish economy, many market observers will be keeping a close eye on the thermometer in particular. This is due to the heat and drought period that caused record temperatures in April. Depending on the extent



in following months, negative economic effects can be expected here, possibly also in tourism.



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