NEWS RELEASE
MARKET SENSITIVE INFORMATION
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HCOB Flash Germany PMI®

Momentum builds in German economy

Key findings:

HCOB Flash Germany Composite PMI Output Index(1) at 52.2 (Apr: 50.6). 12-month high.

HCOB Flash Germany Services PMI Business Activity Index(2) at 53.9 (Apr: 53.2). 11-month high.

HCOB Flash Germany Manufacturing PMI Output Index(4) at 48.9 (Apr: 45.4). 13-month high.

HCOB Flash Germany Manufacturing PMI(3) at 45.4 (Apr: 42.5). 4-month high.

Data were collected 10-21 May

Business activity rose in Germany for the second month running and at a faster rate in May, the latest HCOB 'flash' PMI® survey compiled by S&P Global showed. Alongside stronger growth in the service sector, manufacturing output moved closer to stabilisation. There was also a pick-up in hiring activity as firms reported stronger demand and greater optimism towards the outlook.

Price pressures meanwhile eased across the eurozone's largest economy mid-way through the second quarter. Businesses raised output prices at the slowest rate since the start of 2021 amid a cooling of input cost inflation.

After having breached the 50.0 no-change threshold for the first time in ten months in April, the headline **HCOB Flash Germany Composite PMI Output Index** climbed further and registered its highest reading for a year in May. At 52.2, up from 50.6, it indicated a moderate rate of expansion in private sector business activity. Growth continued to be driven by the service sector, which saw business activity rise for the third month running and at the quickest rate since June last year. The drag from the manufacturing sector meanwhile eased notably mid-way through the second quarter, with the decline in factory output slowing sharply to the weakest in the current 13-month sequence of contraction.

May saw total **inflows of new business** rise for the first time in just over a year, in a sign of strengthening underlying demand. Growth was led by a solid and accelerated increase in new work across the service sector, which was partly buoyed by a first – albeit marginal – rise in new business from abroad for 12 months. Although manufacturing new orders remained in contraction territory, the rate of decline was the weakest observed for two years as factory export sales came close to stabilising.

Latest survey data meanwhile showed a pick-up in job creation in Germany. May's increase in **employment**, which was broadly in line with the historical series average, owed exclusively to the service sector, with manufacturing workforce numbers declining at a solid rate that was little-changed from the previous month. Factory job losses partly reflected spare capacity among goods producers, who recorded another sharp reduction in **backlogs of work**. The volume of outstanding business at services firms meanwhile fell marginally, after having risen in April for the first time in 11 months.

Business expectations towards activity in the year ahead improved considerably in May. This was due to stronger optimism among both service providers and manufacturers, with the former remaining the more upbeat about the outlook. Sentiment in both sectors was in fact the highest since February 2022. Hopes of lower interest rates and an associated recovery in investment were key factors behind the upturn in growth expectations, reports from surveyed companies suggested.

Turning to prices, May's flash survey showed a cooling of inflationary pressures across Germany. **Average output prices** rose at a modest rate that was the slowest rate for over three years and below the long-run trend. There remained a dichotomy between rising service sector output prices and falling factory gate charges, although the former recorded its slowest rate of inflation since May 2021. Trends in output prices mirrored those of underling costs, with operating expenses in the services sector rising at the softest rate for three years (although still strongly by pre-pandemic standards) and manufacturers facing a further drop in purchase prices. Measured overall, input cost inflation was at a six-month low in May.

Comment

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

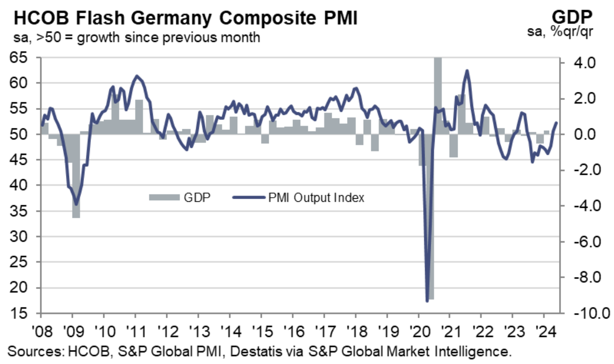
"These numbers offer hope. The manufacturing output index has reached its highest level in 13 months in May, while the recovery in the services sector has gained momentum. Consequently, the composite PMI now signals solid growth. Our GDP Nowcast estimates a 0.3% GDP increase in the second quarter compared to the first quarter.

"This could be the turnaround in the manufacturing sector, as the output index has made a significant move towards expansionary territory. It's also encouraging that the index for new orders has made a substantial leap forward, driven by export orders. It seems likely that production will start growing again within two or three months.

"While the increase in the headline manufacturing PMI is positive, the accelerated downsizing of purchased and final goods stocks slightly dampens the outlook. However, this could indicate that companies were caught off guard by better-than-expected demand and had to rely more heavily on their existing inventory.

"Those predicting a prolonged weakness in the German economy might be proven wrong soon. The service sector, in particular, showed robust growth in May, expanding for three consecutive months. There's more reason for optimism as it's not just output that's improving, but also new business and demand from abroad, which includes tourism. Additionally, companies are increasingly bullish about future activity, underlined by the much more solid hiring pace."

-Ends-



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Note to Editors

Final May data are published on 3 June for manufacturing and 5 June for services and composite indicators.

The HCOB Germany PMI® (Purchasing Managers' Index™) is produced by S&P Global and is based on original survey data collected from a representative panel of around 800 companies based in the German manufacturing and service sectors. The flash estimate is based on around 85% of total PMI survey responses each month and is designed to provide an accurate advance indication of the final PMI data.

The average differences between the flash and final PMI index values (final minus flash) since comparisons were first available in January 2006 are as follows (differences in absolute terms provide the better indication of true variation while average differences provide a better indication of any bias):

Index	Average difference	Average difference in absolute terms
Composite Output Index[1]	0.0	0.4
Manufacturing PMI[3]	0.0	0.3
Services Business Activity Index[2]	-0.1	0.6

The Purchasing Managers' Index (PMI) survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries (including the European Central Bank) use the data to help make interest rate decisions. PMI® surveys are the first indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

S&P Global do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from S&P Global. Please contact economics@spglobal.com.

Notes

1. The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index.
2. The Services Business Activity Index is the direct equivalent of the Manufacturing Output Index, based on the survey question “Is the level of business activity at your company higher, the same or lower than one month ago?”
3. The Manufacturing PMI is a composite index based on a weighted combination of the following five survey variables (weights shown in brackets): new orders (0.3); output (0.25); employment (0.2); suppliers’ delivery times (0.15); stocks of materials purchased (0.1). The delivery times index is inverted.
4. The Manufacturing Output Index is based on the survey question “Is the level of production/output at your company higher, the same or lower than one month ago?”

Hamburg Commercial Bank AG
Hamburg Commercial Bank (HCOB) is a private commercial bank and specialist financier headquartered in Hamburg, Germany. The bank offers its clients a high level of structuring expertise in the financing of commercial real estate projects with a focus on Germany as well as neighboring European countries. It also has a strong market position in international shipping. The bank is one of the pioneers in European-wide project financing for renewable energies and is also involved in the expansion of digital and other areas of important infrastructure. HCOB offers individual financing solutions for international corporate clients as well as a focused corporate client business in Germany. The bank's portfolio is completed by digital products and services facilitating reliable, timely domestic and international payment transactions as well as for trade finance.

Hamburg Commercial Bank aligns its activities with established ESG (Environment, Social, and Governance) criteria and has anchored sustainability aspects in its business model. It supports its clients in their transition to a more sustainable future.

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We are widely sought after by many of the world's leading organizations to provide credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help the world's leading organizations plan for tomorrow, today.

About PMI
Purchasing Managers' Index™ (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. https://www.spglobal.com/marketintelligence/en/mi/products/pmi.html

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