

NEWS RELEASE
MARKET SENSITIVE INFORMATION
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HCOB Flash Germany PMI[®]

German economy loses momentum in June as businesses face deteriorating demand conditions

Key findings:

HCOB Flash Germany Composite PMI Output Index⁽¹⁾ at 50.8 (May: 53.9). 4-month low.

HCOB Flash Germany Services PMI Business Activity Index⁽²⁾ at 54.1 (May: 57.2). 3-month low.

HCOB Flash Germany Manufacturing PMI Output Index⁽⁴⁾ at 44.2 (May: 47.4). 8-month low.

HCOB Flash Germany Manufacturing PMI⁽³⁾ at 41.0 (May: 43.2). 37-month low.

Data were collected 12-21 June

The German economy lost considerable momentum at the end of the second quarter, according to the latest 'flash' PMI[®] survey from HCOB, with deteriorating demand conditions leading to a notable slowdown in business activity growth. Company expectations meanwhile slumped to a six-month low, whilst the rate of job creation also ticked down.

Elsewhere, inflationary pressures continued to ease during June, with manufacturers recording the first decrease in output prices for over two-and-a-half years. Service sector costs and selling prices continued to rise sharply, driven in part by higher wages and increasing interest rates, albeit with the rates of inflation slowing down.

The headline **HCOB Flash Germany Composite PMI Output Index** posted a notable decline in June, dropping from May's 53.9 to 50.8. Although still above the 50.0 threshold that separates growth from contraction, the latest reading signalled a sharp slowdown in the rate of expansion to a four-month low. This reflected a combination of a slower rise in service sector business activity (index down from 57.2 in May to 54.1) and a deepening downturn in manufacturing output (index down from 47.4 to 44.2).

Businesses reported a worsening of demand conditions at the end of the second quarter. This was underscored by a second straight monthly reduction in **total inflows of new work**, with rate of decline quickening to the fastest since last December. Weakness remained centred on the manufacturing sector, where order books fell at the sharpest pace for eight months amid reports of customer hesitancy and destocking. Service sector new business continued to rise during June, but the rate of growth slowed to only a modest pace that was the weakest since February in line with reports from a number of firms of rising prices and higher interest rates dampening demand.

Backlogs of work across Germany's private sector fell at a faster rate in June, with firms increasingly relying on their outstanding business to support activity levels. The rate of depletion was the quickest since November last year, reflecting a deepening decline in work-in-hand at manufacturers and a first (albeit marginal) decrease in service sector backlogs for five months.

Whilst **employment** continued to rise during June, and at a rate that was above its long-run trend, job creation slowed to a three-month low and was increasingly uneven across the two monitored sectors. Factory workforce growth came close to stalling, with manufacturers registering only a fractional rise in employment that was the smallest seen for almost two-and-a-half years. This contrasted a further robust increase in service sector staffing levels, with the rate of growth even accelerating slightly as firms reported filling open vacancies.

June's flash survey showed divergent trends in **costs** and **prices** between the two monitored sectors. Manufacturing output charges fell for the first time since September 2020, with firms commenting on the influence of growing competitive pressures

and a sustained reduction in purchasing costs. Service sector costs and selling prices, by contrast, continued to rise steeply by historical standards. However, the rates of inflation eased, leading to the slowest increases in overall input costs and output prices for 31 and 28 months respectively.

Lastly, latest data showed a further weakening of **business confidence** towards the year-ahead outlook, with expectations falling for the fourth month running to their lowest in 2023 so far. Pessimism grew in the manufacturing sector, where firms voiced concerns about a sustained downturn in new orders and a broader economic slowdown. Sentiment amongst services firms, although still positive overall, was the weakest for six months.

Comment

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

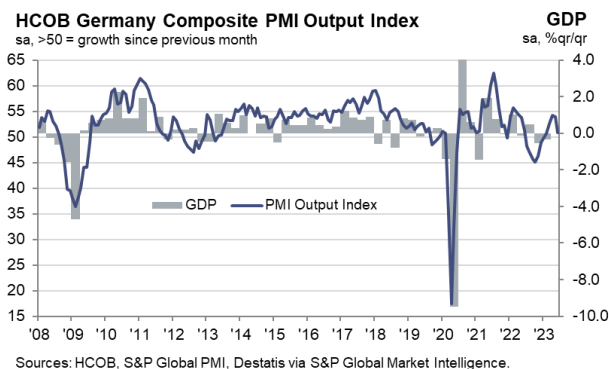
"In manufacturing, all signs point to a contraction in the second quarter, while a slowdown in growth is evident in the services sector."

"In the goods-producing sector, the HCOB PMI output index signalled an even sharper decline in June than in May. At the same time, the index of factory new orders, which was already declining, fell again. According to Destatis, the range of the order backlog fell from a high level to 7.3 months in April, a trend that is likely to continue. Production is therefore expected to decline in the coming months, but because of the still robust order backlog, we do not expect an abrupt slump."

"The German economy is supported by the services sector, which according to the HCOB PMI expanded quite strongly throughout the second quarter, although the pace of growth slowed somewhat in June. Service providers continue to face relatively strong input prices increases, but they are also able to pass on much of the higher costs to customers, another sign of their strength."

"The overall good condition of the service sector is also underscored by the fact that companies actually increased their staff slightly more than in the previous month. It is noticeable, however, that the export business of service providers, which includes tourism, has weakened, after this area had been assessed quite positively in recent months."

-Ends-



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Note to Editors

Final June data are published on 3 July for manufacturing and 5 July 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@ihsmarkit.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.

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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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