

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

Service sector shows a substantial loss of momentum at start of third quarter, while price pressures remain stubbornly high

Key findings:

Back-to-back falls sees Business Activity Index slip to five-month low

Slowdown stems from reduced demand for services

Output price inflation ticks up from June's 21-month low

Data were collected 12-26 July.

The German service sector saw a further loss of momentum at the start of the third quarter as business activity growth slowed notably for a second straight month, the latest HCOB PMI[®] survey compiled by S&P Global showed. The slowdown stemmed from a drop in demand, with inflows of new business falling for the first time in six months. Business expectations meanwhile deteriorated, which in turn contributed to a marked slowdown in job creation.

On the price front, there was a pause in the recent easing trend in service sector inflationary pressures. Driven by growing wage demands, firms' input cost rose at a sharp rate that was little-changed from June, while output price inflation picked up slightly.

The headline **HCOB Germany Services PMI[®] Business Activity Index** fell for the second month running in July, signalling a sustained slowdown in the rate of growth. At 52.3, down from June's 54.1, the headline index indicated the weakest rise in activity since February. Furthermore, expansion in activity was confined to the Financial Intermediation and Renting & Business Activity sub-sectors.

Placing the brakes on growth was a decrease in demand for services, the latest survey data showed. A five-month sequence of rising new business came to an end in July as firms noted a marked drop in the volume of new work received from clients. Squeezed budgets, an uncertain economic outlook and tighter financial conditions were all cited as factors behind the reduction. Data indicated an increased drag from declining inflows of new business from abroad, which fell for the second month running and at the steepest rate since December 2020.

Service sector companies increasingly relied on backlogs of work to support activity levels during July. The rate at which they depleted outstanding business accelerated notably from the month before to the quickest since September 2022.

In July, services firms were no longer optimistic about the year-ahead outlook for activity. Expectations fell considerably and for the fifth month in a row, leaving them at their lowest since November last year. Sentiment was 'neutral' as the number of firms anticipating a rise in activity over the next 12 months equalled those forecasting a decline. High inflation, increasing interest rates and uncertainty were among the factors expected to weigh on economic conditions.

Whilst services firms continued to add to workforce numbers during July, thereby stretching the current sequence of employment growth to more than three years, the pace of job creation slowed sharply. Staffing levels rose only modestly on the month, after having grown strongly throughout the second quarter of the year.

Turning to prices, July's survey showed stubbornly high inflationary pressures across the service sector. The rate of increase in input costs had slowed in each of the previous four months, reaching its lowest in just over two years in June, but in July it edged up fractionally and stayed firmly above its long-run average. Firms that reported an increase in operating expenses often linked this to higher wages.

Output price inflation likewise remained elevated at the start of the third quarter and even ticked up slightly from June's recent low. Around 24% of surveyed firms reported an increase in prices charged, although this was down from a record high of 46% in April last year.

Comment

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

"There is some fear among services companies that employees might be twiddling their thumbs soon, as incoming business deteriorated considerably in July. This corresponds to a plunge in new export business and a drop in backlogs of work. Firms have reacted by hiring new staff at a much slower pace than they did in previous months. We expect employment growth to come to a halt over the next few months, though companies will stop short of axing jobs on a great scale."

"Currently, activity in the service sector is still benefitting from the good dynamics of the first half of the year. However, growth is clearly petering out on the back of recessionary trends in the manufacturing sector. The risk of the whole economy falling into a recession in the second half of the year has clearly increased."

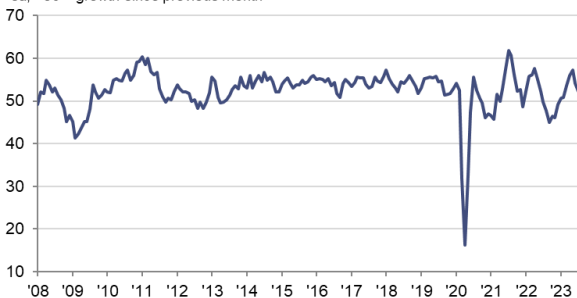
"Optimism is dwindling fast, with services companies no longer expecting activity to be higher in twelve months from now."

"While manufacturers are enjoying the fastest cuts in input prices in more than a decade, services companies are still faced with rapidly increasing costs. Fortunately for them, they are still able to pass at least part of the burden of higher costs through to customers. The ECB obviously has a different perspective and will be worried to see these numbers. They are all the more problematic as Germany's services output price inflation even went back up in July, according to the PMI survey, putting the effectiveness of the tough monetary stance into question."

-Ends-

HCOB Germany Services PMI Business Activity Index

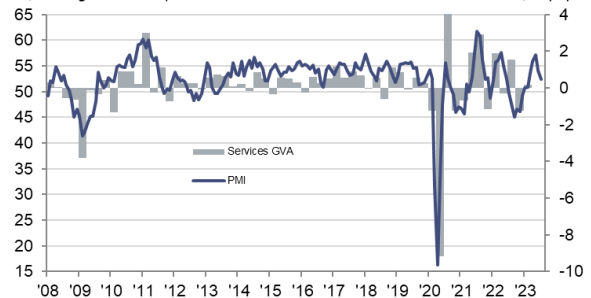
sa, >50 = growth since previous month



Sources: HCOB, S&P Global PMI.

Services PMI Business Activity Index

sa, >50 = growth since previous month



Sources: HCOB, S&P Global PMI, Statistisches Bundesamt via S&P Global Market Intelligence.

HCOB Germany Composite PMI[®]

Private sector slips back into contraction territory in July

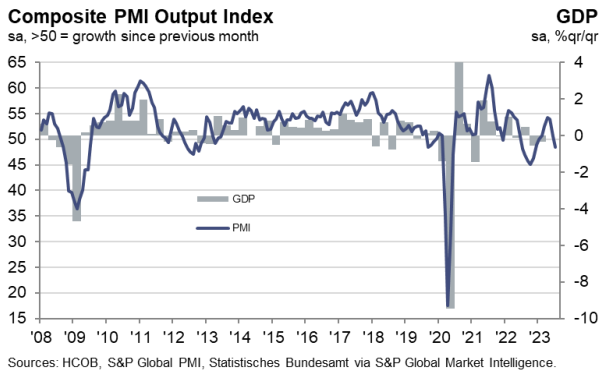
After signalling a five-month sequence of growth, the **HCOB Germany Composite PMI Output Index** moved back into sub-50 contraction territory in July, registering 48.5 from June's 50.6. This reflected a combination of a slower rise in services activity and a deeper decline in manufacturing production.

The about-turn in activity reflected a general weakening of demand for goods and services, which included a broad-based reduction in new business from abroad.

Business expectations meanwhile turned pessimistic, as a deterioration in services confidence was accompanied by growing pessimism in manufacturing.

On the jobs front, employment growth came close to stalling and was confined to the service sector.

Rates of input cost and output charge inflation slowed amid an increased drag from falling manufacturing prices. That said, output charge inflation remained above its long-run average due to further steep hikes in prices set by services firms.



Contact

Hamburg Commercial Bank AG

Dr. Cyrus de la Rubia
Chief Economist
T: +49-160-9018-0792
cyrus.delarubia@hcob-bank.com

Katrin Steinbacher
Head of Press Office
Senior Vice President
T: +49-40-3333-11130
katrin.steinbacher@hcob-bank.com

S&P Global Market Intelligence

Phil Smith
Economics Associate Director
T: +44-149-146-1009
phil.smith@spglobal.com

Sabrina Mayeen
Corporate Communications
T: +44-796-744-7030
sabrina.mayeen@spglobal.com

Note to Editors

The HCOB Germany Services PMI[®] is compiled by S&P Global from responses to questionnaires sent to a panel of around 400 service sector companies. The sectors covered include consumer (excluding retail), transport, information, communication, finance, insurance, real estate and business services. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP. Data collection began in June 1997.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Services Business Activity Index. This is a diffusion index calculated from a question that asks for changes in the volume of business activity compared with one month previously. The Services Business Activity Index is comparable to the Manufacturing Output Index. It may be referred to as the 'Services PMI' but is not comparable with the headline manufacturing PMI figure.

The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index. The weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Composite Output Index may be referred to as the 'Composite PMI' but is not comparable with the headline manufacturing PMI figure.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

Flash services data were calculated from 87% of final responses. Flash composite data were calculated from 91% of final responses. Since January 2006 the average difference between final and flash Services Business Activity Index values is -0.1 (0.6 in absolute terms). Since January 2006 the average difference between final and flash Composite Output Index values is 0.0 (0.4 in absolute terms).

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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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The BME is the German Association for Supply Chain Management, Procurement and Logistics. Founded in 1954 it provides services for around 9750 individual and corporate members, including small and medium-sized businesses as well as Germany's top 200 companies. The BME liaises between businesses and academia, both on the demand and the supply side, by providing the necessary networks for communication and knowledge exchange. The association is open to all company types from any sector (industry, trade, banking/insurance, public sector, service providers, etc.).

Bundesverband Materialwirtschaft, Einkauf und Logistik e.V. (BME), Frankfurter Str. 27, 65760 Eschborn, GERMANY.

Contact: Frank Rösch, Head of Press and Communications, frank.roesch@bme.de, www.bme.de.

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. www.spglobal.com/marketintelligence/en/mi/products/pmi.html.

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