NEWS RELEASE
MARKET SENSITIVE INFORMATION
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HCOB Flash Germany PMI®

Struggling manufacturing sector weighs on German economy at start of Q3

Key findings:

HCOB Flash Germany Composite PMI Output Index(1) at 48.7 (June: 50.4). 4-month low.

HCOB Flash Germany Services PMI Business Activity Index(2) at 52.0 (June: 53.1). 4-month low.

HCOB Flash Germany Manufacturing PMI Output Index(4) at 42.2 (June: 45.1). 9-month low.

HCOB Flash Germany Manufacturing PMI(3) at 42.6 (June: 43.5). 3-month low.

Data were collected 11-22 July

Germany's private sector economy slipped back into contraction at the start of the third quarter, weighed down by a worsening performance across the country's manufacturing sector, the latest HCOB 'flash' PMI® survey compiled by S&P Global showed. There was also a further weakening of the labour market amid a broad-based decrease in employment.

On the inflation front, latest data showed a softening of the rate of increase in service sector output prices to the weakest since April 2021. Input costs and output prices in manufacturing meanwhile continued to fall, but at slower rates.

July saw the headline **HCOB Flash Germany Composite PMI Output Index** move below the 50.0 no-change threshold for the first time in four months. At 48.7, down from June's 50.4, the latest reading signalled a modest rate of decline in private sector business activity. The return to contraction reflected a combination of a deeper decline in manufacturing production and slower growth of services business activity. Factory output levels fell sharply and at the quickest rate for nine months (index at 42.2), while growth of services activity eased to a modest pace that was the weakest since March and just below the long-run average (index at 52.0).

Total inflows of **new business** meanwhile fell across Germany's private sector for the second month in a row in July. Again, the decline owed exclusively to weakness in manufacturing new orders, which registered the steepest rate of contraction for three months. Service sector new business rose for the fourth month in a row, although the rate of growth was the weakest in this sequence amid a renewed decline in new work from non-domestic customers.

Backlogs of work continued falling across both sectors during July. Furthermore, the extent to which overall outstanding business decreased was the most marked since February as rates of depletion accelerated in both monitored sectors. With firms completing orders at a faster rate than they received them, staffing capacity was scaled back for the second month in a row. The decline in **employment** continued to be led by the manufacturing sector, where workforce numbers posted the steepest drop since March, but July also saw services firms join their goods-producing counterparts in cutting staffing levels to end a six-month sequence of job creation in the sector. The overall decrease in employment was the steepest seen since August 2020.

Turning to prices, July's flash data showed a modest uptick in the rate of **input cost inflation** to a three-month high. Operating expenses in the service sector increased at a slightly quicker pace, while the drag from falling manufacturing purchasing costs eased as the rate of decline slowed for the seventh time in the past eight months to the weakest for a year-and-a-half. Nevertheless, the overall rate of cost inflation remained just below its long-run average.

Average prices charged by businesses in Germany also increased at a pace that was slightly below the historical series trend. Unlike costs, the rate of inflation ticked down since June, reflecting the slowest rise in service sector output prices for more than three years. Factory gate charges continued falling at the start of the third quarter, but the rate of decline was the weakest since January and slower than the average over the current 14-month sequence of discounting.

Lastly, July's flash data showed a slight improvement in **business expectations** from the month before, with the degree of optimism broadly in line with the historical series average. The increase in overall sentiment was driven by a rebound in services confidence, with manufacturing growth expectations moderating to a four-month low.

Comment

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

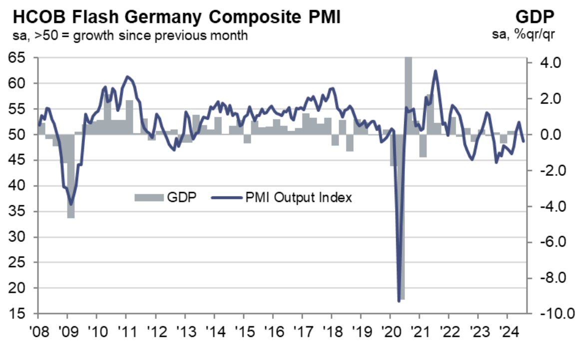
"This looks like a serious problem. Germany's economy fell back into contraction territory, dragged down by a steep and dramatic fall in manufacturing output. The hope that this sector could benefit from a better global economic climate is vanishing into thin air. With the composite PMI now below 50, our GDP Nowcast predicts that economic output will shrink by 0.4% in the third quarter compared to the second quarter. While it is still early days and many data points are yet to come, the second half of the year is starting on a very weak note.

"Improvement is not in sight in the manufacturing sector as new orders fell at the quickest rate in three months. This aligns with the accelerated declines in the backlog of orders and the volume of purchased materials. The weakness in the manufacturing sector appears to be persistent, with a potential rebound not expected until at least the fall of this year.

"The elephant in the room is the various structural issues. With respect to the manufacturing sector, the main structural challenges include labour market shortages, an investment backlog in infrastructure, a lack of digitalization, and relatively high energy prices. However, the most significant factor impacting the German manufacturing sector is the increasing loss of global market share of German car and machinery producers to competitors in China. Unfortunately, this problem is here to stay.

"Germany's economic downturn is somewhat buffered by a still-growing service sector. However, the situation there is far from comfortable. Firms have even cut jobs, and outstanding business declined faster than in the previous month. Moreover, it appears that the mini boom in tourism, which could be associated with the European football championships, was already over in July as new export business in services shrank."

-Ends-



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

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Note to Editors
Final July data are published on 1 August for manufacturing and 5 August 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.

The bank's specialists are as experienced as they are pragmatic. They act in a reliable manner and at eye level with their customers. They provide in-depth advice in order to jointly find efficient solutions that are a perfect fit – for complex projects in particular. Tailor-made financing, a high level of structuring and syndication expertise and many years of experience are just as much a hallmark of the bank as are our profound market and sector expertise.

S&P Global (NYSE: SPGI)

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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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