

NEWS RELEASE

MARKET SENSITIVE INFORMATION

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HCOB Flash Germany PMI[®]

German private sector remains in contraction in August

Key findings:

HCOB Flash Germany Composite PMI Output Index⁽¹⁾ at 48.5 (July: 49.1). 5-month low.

HCOB Flash Germany Services PMI Business Activity Index⁽²⁾ at 51.4 (July: 52.5). 5-month low.

HCOB Flash Germany Manufacturing PMI Output Index⁽⁴⁾ at 42.9 (July: 42.5). 2-month high.

HCOB Flash Germany Manufacturing PMI⁽³⁾ at 42.1 (July: 43.2). 5-month low.

Data were collected 12-20 August

Germany's private sector economy remained in contraction in August, with business activity falling for the second month running and at a slightly faster rate, the latest HCOB 'flash' PMI[®] survey compiled by S&P Global showed. Employment decreased at the fastest rate in four years as firms expressed less optimism towards growth prospects in the coming year.

As for prices, average charges for goods and services rose at the quickest rate for six months, albeit one that was still broadly in line with the long-run series average. Cost pressures in the service sector eased, while manufacturing purchase prices came close to stabilising after falling for a year-and-a-half.

The headline **HCOB Flash Germany Composite PMI Output Index** registered in sub-50 contraction territory for a second straight month in August. Its latest reading of 48.5 was down from 49.1 in July and thereby signalled a slight acceleration in the rate of contraction in business activity. Manufacturing production continued falling sharply midway through the third quarter, albeit at a fractional slower rate than the month before (index at 42.9). Growth of service sector business activity meanwhile eased for the third month running to only a modest pace that was the weakest since March (index at 51.4).

The worsening performance of the private sector owed to weaker underlying demand. **Total inflows of new work** fell for the third month running and to the greatest extent since February. Service sector new business barely rose in August, while goods producers noted the steepest reduction in new orders for nine months, amid reports of customer hesitancy and weakness in the construction sector. The drop in total new work partly reflected weaker demand from abroad, with services firms and manufacturers alike recording deeper declines in **new export business**.

The lack of incoming new orders saw **backlogs of work** continue falling across both sectors during August. Moreover, the overall rate of depletion was the quickest for six months, as a sharp and accelerated reduction in manufacturing work-in-hand more than offset a slightly slower decline in the service sector. The goods-producing sector also led another broad-based decrease in **employment** as firms looked to scale back staffing capacity. Overall workforce numbers fell for the third month running and at the fastest rate for four years.

German businesses were generally less optimistic towards growth prospects in the coming year, reflecting concerns for the economy as well as political and geopolitical uncertainty. **Expectations** fell to the lowest since January, with sentiment weakening in both monitored sectors.

On the price front, August's flash data indicated an acceleration in the rate of **output charge inflation** to the quickest since February. The result reflected the combination of a slightly faster rise in prices set by services firms and a reduced drag from falling factory gate charges, which decreased only marginally and at the weakest rate for 15 months. The overall rate of output price inflation was only just above its long-run trend since 2002, however.

Input costs, on the other hand, rose at a weaker rate on average across the private sector in August. This was driven by a

slowdown in services cost inflation to lowest since March 2021 (although it was still comfortably above its pre-pandemic average). Purchase prices in the manufacturing sector meanwhile came close to stabilising in August, registering only a fractional decrease that was the weakest in the current 19-month sequence of decline.

Comment

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

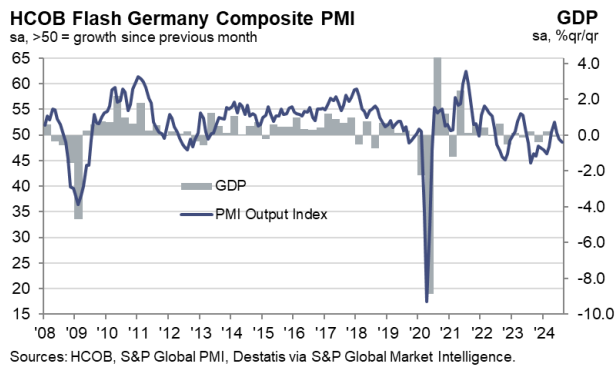
"These numbers are a real mess. The recession in Germany's manufacturing sector deepened in August, with no recovery in sight. In fact, new orders took a sharper dive than last month, mainly due to a significant drop in foreign demand, signalling more trouble ahead. Given this, it's hardly surprising that companies are ramping up staff cuts and slashing inventories of inputs even more aggressively than before."

"The struggles in manufacturing are starting to spill over into the otherwise steady services sector. For the third month in a row, services activity growth has slowed down. New business is barely growing, and backlogs declined once again. The export side of services, including tourism, isn't offering much support either, shrinking at an even faster rate than in July."

"The anticipated recovery in the second half of the year is failing to take shape. There were good reasons to be hopeful — lower inflation and higher wages seemed like the perfect recipe for increased consumption. Plus, global industry had started to bounce back, something Germany typically benefits from. But it appears that uncertainty around economic policy has put a damper on consumer spending, while the global manufacturing upswing turned sour before German companies could feel the boost. Instead, the odds of a second straight quarter of negative growth have gone up, meaning we might be back to talking about a recession in Germany soon."

"After such a prolonged slump that began in mid-2022, the renewed optimism among manufacturers seen earlier this year is fading fast. Manufacturers' expectations towards future output have now been below the long-term average for two consecutive months, mirroring the continuous decline in outstanding orders, which have been shrinking for an uninterrupted 27 months. The anticipated interest rate cuts by the ECB, expected by most analysts, might lift spirits a little, but it's clear that the overall mood remains poor."

-Ends-



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Note to Editors

Final August data are published on 2 September for manufacturing and 4 September 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.

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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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