

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

German service sector sees slight setback midway through Q3

Key findings:

HCOB Germany Services PMI Business Activity Index at 49.3 (Jul: 50.6). 3-month low.

HCOB Germany Composite PMI Output Index at 50.5 (Jul: 50.6). 2-month low.

Service sector hiring stalls despite resilient business expectations

Data were collected 12-26 August.

After showing a positive start to the third quarter, the German service sector saw a setback in August as business activity fell slightly from the month before, the latest HCOB PMI[®] survey showed. The result was seen alongside a renewed fall in intakes of new work as well as a stalling of hiring activity. Business expectations were nevertheless little-changed, with firms still slightly more optimistic about future growth prospects than the historical average.

As for prices, latest data showed an uptick in the rates of both input cost and output charge inflation, which had reached their lowest since early 2021 in July.

The headline HCOB Germany Services PMI[®] Business Activity Index is based on a single question asking how the level of business activity compares with the situation the month before. A reading above 50.0 signals expansion, and the further above 50.0 the faster the rate of growth signalled. At 49.3 in August, the headline index was down from 50.6 in July and therefore back below the neutral 50.0 threshold that separates growth from contraction. That said, the latest reading was indicative of only a marginal decrease in business activity.

Qualitative evidence gathered by the survey indicated a degree of demand fragility and lingering uncertainty among services firms' customers. This was further evidenced by a decrease in inflows of new work across the sector, which reversed the brief increase seen at the beginning of the third quarter. A solid and accelerated reduction in new business from abroad contributed to the weakening of overall demand.

As has been the case in each month since May last year, services companies in Germany recorded a reduction in outstanding business (i.e. the volume of orders or projects awaiting completion) during August. Moreover, the pace of depletion quickened to the fastest for three months. The lack of incoming new work saw service providers rein in their hiring activity. Employment levels broadly stagnated in August, bringing to an end a sequence of job creation seen since the start of the year.

Cost savings was one of the factors mentioned by those firms that reduced employment on the month. August saw firms' operating expenses rise at an accelerated rate, amid reports from a number of panel members of wage pressures. Coming off of a 53-month low in July, however, the rate of input cost inflation remained below its year-to-date average.

The rate of increase in output prices across the German service sector likewise ticked up in August, having reached its lowest since April 2021 the month before. Still, the pace of inflation was the second-lowest since October last year, but it nevertheless exceeded its long-run average.

Lastly, August's survey indicated virtually no change in service providers' expectations for activity over the coming year. The degree of confidence held close to July's six-month high, with optimists (around 30%) continuing to outnumber pessimists (16%). Improving economic conditions, new products and increased investment were some of the factors expected to drive business activity growth in the next 12 months, anecdotal evidence showed.

Comment

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

“Economic momentum remains sluggish. Over the summer months, overall growth was just marginally positive. Clearly, the German government has not yet succeeded in pulling the economy out of the slow lane. In fact, service sector firms slightly scaled back their business operations in August. The good news comes from manufacturing, where things have been running more smoothly for a few months now: production has increased for six straight months.

“The weakness in demand within the service sector is, according to surveyed companies, partly due to ongoing uncertainty among their clients. This aligns with the decline in incoming orders, including those from abroad. Despite lower business activity, service providers still feel confident enough to raise their prices. Compared to the previous month, price hikes were noticeably stronger. On the one hand, this reflects higher costs being passed on; on the other, some firms likely managed to slightly improve their profit margins in August. The relatively solid pricing power suggests that companies aren’t yet in a critical situation.

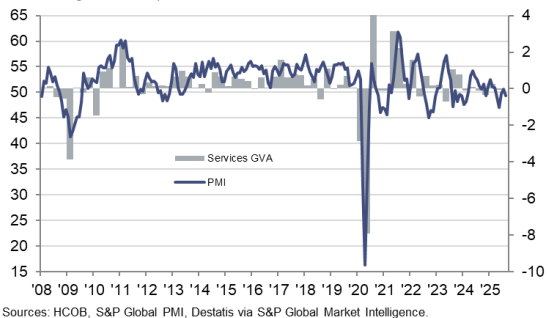
“The rise in costs faced by service firms is, according to some survey participants, linked to wages, which appear to be climbing sharply despite the weak economic backdrop. In fact, official statistics show that collectively bargained hourly wages rose by an average of 5% year-on-year in July. The shortage of skilled labour, driven by demographic trends, remains a persistent challenge, despite the economic slowdown and despite advances in artificial intelligence. Against this backdrop, the weak economic environment hasn’t yet led to significant layoffs in the service sector. Employment has instead remained flat recently.”

-Ends-

HCOB Germany Services PMI Business Activity Index
sa, >50 = growth since previous month



Services PMI Business Activity Index
sa, >50 = growth since previous month



HCOB Germany Composite PMI[®]

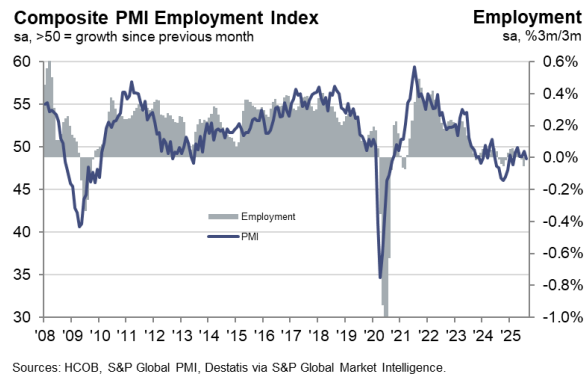
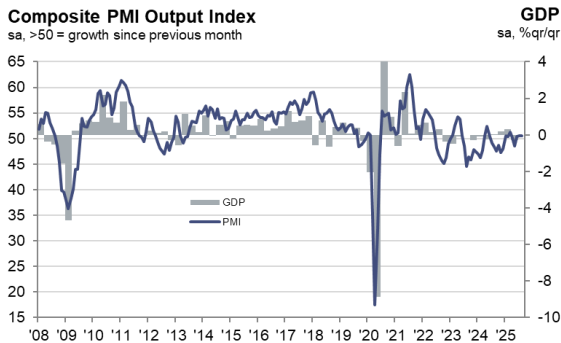
August sees another month of marginal business activity growth

The HCOB Germany Composite* PMI Output Index came in at 50.5 in August, little-changed from July's 50.6 and signalling a marginal rate of business activity growth for a third straight month.

The relatively consistent picture for overall output growth did however mask a divergence at the sector level, with a stronger increase in manufacturing production contrasting with a renewed decline in the service sector. This dichotomy also extended to new orders, which were down slightly on the month thanks to the drag from services.

Employment meanwhile fell at the quickest rate for six months, but in this case the decline was centred on manufacturing. The goods-producing sector also led a slight drop in business expectations, which slipped to a three-month low.

On the price front, overall inputs costs rose at the quickest rate since March. The rate of output charge inflation likewise ticked up, but it continued to run below its long-run average due to discounting in the manufacturing sector.



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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 84% of final responses. Flash composite data were calculated from 87% 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@spglobal.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.

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.

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

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