

NEWS RELEASE
MARKET SENSITIVE INFORMATION
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HCOB Germany Services PMI®

Service sector upturn loses momentum at start of third quarter

Key findings:

HCOB Germany Services PMI Business Activity Index at 52.5 (Jun: 53.1). 4-month low.

HCOB Germany Composite PMI Output Index at 49.1 (Jun: 50.4). 4-month low.

Output prices rise at slowest rate since April 2021

Data were collected 11-26 July.

Business activity growth eased for the second month running across the German service sector in July, the latest HCOB PMI® survey showed. The loss of momentum contributed to the first decrease in employment in the sector so far this year. Business expectations nevertheless improved slightly, albeit only partially reversing the previous month's notable decrease.

On the inflation front, average prices charged by services firms registered the slowest rate of increase since April 2021, though one that was still elevated by pre-pandemic standards. Cost inflation meanwhile ticked up slightly, after having been at its lowest for over three years in June.

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. The index registered above the 50.0 no-change threshold for the fifth straight month in July, signalling sustained growth in business activity. However, falling from 53.1 in June to 52.5, it showed a slowdown in the rate of expansion to the weakest since March.

Anecdotal evidence provided by surveyed businesses indicated that higher activity in July was supported by generally stronger demand and, in some cases, increased marketing efforts. New business intakes were up for the fourth month running. As was the case for activity, however, the rate of growth slowed once again. This partly reflected a renewed – albeit modest – decline in new work from non-domestic customers at the start of the third quarter.

Service providers worked through their outstanding business (i.e. new orders or projects awaiting completion) at a faster rate in July. The extent to which backlogs fell was in fact the most marked since February and solid overall. Accordingly, staffing capacity was scaled back as employment decreased for the first time since December last year. Although only modest, the decline in workforce numbers represented a rapid turnaround from the strong jobs growth seen only two months ago.

July saw a continued rise in service sector operating expenses, of which wages were a key driver. The rate of input cost inflation ticked up for the first time in five months, after having slipped to a 39-month low in the previous survey period. The rate of increase was still comfortably above the series pre-pandemic average.

This was also the case for average prices charged by service providers. Here, however, the rate of inflation slowed noticeably since June, taking it further from the all-time highs in 2022 to the lowest since April 2021.

Lastly, latest data showed a slight uptick in business expectations towards growth prospects in the coming year. Sentiment had fallen notably in June to a five-month low, and the partial rebound meant that it was still well below May's recent peak. Growth projections were nevertheless broadly in line with the historical series trend, reflecting a combination of business expansion plans and hopes for an improvement in general economic conditions.

Comment

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

“If one were to go by the newspaper headlines, one would have to conclude that the concerts of Taylor Swift and her fans, the Swifties, have supported services activity in Germany. Even with the concerts, however, the growth pace has actually slowed down for the second month in a row, due to the weakening of consumer services, among other sectors. The Finance sector and Information & Communication did better, holding up activity in growth territory. Overall, service providers aren't propping up the economy as much as they used to earlier in the year, at a time when the manufacturing sector is tanking even more.

“Service providers' profit margins are getting squeezed. Production costs are going up a bit faster than last month, but companies are finding it even harder to pass those costs onto customers. Because of this, among other reasons, they are trying to save on labour costs and have cut jobs for the first time since the end of 2023.

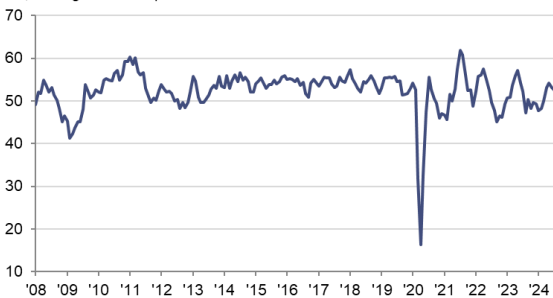
“Growth could keep slowing down in the next few months. New business only grew a little in July, and outstanding business has been dropping almost continuously since mid-2023. If the service sector stalls, the whole economy could slip into a recession because manufacturing continues to shrink sharply. Sadly, a recession (technically defined as two straight quarters of negative growth) is not just a distant possibility anymore, given that the economy contracted in the second quarter.

“Even with the current economic slowdown, service providers aren't feeling hopeless. In fact, companies are more confident than they were in June about expanding their activities in a year. Some are finding hope in new tech developments and plan to explore new markets. We're also pretty sure that new technologies – especially Artificial Intelligence – will give growth a positive boost.”

-Ends-

HCOB Germany Services PMI Business Activity Index

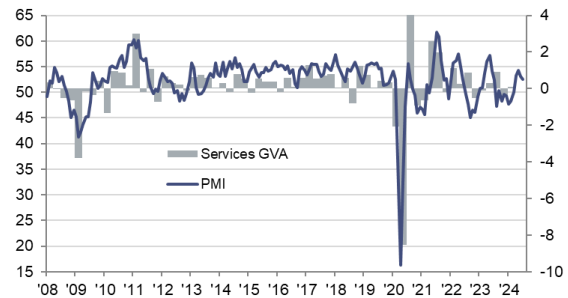
sa, >50 = growth since previous month



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

After having grown throughout the second quarter, Germany's private sector economy recorded a renewed contraction in July. This was highlighted by the HCOB Germany Composite PMI Output Index falling below the neutral 50.0 threshold to 49.1, down from 50.4 in June.

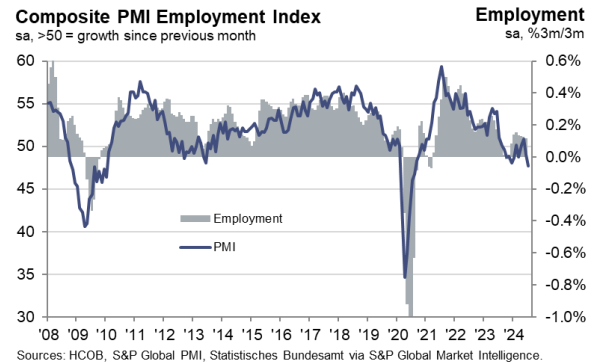
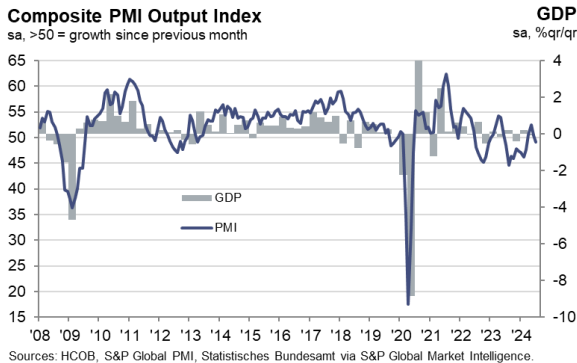
The downturn was led by a sharp and accelerated drop in manufacturing production, which more than offset further – albeit slower – growth in service sector business activity.

Weakness in manufacturing new orders was meanwhile behind a second straight monthly decrease in total new business in July. Export sales continued to fall markedly.

The labour market also took a turn for the worse, with employment declining to the greatest extent since August 2020 amid the first broad-based round of job shedding so far this year.

Overall business expectations were little-changed, though they did vary at the sector level as an improvement in services sentiment contrasted with less optimism among manufacturers.

Rates of input cost and output price inflation were just below their respective long-run averages.



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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 83% of final responses. Flash composite data were calculated from 88% 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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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.).

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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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