

NEWS RELEASE
MARKET SENSITIVE INFORMATION
Embargoed until 0955 CEST (0755 UTC) 3 October 2024

HCOB Germany Services PMI[®]

Business activity growth slows to a crawl at end of third quarter

Key findings:

HCOB Germany Services PMI Business Activity Index at 50.6 (Aug: 51.2). 6-month low.

HCOB Germany Composite PMI Output Index at 47.5 (Aug: 48.4). 7-month low.

Growth expectations slump to lowest in a year

Data were collected 12-25 September.

Growth of Germany's service sector slowed to a crawl at the end of the third quarter, the latest HCOB PMI[®] survey showed. Firms reported only a marginal rise in business activity that was the weakest for six months as they faced increased headwinds from a renewed decline in demand. Growth expectations meanwhile slumped to a one-year low, with the decrease in incoming workloads and a worsening economic outlook contributing to further job losses across the sector.

On the price front, the rate of cost inflation in the services economy eased to the weakest in over three-and-a-half years, while prices charged also rose more slowly than in August.

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. At 50.6 in September, down from 51.2 in August, the index signalled a further loss of growth momentum as it fell for the fourth month in a row to its lowest since March. The latest reading was just above the 50.0 threshold that separates growth from contraction and thereby indicative of only a marginal rate of expansion.

The near-stalling of growth coincided with a deterioration in underlying demand faced by German services firms. Inflows of new business fell for the first time in six months in September, recording a solid rate of decline that was the quickest seen since February. Panellists attributed lower intakes of new work to uncertainty among customers, a lack of appetite for investment and spillover from weakness in manufacturing. New export business meanwhile fell for the third month in a row and at the quickest rate since February.

A solid and accelerated decrease in backlogs of work – the most marked for seven months – indicated a lack of pressure on operating capacity across the services economy. As such, companies trimmed workforce numbers for a third successive month in September. Although accelerating slightly to the quickest recorded for more than four years, the rate at which employment fell remained only modest.

Another factor leading firms to scale down staffing capacity was a notable decrease in their expectations for business activity growth in the coming year. Sentiment deteriorated for the third time in the past four months and was at its lowest since September last year, with the proportion of optimists (25%) only just exceeding the proportion of pessimists (23%). Recession concerns had darkened the outlook, reports from surveyed businesses showed.

Turning to prices, latest data showed a cooling of inflationary pressures across the German service sector at the end of the third quarter. Central to this was a further slowdown in the rate of increase in firms' input costs to the weakest since February 2021. Operating expenses nevertheless continued to rise faster than the long-run trend seen before pandemic, mainly driven by higher wages.

Output price inflation meanwhile ticked down and was the second-lowest in over three years, registering just above that seen in July. As was the case with costs, however, the rate of increase in prices charged was still above the pre-pandemic average.

Comment

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

“The services sector is starting to lose its role as an anchor of economic stability. Growth in the sector has slowed for the fourth month in a row, nearly coming to a halt in September. What is really worrying is the sharp drop in new orders, which had already lost a lot of momentum over the previous three months. If this downward trend keeps up, the situation in the services sector may get worse before getting better.”

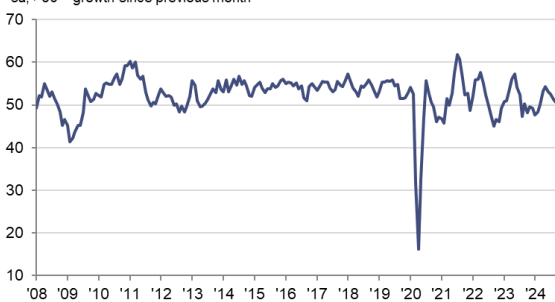
“Service providers are still feeling the pinch from high costs, though the pressure has eased quite a bit, now at its lowest since early 2021. This is not necessarily because wage increases have slowed down, but more likely due to the sharp drop in oil and gas prices in September as well as lower financing costs.”

“The struggles in the industrial sector are starting to spill over into services. Many service providers work directly with manufacturing companies, and as the latter tighten their belts, outsourced services are often the first thing on the chopping block. As a result, service providers have been cutting staff over the past three months, and the pace of layoffs sped up in September.”

“Confidence in the sector has taken a hit too. Some of the surveyed businesses are worried about a recession and a deeper slump in manufacturing. And they are not wrong to be concerned. Our GDP estimates, which factor in the HCOB PMI, suggest that the economy shrank again in the third quarter after contracting in the second, and the momentum is downwards.”

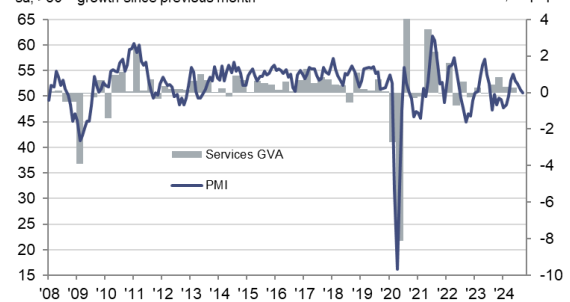
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HCOB Germany Services PMI Business Activity Index
sa, >50 = growth since previous month



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 deeper into contraction in September

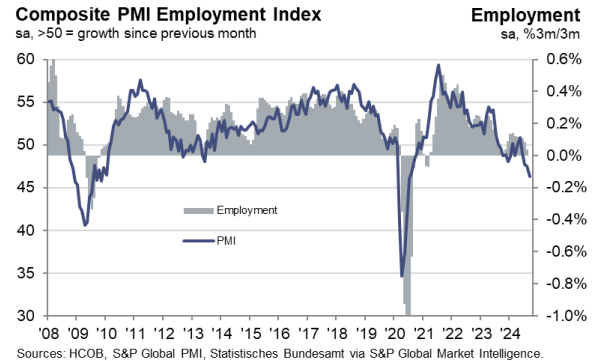
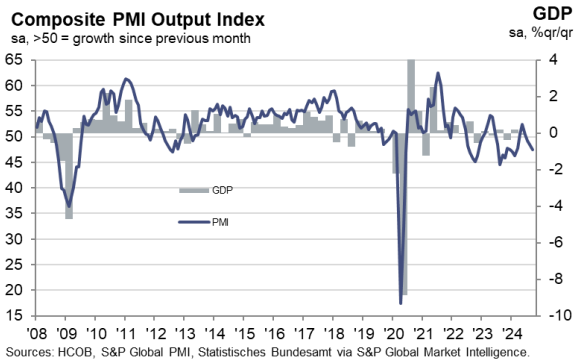
The HCOB Germany Composite* PMI Output Index – which tracks changes in total services and manufacturing output – moved further into sub-50 contraction territory in September, slipping from August’s 48.4 to a seven-month low of 47.5.

Slower growth of services businesses activity at the end of the third quarter was compounded by a deeper decline in manufacturing production – the sharpest for almost a year.

Total new business fell to the greatest extent since October 2023 amid a broad-based decrease in demand. Contributing to this was a sharp and accelerated reduction in new work from abroad.

Employment fell for the fourth month in a row and at the quickest rate in more than four years, led by a notable round of factory job cuts. The deteriorating labour market picture coincided with renewed pessimism towards the year-ahead outlook.

Inflationary pressures meanwhile eased, as slower input and output price increases in the service sector were seen alongside faster declines in manufacturing purchasing costs and factory gate charges.



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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 87% 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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