

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

German economy sinks deeper into contraction, dragged down by manufacturing sector

Key findings:

HCOB Flash Germany Composite PMI Output Index⁽¹⁾ at 47.2 (Aug: 48.4). 7-month low.

HCOB Flash Germany Services PMI Business Activity Index⁽²⁾ at 50.6 (Aug: 51.2). 6-month low.

HCOB Flash Germany Manufacturing PMI Output Index⁽⁴⁾ at 40.5 (Aug: 42.8). 12-month low.

HCOB Flash Germany Manufacturing PMI⁽³⁾ at 40.3 (Aug: 42.4). 12-month low.

Data were collected 12-19 September

September saw Germany's private sector economy sink deeper into contraction, according to the latest HCOB 'flash' PMI[®] survey compiled by S&P Global. Business activity in the country fell at the quickest rate for seven months, with a sharp and accelerated reduction in manufacturing production compounded by a near-stalling of growth in the service sector. The decline in employment also gathered pace as business expectations turned pessimistic for the first time in a year.

Elsewhere, latest data showed a notable softening of inflationary pressures across the eurozone's largest economy, with price increases in the services sector easing and discounting becoming more prevalent across manufacturing.

The headline **HCOB Flash Germany Composite PMI Output Index** fell for the fourth month running in September, taking it further into sub-50 contraction territory. At 47.2, down from August's 48.4, its latest reading was the lowest since February and indicative of a solid rate of decline in the total output of goods and services. The drag from the manufacturing sector increased as goods production posted its steepest rate of contraction for 12 months (index at 40.5). At the same time, support to the economy from growth in the service sector continued to wane, with tertiary business activity rising only marginally and at the weakest rate for six months (index at 50.6).

Surveyed businesses highlighted increased caution among customers and associated investment reticence, with concerns towards the health of the economy reported to be a factor. **Total inflows of new business** fell at the quickest rate for nearly a year in September, as a renewed decline in new work received by services firms coincided with a deepening downturn in manufacturing new orders. **New export business** also fell on a broad-based basis and at a quicker rate.

A sustained sharp decline in **backlogs of work** hinted at decreasing capacity utilisation across the German private sector, with firms able to complete orders at a quicker rate than they were being received. September's decrease in outstanding business was the most marked for 12 months and led by an especially sharp decline in the manufacturing sector. As such, latest data showed a fourth straight month of **job losses**. Furthermore, excluding the early months of the pandemic, the overall rate of staff shedding was the quickest seen for more than 15 years.

Firms' increased willingness to trim workforce numbers also coincided with a substantial deterioration in their **expectations** towards activity in the coming year. For the first time in 12 months, companies anticipating a decrease in output over the next year outnumbered those forecasting a rise – albeit only slightly. Pessimism towards the outlook reflected a range of factors that included recession concerns, market uncertainty and weakness in the automotive and construction sectors. Whilst sentiment in the services economy remained positive, it was at a 12-month low.

Turning to prices, September data showed a considerable softening of **cost pressures** across the German private sector at the end of the third quarter. Input price increases in the service sector slowed notably to the weakest in over three-and-a-half years

and only just exceeded the long-run average seen before the pandemic. Manufacturing purchasing costs meanwhile fell at the quickest rate for six months, driven down by weaker demand for inputs and lower commodity prices, particularly steel.

Similarly, a slower rise in service sector output prices – the weakest since April 2021 – was seen alongside a solid and accelerated reduction in factory gate charges. Measured across the two sectors combined, the rate of **output price inflation** was at a 44-month low and broadly in line with the pre-pandemic trend.

Comment

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

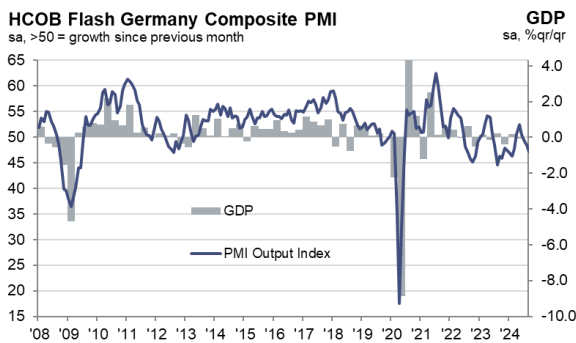
"The downturn in the manufacturing sector has deepened again, evaporating any hope for an early recovery. Output plunged at the fastest rate in a year, with new orders collapsing. In a sign of resignation, companies have shed staff at a rate not seen since the COVID-19 pandemic in 2020. This comes as several major automotive suppliers have announced significant job reductions. These troubling figures are likely to intensify the ongoing debate in Germany about the risk of deindustrialization and what the government should do about it."

"Optimism is something of the past. Manufacturers are downright depressed about their future activity, with expectations for the coming year plummeting. In a striking shift, moderate optimism in August has quickly turned into the steepest pessimism in a year by September. This rapid downturn in sentiment is most likely linked to the wave of negative headlines surrounding Volkswagen, which has cast a shadow over the broader industry."

"The slump in manufacturing is beginning to spill over into Germany's otherwise resilient services sector. Activity growth among service providers has slowed for four consecutive months, edging closer to stagnation. In response to the weakening demand, companies are continuing to reduce their workforce. The outlook for the services sector does not look pretty. Outstanding orders have contracted at their fastest pace in seven months, while new business has seen a clear decline."

"A technical recession seems to be baked in. Our GDP nowcast for the current quarter, which considers the HCOB PMI among other indicators, now points to a 0.2% decrease compared to the quarter before. In the second quarter GDP already shrank at a rate of 0.1%. There is still some hope that the fourth quarter will be better as higher wages combined with lower inflation should boost not only real income but also consumption, supporting domestic demand."

-Ends-



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Note to Editors

Final September data are published on 1 October for manufacturing and 3 October 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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