

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

PMI at eight-month high in December as downturn in new orders continues to ease

Key findings:

HCOB Germany Manufacturing PMI at 43.3 (Nov: 42.6). 8-month high.

HCOB Germany Manufacturing PMI Output Index at 43.8 (Nov: 44.2). 2-month low.

New orders fall at slowest rate since last April, with downward pressure on prices also easing

Data were collected 6-15 December 2023.

Germany's manufacturing sector ended 2023 still firmly in contraction territory, albeit with signs that the worst of the downturn was behind it. December's HCOB PMI[®] survey conducted by S&P Global signalled solid and slightly accelerated decreases in both output and employment. However, the survey's more forward-looking indicators remained on an upward trajectory, with new orders dropping at the slowest rate for eight months and business expectations turning positive for the first time since last April.

On the price front, manufacturers continued to reduce factory gate charges due to competitive pressures and lower input costs, although the rate at which output prices fell was the slowest for seven months and only modest.

The **HCOB Germany Manufacturing PMI[®]** – which is a gauge of overall business conditions based on measures of new orders, output, employment, supplier delivery times and stocks of purchases – ticked up for the fifth month running in December, rising from November's 42.6 to 43.3. Nevertheless, the latest reading was still comfortably below the 50.0 threshold that separates improvement from deterioration.

The headline PMI's trend mirrored that of its largest sub-component – new orders. The respective seasonally adjusted index was still well inside sub-50 contraction territory, with firms continuing to highlight a range of headwinds to demand that included customer hesitancy, geopolitical and economic uncertainty and weakness in the construction sector. That said, the rate of decline in new orders eased for the fourth month running to the weakest since last April. New work from abroad also fell more slowly, although the decline was still marked by historical standards due in large part to subdued demand across European markets.

A lack of new orders meant that manufacturers continued to deplete backlogs of work, which decreased sharply again, albeit at the slowest for seven months. Output fell slightly more quickly than in November, though the rate of contraction was still the second-slowest in the past seven months and weaker than that of new orders.

Manufacturers cut workforce numbers again during December as they adjusted to lower capacity utilisation. Moreover, the rate at which employment fell was the most marked since October 2020. Where a decrease was recorded, surveyed firms often commented on the non-replacement of leavers and non-renewal of contracts.

Purchasing activity also remained an area of retrenchment in December, with goods producers looking to streamline stocks. The rate of depletion of pre-production inventories even accelerated slightly after slowing in the previous two months. The decline in stocks of finished goods, by contrast, was the slowest since last July.

Reduced demand for manufacturing inputs not only contributed to a further improvement in supplier delivery times (albeit the least marked for nearly a year), but it also maintained downward pressure on purchasing costs, which fell for the eleventh month running. The rate of decline was sharp but eased to the slowest since last April. Factory gate charges meanwhile fell only

modestly, registering the smallest decrease in the current seven-month sequence of discounting.

Lastly, a third successive monthly improvement in expectations saw sentiment turn positive for the first time since last April. Confidence was still subdued by historical standards, however, reflecting concerns about energy costs, a recession in the construction sector and fiscal constraints.

Comment

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

"The situation in Germany's manufacturing industry can be likened to a hiker who has involuntarily descended into a valley. Progress is evident in the search for an exit, yet uncertainty lingers about the proximity of finding the right path. Thus, while it is encouraging that the PMI index has increased for five months in a row, it continues to signal a rather fast decline of demand for manufactured goods."

"Over the past few months, manufacturers have become more aggressive in reducing employment, especially in the segment of intermediate goods. This adjustment is likely a response to a trend where the backlog of orders for a significant number of companies has decreased to a level where maintaining all employees on the payroll is no longer viable. Therefore, the pathway to a reversal in employment trends hinges on a more favorable order situation."

"In the realm of sectors, there is a silver lining in the investment goods segment. The decline in new orders has notably eased, with the corresponding index approaching the pivotal 50 threshold. Employment reduction in this sector has almost come to a standstill, and the dip in output is relatively minor. This contrasts with the intermediate goods sector, where output, new orders and employment are all experiencing a swifter decline."

"Manufacturers have been consistently lowering their prices for seven consecutive months. One could think that this development puts pressure on profits. However, this is most probably not the case, because there has been a significant relief on the cost side. To be more precise, input prices began their descent eleven months ago and have experienced a much more substantial drop than output prices. Furthermore, in December, companies reduced output prices only minimally. Overall, even though output has taken a severe hit, it appears that profits have managed to weather the storm."

-Ends-

HCOB Germany Manufacturing PMI

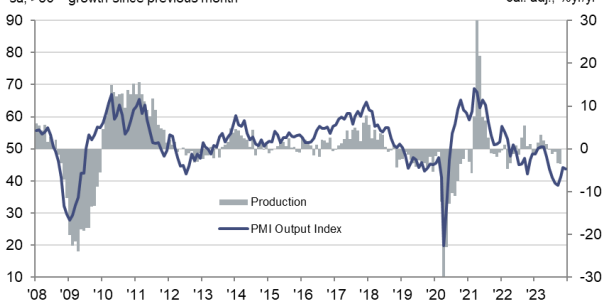
sa, >50 = improvement since previous month



Sources: HCOB, S&P Global PMI.

PMI Output Index

sa, >50 = growth since previous month



Sources: HCOB, S&P Global PMI, Statistisches Bundesamt via S&P Global Market Intelligence.

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Note to Editors

The HCOB Germany Manufacturing PMI[®] is compiled by S&P Global from responses to questionnaires sent to purchasing managers in a panel of around 420 manufacturers. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP. Data collection began in April 1996.

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 Purchasing Managers' Index[™] (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers' Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

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 data were calculated from 95% of final responses. Since January 2006 the average difference between final and flash Manufacturing PMI values is 0.0 (0.3 in absolute terms).

For further information on the PMI survey methodology, please contact economics@spglobal.com.

Hamburg Commercial Bank AG

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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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