

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

Manufacturing sector ends first quarter still firmly in contraction, but business expectations brighten

Key findings:

HCOB Germany Manufacturing PMI at 41.9 (February: 42.5). 5-month low.

HCOB Germany Manufacturing PMI Output Index at 43.2 (February: 42.3). 2-month high.

Factory job cuts deepen, despite renewed optimism towards outlook

Data were collected 12-21 March 2024.

Germany's manufacturing sector ended the opening quarter of the year still mired in contraction territory, the latest HCOB PMI[®] survey conducted by S&P Global showed. Business expectations towards future output turned positive in March, though weak demand conditions nevertheless contributed to further factory job losses and a sustained draw-down of pre-production inventories. There was also more discounting among manufacturers amid strong competition for new work.

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 – fell for the second month in a row in March, taking it deeper into sub-50 contraction territory. Its latest reading of 41.9, down from 42.5 in February, was the lowest for five months. Although faster falls in both employment and stocks of purchases contributed to the headline index's decline, the main downward pressure came from a steep and accelerated improvement in supplier delivery times (which imparts a negative directional influence due to an implied assumption of weaker demand across supply chains). Anecdotal evidence pointed to a diminishing impact of the Red Sea shipping disruption, alongside underutilised capacity among suppliers.

The drop in the headline PMI in March did however mask slower decreases in both new orders and output. That said, the latest declines remained sharp overall, amid reports of still-weak demand conditions at home and abroad. Export sales continued falling steeply at the end of the first quarter, although the rate of decline was the weakest for 11 months.

March's survey showed evidence of spare capacity at factories as goods producers reported a sustained rapid decline in backlogs of work and further job losses. Furthermore, the rate of staff shedding quickened for the sixth time in the past seven months and was the fastest in over three-and-a-half years.

At the same time, there was another sharp drop in manufacturers' purchasing activity. Although the rate of decline in buying levels eased since February, it remained quicker than that of output as firms looked to reduce stocks of purchases. The latest decline in pre-production inventories, which was the fourteenth in as many months, was in fact the sharpest seen since October last year.

Ongoing weakness in demand across supply chains continued to be reflected in downward pressure on input prices. The rate of decline in average purchasing costs remained sharp but eased for the fourth month running to the weakest since March last year. By contrast, average factory gate charges fell at a faster rate, the quickest seen for five months, amid reports of strong competition for new work.

Looking ahead, manufacturers expressed renewed optimism towards growth prospects in the next 12 months. Reports from surveyed businesses signalled hopes of a pick-up in demand, especially in the second half of the year, alongside plans for new products. That said, despite being at a three-month high, expectations remained subdued by historical standards, due in part to still-heightened levels of market uncertainty.

Comment

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

"Germany's manufacturing sector has been mired in recession since around the middle of last year, and the latest PMI readings signal another contraction in the first quarter of 2024. To make things worse, the downturn is very broadly based, encompassing capital goods as well as intermediate and consumer goods."

"The PMI figures are a good forecaster for the production figures of Destatis. Interestingly, the value-added figures – a methodologically different indicator to the production figures also published by Destatis – present a less dire picture. Comparing data from the start of 2022, production has seen a nearly 7% decline through the end of 2023, which is consistent with PMI data. In contrast, value added has only dipped by 0.6% over the same period. This suggests that the widely discussed trend of deindustrialization in Germany may not be as pronounced as production data indicate. Indeed, the share of manufacturing value added as a portion of the total economy remains at 22.3%, surpassing the 33-year average of 22.0%."

"The PMIs are sending mixed signals with respect to the inventory cycle. The index for the stock of finished goods has continued its recovery and indicates for the first time in 12 months a rise, even if it is marginal. However, stock of purchases fell in March at one of the fastest rates since 2009. Thus, it seems that Germany is not yet part of the turn in the inventory cycle we saw globally in February, which is surprising, given the high degree of openness of the German economy."

"The crucial forward-looking new orders index has shown a slight uptick recently. However, there is no discernible reversal in the downward trend of orders that has persisted since the spring of 2022. This pattern holds true for backlog of works as well. Despite a near two-year decline in backlogs, order books remain far from empty, as highlighted by the range of stock of orders data provided by Destatis. It's worth noting that those figures represent the average stock of order books, encompassing significant outliers such as the aerospace sector with a range of 42 months, alongside industries like chemical products, which exhibit a much narrower range of only 1.6 months."

-Ends-

HCOB Germany Manufacturing PMI

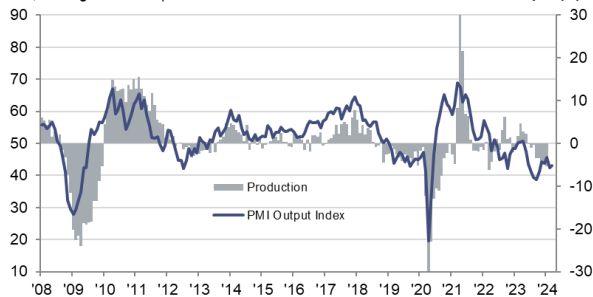
sa, >50 = improvement since previous month



Sources: HCOB, S&P Global PMI.

PMI Output Index

sa, >50 = growth since previous month



Sources: HCOB, S&P Global PMI, Destatis 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 93% 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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