

NEWS RELEASE

MARKET SENSITIVE INFORMATION

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HCOB Germany Services PMI[®]

Service sector business activity growth slows for third month running in August

Key findings:

HCOB Germany Services PMI Business Activity Index at 51.2 (Jul: 52.5). 5-month low.

HCOB Germany Composite PMI Output Index at 48.4 (Jul: 49.1). 5-month low.

Input cost inflation slows to three-and-a-half year low

Data were collected 12-27 August.

The latest HCOB PMI[®] survey showed a further loss of momentum across the German service sector as growth in business activity eased for the third month running in August. It also indicated another round of job losses, amid signs of spare capacity among businesses.

As for prices, average input costs faced by service providers registered the slowest rise for three-and-a-half years. The rate of inflation was still elevated by pre-pandemic standards, however, as was the case for output prices, which rose at a rate that was slightly faster than July's 39-month low.

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. Although still above the 50.0 threshold that separates growth from contraction, the Index ticked down for the third month in a row. At 51.2, down from July's 52.5, the latest reading signalled only a modest rate of expansion that was the weakest since March.

The trend in business activity broadly followed that of new work. In fact, August's increase in new business was even smaller, with the survey signalling a near-stalling of demand conditions following a moderate upturn between April and July. A lack of incoming new business from abroad was a factor, as August saw export sales fall for the second month running and to the greatest extent since February.

As was the case in each of the previous three months, German service providers recorded a decrease in their outstanding business (i.e. the volume of work awaiting completion) again during August. The rate of depletion eased slightly but remained solid by historical standards, signalling that work was being completed much more quickly than it was being received.

Accordingly, employment was scaled back for the second month running in August. It followed a sequence of job creation throughout the first half of the year. Whilst remaining modest, the rate of staff shedding did accelerate slightly and was the quickest recorded since June 2020.

Wages remained a source of cost inflation for services firms, the survey's anecdotal evidence showed. However, latest data showed pressures easing somewhat, with the rate of input cost inflation slowing for the fifth time in the past six months to the weakest since February 2021. Nevertheless, it remained comfortably above its long-run trend prior to the COVID-19 pandemic.

Unlike costs, average prices charged by services firms increased at a slightly faster rate in August. Coming off a recent low in July, however, the rate of output price inflation was still the second-slowest in more than three years (albeit elevated by pre-pandemic standards).

Turning to business expectations, August's survey data showed broadly no change in the degree of optimism towards the year-

ahead outlook for activity. Sentiment virtually matched the long-run series average, with optimists outnumbering pessimists almost two-fold. Those expecting activity to rise over the next 12 months cited plans for greater marketing and sales efforts, as well as hopes for a general pick-up in market conditions.

Comment

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

“Without growth in the private service sector, Germany’s economic picture would be pretty grim. This sector, which accounts for just over 40% of the economy, has been a major stabilizing force, offsetting the recessions in manufacturing and construction. But that support is starting to weaken. Growth slowed again in August. Even though lower inflation and higher wages should be boosting the service sector, the growth trend has been sliding downhill for three months now.”

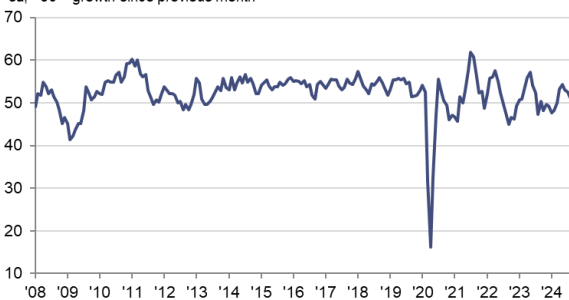
“From a business perspective, there are some positive signs. Cost pressures have eased a bit, and service providers have managed to raise their prices more than they did the month before. Companies have also sharpened their focus on efficiency lately. Despite trimming their workforces slightly, they’ve still managed to grow, though at a slower pace. If these trends keep up, we could be looking at a potential boost to profit margins.”

“Confidence among service providers about their economic activity in a year’s time remains average, which is good news in the current circumstances. However, it also shows that moderate growth is to be expected at best, but potentially even lower activity. This caution is reflected in the sluggish pace of new business, the continued - albeit slightly slower - decline in order backlogs, and a significant drop in export business.”

“At first glance, Germany seems to be the worst performer in the service sector among the major eurozone countries, with France notably pulling ahead in August. However, this gap is likely due to the “Olympic effect”, as some survey participants have pointed out. In reality, France’s services sector had been stagnant at best in previous months. When you look at Italy, Germany’s performance is only slightly weaker. You could argue that Germany is just about average, but that is hardly reassuring. If this middling performance in services continues, it could make an overall economic recession more likely.”

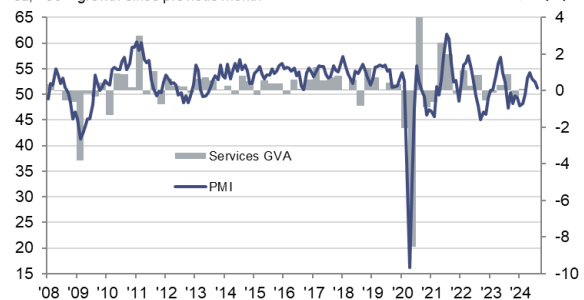
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HCOB Germany Services PMI Business Activity Index
sa, >50 = growth since previous month



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[®]

Downturn in private sector activity quickens in August

Business activity fell for the second month running across Germany's private sector in August, and at a slightly faster rate. This was highlighted by the HCOB Germany Composite* PMI Output Index slipping from 49.1 in July to 48.4.

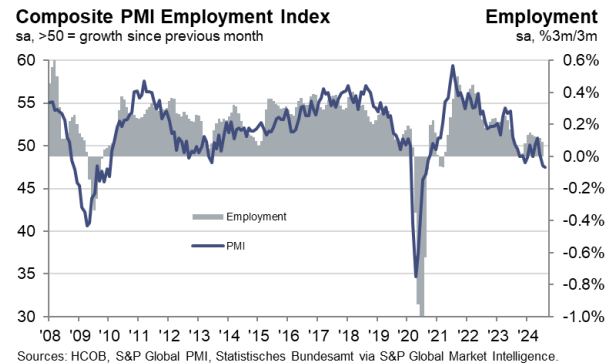
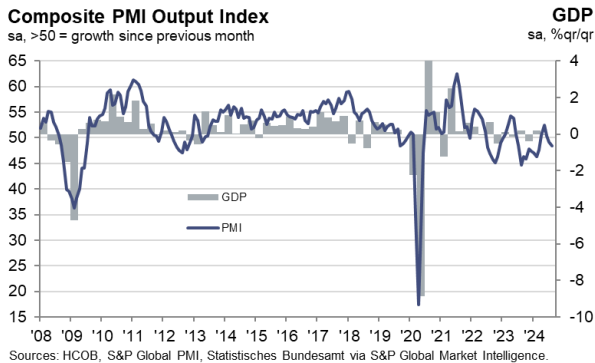
The result reflected a further marked drop in manufacturing output levels, alongside a slowdown in services growth.

Total new business meanwhile decreased to the greatest extent since March, driven down by a sharp and accelerated drop in manufacturing new orders. Export sales meanwhile declined at a faster rate in both monitored sectors.

For the second month running, goods producers led a broad-based reduction in employment. Moreover, the drop in staffing levels was the largest seen for four years.

The rate of output price inflation ticked up to a six-month high and was broadly in line with the long-run average. On the cost front, a slower rise in services operating expenses was seen alongside a near-stabilisation in manufacturing purchase prices.

Lastly, business expectations softened to a six-month low, primarily reflecting weaker manufacturing sentiment.



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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 85% of final responses. Flash composite data were calculated from 86% 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.

S&P Global (NYSE: SPGI)

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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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