

NEWS RELEASE
MARKET SENSITIVE INFORMATION
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HCOB Germany Manufacturing PMI®

German manufacturing sector remains mired in contraction territory midway through third quarter

Key findings:

Output falls at fastest rate since May 2020

Weak demand continues to weigh on current performance and outlook

Declines in input costs and output prices ease slightly

Data were collected 10-23 August 2023.

The downturn in Germany's manufacturing sector extended into August, according to the latest HCOB PMI® survey conducted by S&P Global, with output falling at a faster rate amid rapidly declining new orders. Goods producers remained pessimistic towards the year-ahead outlook, albeit slightly less so than in July.

Destocking remained a prominent feature of the survey, with firms looking to streamline inventories in line with falling workloads and improved material availability. Weaker demand across the sector meanwhile fed through to lower input costs and factory gate prices, although the rates of decline eased compared to those seen in July.

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 – came in at 39.1 in August, registering close to July's 38.8. Despite rising slightly, which owed almost entirely to the supplier delivery times sub-component, the index posted its second-lowest reading since May 2020 and was still firmly inside sub-50 contraction territory.

Manufacturers scaled back output for a fourth consecutive month in August. Furthermore, the rate of contraction accelerated once again to the fastest seen since the initial COVID shutdowns in spring 2020. Production was down across all main industrial groupings, reflecting a broad-based reduction in demand.

New orders continued to fall sharply, with the rate of decline quickening slightly since July to the fastest for more than three years (and far outstripping the reduction in output). Customer uncertainty, an ongoing destocking cycle, weakness in the construction sector and a general lack of appetite for investment were some of the reasons for the lack of demand. New export orders were down markedly, amid reports of reduced sales to China and across Europe, although the rate of decline eased from the previous month and was noticeably slower than that of total new business.

Manufacturers continued to make rapid inroads into their backlogs of work during August, and they remained downbeat about production prospects over the forthcoming year. Expectations did however pick up slightly from July's eight-month low.

Factory employment fell fractionally midway through the third quarter, having posted the first decline for two-and-a-half years in July. The survey suggested firms were reluctant to make large-scale reductions in staffing capacity, with incidences of lower employment often attributed to the non-replacement of leavers (e.g., retirees and contractors).

One area where manufacturers did make substantial cutbacks was on the purchasing front, with buying levels falling to the greatest extent since May 2020. This partly reflected attempts to reduce inventory levels in line with not only weaker customer demand, but also shorter lead times on inputs. Supplier delivery times quickened for a tenth straight month in August, with the rate of improvement remaining marked but easing for the second straight month.

Falling raw material prices and competition among suppliers meanwhile contributed to a further sharp drop in average

purchasing costs faced by German manufacturers. The rate of decline eased since July, but it was still the second-fastest recorded in over 14 years.

Similarly, average factory gate charges fell solidly and for the third month running, albeit at a slower rate than recorded in the previous survey period.

Comment

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

"The darkest hour is just before dawn. This may be the situation the German manufacturing sector is in. To be sure, output falling at the steepest rate since 2020 doesn't seem to provide hope in any way. However, the pace of destocking of inputs has slowed a little bit and the deterioration of new orders has stabilised. At the same time, companies continued to be reluctant to make substantial job cuts. It looks as if the manufacturing sector is starting to bottom out, even though this process will take a while.

"Our GDP nowcast for manufacturing, which considers the HCOB PMI indicators, suggests that output should shrink by almost 1% in the third quarter. Nevertheless, we are confident that the destocking cycle will come to an end during the fourth quarter and that should set a good tone for 2024.

"The backlog of work is still shrinking at a fast pace, and so are export orders. Having said this, the rates of contraction have slowed down a bit, which fits into the picture of global manufacturing bottoming out.

"There is some good news for companies, as a softer downturn in factory gate charges suggests that their erosion of pricing power seems to have lost some momentum."

-Ends-

HCOB Germany Manufacturing PMI

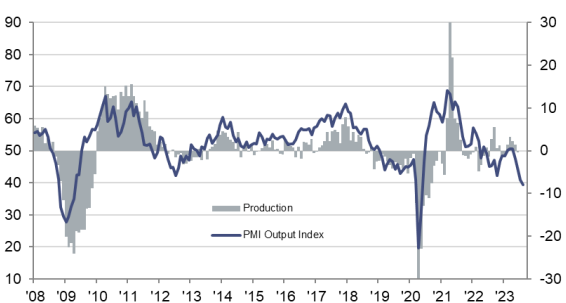
sa, >50 = improvement since previous month



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@ihsmarkit.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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