NEWS RELEASE
MARKET SENSITIVE INFORMATION
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HCOB Flash Germany PMI®

German business activity falls at fastest rate since May 2020

Key findings:

HCOB Flash Germany Composite PMI Output Index(1) at 44.7 (July: 48.5). 39-month low.

HCOB Flash Germany Services PMI Business Activity Index(2) at 47.3 (July: 52.3). 9-month low.

HCOB Flash Germany Manufacturing PMI Output Index(4) at 39.7 (July: 41.0). 39-month low.

HCOB Flash Germany Manufacturing PMI(3) at 39.1 (July: 38.8). 2-month high.

Data were collected 10-21 August

German business activity suffered the steepest decline for more than three years in August, according to latest HCOB 'flash' PMI® survey compiled by S&P Global, as a deepening downturn in manufacturing output was accompanied by a renewed contraction in services activity. Businesses remained pessimistic towards the outlook as rising interest rates, customer uncertainty and high inflation continued to weigh on demand for goods and services. Notably, the survey showed an increase in inflationary pressures, driven by accelerated cost and price increases in the service sector.

The headline **HCOB Flash Germany Composite PMI Output Index** remained on a downward path in August, dropping for the fourth month in a row. Falling from July's 48.5 to 44.7, the index moved deeper into sub-50 contraction territory to its lowest since May 2020. Manufacturing recorded a decrease in production for the fourth month running, with the rate of decline accelerating to the quickest for more than three years (index at 39.7). It was joined in contraction by the service sector, where business activity fell for the first time eight months and to the greatest extent since November 2022 (index at 47.3).

As has been the case in each month since May, the latest survey data showed a reduction in **total inflows of new business** across the private sector in August. The decline continued to be led by plummeting manufacturing new orders, with a combination of customer destocking and investment reticence driving the sharpest decline in demand for goods since May 2020. Service sector new business also fell at a faster rate, the quickest seen since November last year, amid reports of reluctance among clients and a squeeze on both household and corporate budgets. At the same time, both monitored sectors recorded sustained declines in **new export business**, although their respective rates of decline eased since July.

August saw a further broad-based reduction in **backlogs of work**, reflecting a lack of incoming new orders to replace completed projects. Furthermore, the rate of depletion of total outstanding business quickened for the fifth month in a row to the fastest for more than three years. Work-in-hand at manufacturers fell particularly sharply, which in turn dampened their willingness to take on new staff and resulted in another slight decrease in factory workforce numbers. At the same time, service sector job creation virtually stalled, which meant that **total employment** was broadly unchanged on the month.

Private sector firms in Germany remained pessimistic about the **year-ahead outlook** for activity in August. Expectations did however tick up slightly from July's eight-month low amid slight improvements in confidence across both manufacturing and services. In the case of the former, sentiment remained negative, whereas services companies expressed renewed – albeit very subdued – optimism.

Turning to prices, rates of **input cost** and **output charge inflation** ticked up for the first time in 11 and seven months respectively in August, driven in part by a rise in fuel prices. Due to a sustained sharp (albeit slightly slower) fall in manufacturing purchase prices, the overall rate of input cost inflation remained below its long-run average, despite climbing to a three-month high. However, this masked a steep and accelerated increase in operating expenses faced by services firms, who not only commented on the higher cost of fuel, but also sustained wage pressures.

The overall rate of output price inflation meanwhile quickened to the fastest since May, and in doing so, it moved further above its long-run run average. Again, there were diverging trends at the sector level, as a third straight monthly drop in factory gate charges contrasted with a sharp and accelerated rise in average service sector output prices – the quickest for five months.

The **HCOB Flash Germany Manufacturing PMI** – which is a gauge of overall manufacturing business conditions based on measures of new orders, output, employment, supplier delivery times and stocks of purchases – registered 39.1 in August, up slightly from July's 38.8. The rise in the index was driven primarily by its supplier delivery times and stocks of purchases components.

Comment

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

"Any hope that the service sector might rescue the German economy has evaporated. Instead, the service sector is about to join the recession in manufacturing, which looks to have started in the second quarter. Our GDP nowcast model, which incorporates the PMI flash estimate, now indicates a deeper fall of the whole economy than it did before, at almost -1%.

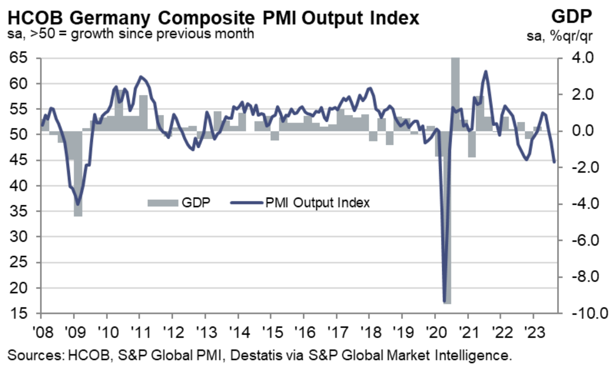
"Stagflation is an ugly thing. However, it's exactly what is happening to the services economy, as activity has started to shrink while prices have shot up again, even picking up pace. When inflation cannot be tamed in the eurozone's biggest economy, this is bad news for the ECB.

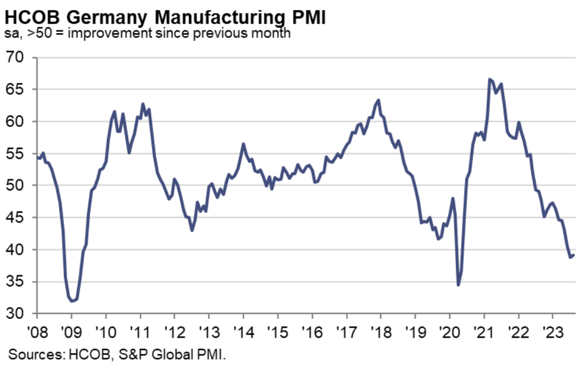
"Manufacturing output took another hit in August, dropping even faster. Having said this, there is a glimmer of hope that the downturn in industry is nearing its bottom. Indeed, the downward trend in the PMI measures of new orders and stock of purchases have lost momentum. This could well mean that the inventory cycle is only a few months away from a turnaround.

"The rate of decline in new export orders eased in August, though demand from abroad is still shrinking quickly. We take this development as the first tentative sign that the global economy's industrial sector is about to stabilize sooner rather than later.

"The fall in services activity has only just started as new business declined for the second month in a row and companies showed reluctance to hire new staff. However, services companies seem to feel surprisingly bold jacking up prices at an even quicker rate."

-Ends-





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Note to Editors

Final August data are published on 1 September for manufacturing and 5 September 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@ihsmarkit.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.

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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We are widely sought after by many of the world's leading organizations to provide credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help the world's leading organizations plan for tomorrow, today.

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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