

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

German manufacturing sector dealt fresh setback at end of Q2

Key findings:

HCOB Germany Manufacturing PMI at 43.5 (May: 45.4). 2-month low.

HCOB Germany Manufacturing PMI Output Index at 45.1 (May: 48.9). 3-month low.

Destocking of inputs and finished goods gathers pace

Data were collected 12-21 June 2024.

Germany's manufacturing sector experienced a fresh setback at the end of the second quarter, with rates of contraction in both output and new orders reaccelerating after having eased substantially in May. Furthermore, the destocking cycle showed no signs of turning as firms reported deepening declines in both pre- and post-production inventories. Nevertheless, manufacturers looked to the future with slightly more optimism.

On the price front, demand weakness continued to put downward pressure on both input costs and factory gate charges. The respective rates of decline did, however, ease slightly.

The **HCOB Germany Manufacturing PMI[®]** – which is a gauge of overall business conditions derived from measures of new orders, output, employment, supplier delivery times and stocks of purchases – came in at 43.5 in June, down from May's four-month high of 45.4. The drop in the headline index reflected three of its five sub-components, with the exceptions being suppliers' delivery times and employment.

Production fell much more markedly in June, after having recorded its smallest decline in over a year in May. The result was a consequence of deteriorating performances in each of the main industrial groupings (consumer, intermediate and investment), and coincided with a sharp and accelerated reduction in total new orders. Panellists not only commented on weakness in domestic demand, but also less new work from other European markets and China. Export sales fell at a faster rate in June, but more slowly than total new orders.

The decline in backlogs of work also gathered pace at the end of the second quarter. Work-in-hand fell sharply as firms completed orders at a quicker rate than they received them. Consequently, workforce numbers were scaled back for the twelfth month running. The rate of job shedding eased slightly to the slowest since January, although it was still marked overall.

June also saw a sharp drop in purchasing activity among Germany's manufacturers. The rate of decline remained much faster than that of output amid ongoing efforts to run down stocks of inputs. The latest reduction in pre-production inventories was in fact the greatest since October 2009. At the same time, stocks of finished goods fell at the quickest rate since August 2021.

Weakened demand for inputs contributed to a further improvement in supplier delivery times in June. The extent to which lead times shortened was the least marked for four months, although still notable by historical standards.

At the same time, competition among suppliers maintained downward pressure on purchase prices, which decreased for the seventeenth month running – the joint-longest sequence in the series history. That said, the rate of decline eased slightly and was among the slowest in the current period of falling costs.

Efforts by manufacturers to secure new work also led to a reduction in average factory gate charges in June. The rate of decline was the weakest for four months, but it nevertheless remained solid.

More positively, June's survey indicated a fourth straight monthly improvement in manufacturers' expectations towards growth

prospects in the year ahead. Sentiment edged above the series pre-pandemic average and was the highest since February 2022. Anecdotal evidence highlighted hopes of a pick-up in exports, increased investment and a general improvement in economic conditions over the next 12 months.

Comment

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

"Will this downturn in manufacturing never end? It will, but apparently it is going to take longer than expected. After having seen the decline in output ease in every month since March, this trend was interrupted in June. The accelerated fall in new orders and especially export orders indicates that we will have to wait some more months until a recovery in the manufacturing sector can be seen. However, companies are far from throwing in the towel, as they are more optimistic about the future than they were in May."

"The weakening demand conditions are hitting all surveyed sectors, from consumer to intermediate and investment goods. While this is just a monthly setback and shouldn't be overdramatized, it's worrying that the investment goods sector, a cornerstone of Germany's industry, is drifting further from growth territory instead of moving closer to it."

"In the past, economic turning points have often coincided with shifts in the inventory cycle. Typically, companies that have stockpiled supplies initially rely on these inventories during a downturn. However, they eventually need to replenish their stock to continue production, marking the beginning of an upturn. What's unusual now is that destocking, which started early in 2023, is still ongoing, even though the pace of inventory depletion has already been very high in recent months compared to previous cycles. The silver lining here is that when the rebound does come, it could be even stronger."

"The weak export orders for German companies, even as the global manufacturing sector shows a moderate recovery, is concerning. One likely explanation is the increasing competition from China, which is ramping up its exports worldwide due to sluggish domestic demand. This situation creates a double whammy for German exporters: fewer exports to China, evidenced by a 14% decrease in May, and heightened competition from Chinese products, especially in emerging markets. We're now operating in a structurally different world compared to the 2010s. Companies must adapt to these new realities rather than hoping for a return to the "good old days"."

-Ends-

HCOB Germany Manufacturing PMI

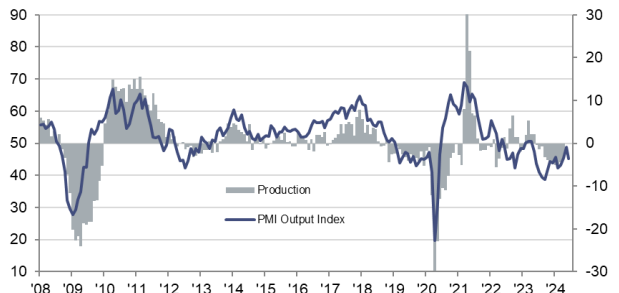
sa, >50 = improvement since previous month



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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