

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

German growth ticks higher as drag from manufacturing eases

Key findings:

HCOB Flash Germany Composite PMI Output Index⁽¹⁾ at 51.0 (Jan: 50.5). 9-month high.

HCOB Flash Germany Services PMI Business Activity Index⁽²⁾ at 52.2 (Jan: 52.5). 2-month low.

HCOB Flash Germany Manufacturing PMI Output Index⁽⁴⁾ at 48.5 (Jan: 46.3). 9-month high.

HCOB Flash Germany Manufacturing PMI⁽³⁾ at 46.1 (Jan: 45.0). 24-month high.

Data were collected 10-19 February

Business activity rose across Germany's private sector for the second month running and at a slightly quicker rate in February. The latest HCOB 'flash' PMI[®] survey showed that sustained steady growth of services business activity midway through the first quarter coincided with a reduced drag from falling manufacturing production, which recorded the slowest decline for nine months. Employment in the eurozone's largest economy meanwhile showed a modest fall as job losses in the goods-producing sector offset rising workforce numbers at services firms.

On the price front, rates of inflation in both input costs and output prices ticked down slightly from the recent highs seen in January. The dichotomy between price rises in the service sector and discounting in manufacturing continued. Trends in business expectations were more consistent across the two monitored sectors, however, with February seeing a broad-based softening of optimism from the month before.

The **HCOB Flash Germany Composite PMI Output Index** came in at 51.0 in February, up from 50.5 in January and the highest reading for nine months. The modest rate of growth was driven by a sustained upturn in the services sector, where business activity has now risen for three successive months. The rate of services expansion was moderate, however, and eased slightly from the previous month (index at 52.2). Whilst manufacturing continued to weigh on the performance of the private sector, its drag on overall growth eased as factory production recorded its slowest rate of contraction since May last year (index at 48.5).

Underlying demand for goods and services showed signs of stabilising at the midway point in the first quarter, with **total new business** recording only a modest decrease that was the weakest in the current nine-month sequence of contraction. This reflected slower declines in new orders in both monitored sectors. It was a similar story for **new export business**, which recorded the softest rate of contraction since last May.

The lack of new business to replace completed projects meant that **backlogs of work** continued falling during February, thereby stretching the current period of decline beyond two-and-a-half years. Furthermore, the rate of depletion quickened, driven by a steep and accelerated reduction in outstanding business in the service sector. Services firms nevertheless reported a rise in workforce numbers for the second month running in February. However, the latest increase was only modest and offset by deeper job cuts in the manufacturing sector, leading overall **employment** to decrease at a slightly faster rate than in January.

Higher labour costs were a key factor behind a sustained sharp rise in services input prices in February. The rate of inflation did however tick down to a three-month low. Combined with a quicker drop in manufacturing purchase prices, this led the overall rate of **input cost inflation** to retreat from January's 22-month peak.

The overall rate of **output price inflation** likewise ticked down from its recent high seen at the start of the year, although it remained above the series long-run average. This masked a fractional uptick in the rate of increase in prices charged for

services to the highest for a year.

Looking ahead, businesses' **growth expectations** for the forthcoming year were revised down in February, after having hit an eight-month high in January. The degree of optimism was still the second-highest since July last year, but expectations moved back below the series long-run average as service providers and manufacturers alike reported less confidence towards the outlook than in the previous month. Concerns about tariffs and the general geopolitical backdrop were factors dampening sentiment, according to the survey's anecdotal evidence.

Comment

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

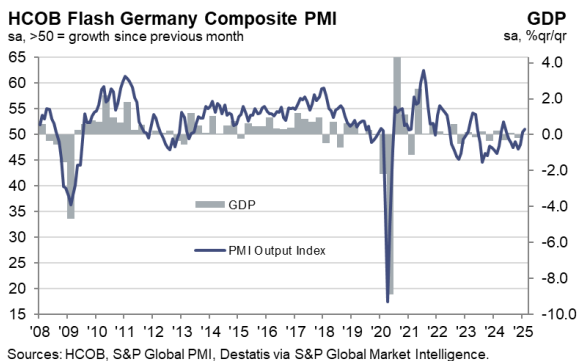
"The manufacturing sector is still struggling, but things are looking up. The recession has been easing for two months now, and the output index is getting closer to the expansionary threshold of 50. This improvement is thanks to a slowdown in the drop of new orders, including those from abroad. However, it's too soon to celebrate just yet, as the manufacturing sector is most likely to face challenges from US tariffs in the coming months."

"The service sector has been growing steadily for three months. Fears that it would be dragged down by the manufacturing recession haven't come true so far. This is partly because the downturn in manufacturing has eased up a bit. Plus, services are benefiting from an increase in private consumption, which has been growing at a good pace."

"The strength of the service sector is evident in companies' ability to raise prices at a similar robust pace as before. That doesn't necessarily mean their profit margins are improving, as costs are still rising significantly due to high wage agreements and other factors. But the fact that they can maintain their pricing power is a sign of resilience."

"Overall, the economy seems to be back on a growth path, at least for the first two months of the year. According to our GDP Nowcast, which takes the PMI and other data into account, the drag on growth from manufacturing is getting smaller, and the growth in services is making up for it. Looking ahead, much of the mood will depend on the capability of the new to be elected government to signal stability and to take bold measures."

-Ends-



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Note to Editors

Final February data are published on 3 March for manufacturing and 5 March 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@spglobal.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.

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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. <https://www.spglobal.com/marketintelligence/en/mi/products/pmi.html>

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