

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

Downturn in output eases slightly in October, but job cuts deepen and firms' pricing power wanes

Key findings:

HCOB Flash Germany Composite PMI Output Index⁽¹⁾ at 48.4 (Sep: 47.5). 2-month high.

HCOB Flash Germany Services PMI Business Activity Index⁽²⁾ at 51.4 (Sep: 50.6). 3-month high.

HCOB Flash Germany Manufacturing PMI Output Index⁽⁴⁾ at 42.4 (Sep: 41.3). 2-month high.

HCOB Flash Germany Manufacturing PMI⁽³⁾ at 42.6 (Sep: 40.6). 3-month high.

Data were collected 10-22 October

Conditions continued to worsen across Germany's private sector at the start of the fourth quarter, with businesses reporting further decreases in output and employment amid a backdrop of weak underlying demand, according to the latest HCOB 'flash' PMI[®] survey compiled by S&P Global. But whereas output fell at a slightly slower rate in October, the decline in employment continued to gather pace to show the steepest drop in workforce numbers for nearly four-and-a-half years. Business expectations picked up after turning negative for the first time in a year in September, but the degree of optimism nevertheless remained subdued by historical standards.

Notably, latest data showed virtually no change in average prices charged by German businesses, as a slowdown in services inflation coincided with the deepest cuts to manufacturing output prices since September 2009.

October saw the headline **HCOB Flash Germany Composite PMI Output Index** tick up from September's seven-month low of 47.5 to 48.4. Nevertheless, it remained below the 50.0 threshold separating growth from contraction, as has been the case in each month since July. The rate of decline in manufacturing production remained historically sharp (output index at 42.4), although it did ease slightly from that seen in the previous month. The service sector continued to show some resilience, registering higher business activity for the eighth month in a row. The rate of growth even ticked up (index at 51.4), but it was still only modest overall.

Survey data continued to highlight weakness in underlying demand, with **inflows of new business** falling steeply and for the fifth successive month in October. The decline continued to be led by manufacturing, where there were reports of customers refraining from spending due to heightened economic uncertainty alongside weak demand from the automotive sector. A second successive monthly decrease in service sector new business was also partly linked to the struggles in the goods-producing sector. That said, the respective rates of decline in new orders eased from those seen in September.

The dearth of incoming new work was reflected in a further sharp decrease in **outstanding business** in October. Firms thereby looked to reduce staffing capacity, resulting in a fifth straight monthly decrease in **employment**. Furthermore, the rate at which workforce numbers fell was the fastest seen since June 2020 as another marked round of retrenchment in the manufacturing sector factory was compounded by a slight acceleration in the rate of service sector job losses.

The accelerated decline in employment in October belied an uptick in **business expectations**. Firms forecasting activity to rise in the coming year outnumbered those predicting a decline, in a reversal of the situation seen at the end of the third quarter. The improvement was driven primarily by a rebound in service sector optimism, with manufacturing sentiment showing little change from September's 11-month low and remaining firmly in negative territory. Overall, business expectations remained well below the long-run series average.

On the inflation front, **average prices charged** by German businesses were broadly unchanged in October. Whilst services output prices continued to rise, the rate of increase slowed to the weakest for three-and-a-half years (although it was still quicker the long-run average seen before the pandemic). Alongside this, October saw more aggressive discounting among goods producers, as factory gate charges posted the steepest drop for more than 15 years.

Average input costs meanwhile rose at a modest rate that was little-changed from September's 14-month low. Wage increases drove another strong rise in service providers' operating expenses, but the overall rate of inflation in the services sector remained on a downward trajectory and slowed to its weakest since February 2021. Manufacturers faced another notable drop in purchase prices, linked to competitive pressures, albeit with the rate of decline easing slightly from the month before.

Comment

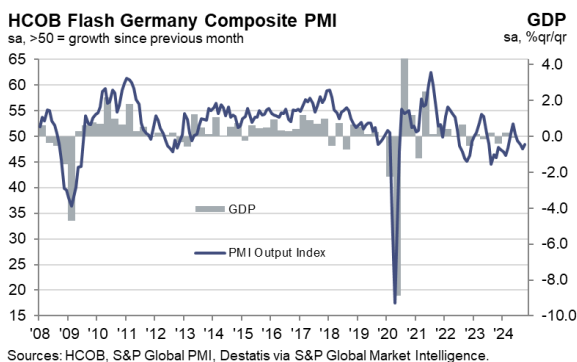
Commenting on the flash PMI data, Dr. Cyrus de la Rubia, Chief Economist at Hamburg Commercial Bank, said:

"The start to the fourth quarter is better than expected. With services growing at a faster pace and manufacturing shrinking not as quickly as in the previous month, growth in the fourth quarter is a distinctive possibility. Even so, GDP may stay flat for the whole year as forecasted by the International Monetary Fund in its latest projection, after a 0.3% decline in 2023. This underscores the structural weaknesses of the German economy, such as high energy costs, the increased competition from China and the labour market shortages which are all hitting the manufacturing sector hard.

"It's encouraging that services activity expanded at a faster pace than in September, after growth had slowed down for four months straight. And even though services companies have trimmed employment more than they did in September, business expectations have improved significantly. This fits in with the perception that German consumers started to spend more during the summer on the back of higher wages and lower inflation, indicated by official retail sales figures. This trend seems to have continued. The services sector has resumed its role of stabilizing the whole economy.

"The survey figures deliver tentative signs that we may start to see light at the end of the tunnel in manufacturing. To be sure, output is still shrinking quickly and so is employment. However, the speed of deterioration has slowed down a bit compared to September. Most importantly, new orders, which fell like a stone over the last couple of months, have lost a bit of their downward dynamic. Manufacturing will most probably continue to be in a recession in the fourth quarter, but it may start the next year on a better footing, although this assessment based on a one-month improvement should be taken with caution."

-Ends-



Contact

Hamburg Commercial Bank AG

Dr. Cyrus de la Rubia
Chief Economist
T: +49-160-90180-792
cyrus.delarubia@hcob-bank.com

Katrin Steinbacher
Head of Press Office
Senior Vice President
T: +49-40-3333-11130
katrin.steinbacher@hcob-bank.com

S&P Global Market Intelligence

Phil Smith
Economics Associate Director
T: +44-149-146-1009
phil.smith@spglobal.com

Sabrina Mayeen
Corporate Communications
T: +44-796-744-7030
sabrina.mayeen@spglobal.com

Note to Editors

Final October data are published on 4 November for manufacturing and 6 November 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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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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