

NEWS RELEASE
MARKET SENSITIVE INFORMATION
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HCOB Flash Germany PMI®

Continued growth of German business activity in May, despite downturn in manufacturing

Key findings:

HCOB Flash Germany Composite PMI Output Index⁽¹⁾ at 54.3 (Apr: 54.2). 13-month high.

HCOB Flash Germany Services PMI Business Activity Index⁽²⁾ at 57.8 (Apr: 56.0). 21-month high.

HCOB Flash Germany Manufacturing PMI Output Index⁽⁴⁾ at 47.4 (Apr: 50.7). 6-month low.

HCOB Flash Germany Manufacturing PMI⁽³⁾ at 42.9 (Apr: 44.5). 36-month low.

Data were collected 11-19 May

The latest 'flash' PMI® survey from HCOB showed sustained growth of business activity across Germany's private sector economy in May, albeit with the result masking a stark contrast in performance between expansion in services and a downturn in manufacturing. Expectations towards the outlook meanwhile suffered a setback, dropping to the lowest in five months, with more and more firms relying on backlogs of work to support activity levels. The pace of job creation eased slightly but nevertheless remained solid overall.

The divergence between the two sectors was further underlined by trends in prices. Whereas the rate of factory gate price inflation edged closer to stagnation in May as manufacturing input costs continued to fall sharply, service sector charges once again rose rapidly – and at a slightly quicker rate than the month before.

The headline **HCOB Flash Germany Composite PMI Output Index** registered 54.3 in May, up fractionally from April's 54.2. The latest reading marked a fourth straight month of growth, with the rate of expansion the fastest seen for just over a year. The upturn was driven exclusively by the services sector, where the rate business activity growth quickened for the fourth month running to the fastest since August 2021. By contrast, manufacturing output returned to contraction after posting marginal gains in each of the previous three months. The reduction in factory production was the steepest since November last year and led by a deepening decline in manufacturing new orders.

May saw the level of new orders at German goods producers fall sharply and at the quickest rate for six months, amid reports of customers postponing or cancelling orders due to high stocks levels and uncertainty towards the outlook. This was sufficient to offset a further (albeit slightly slower) rise in services sector new work, thereby resulting in a decrease in **overall inflows of new business** in May.

Latest data showed a broad-based fall in **backlogs of work** across Germany's private sector midway through the second quarter. Work-in-hand at manufacturers fell sharply and at the fastest rate since November last year. This not only reflected weakening demand in the sector, but also a sustained improvement in material availability (albeit with lead times shortening at a slower rate than April's record). The decrease in outstanding business in the service sector was only marginal, but it was nevertheless the first decline in four months.

In a buoy to domestic demand, the German **labour market** remained in rude health, according to May's survey. The latest rise in workforce numbers extended the current sequence of employment growth to almost two-and-a-half years. The pace of job creation slowed from April's 11-month high but was still solid by historical standards. Latest data did however show a continued slowdown in hiring activity in the manufacturing sector, with factory staffing levels posting only a modest rise that was the smallest for 27 months.

Continuing the theme seen in recent months, latest data showed that **price pressures** remained centred on the service sector, where there were reports of the pass-through of increased wage costs and adjustments to generally high inflation. Furthermore, despite the rate of services input price inflation easing slightly to a two-year low, prices charged across the sector rose at a quicker rate, in a further sign of resilient domestic demand for services. This led the rate of inflation in average prices charged for goods and services to tick up for the first time in four months, keeping it firmly above its historical series average.

Manufacturing factory gate charges, on the other hand, came close to stalling, rising only marginally and at the slowest rate for over two-and-a-half years. The decline in manufacturing input costs meanwhile deepened and showed the steepest rate of fall since February 2016.

Business expectations towards activity in the coming year weakened in May. The result was largely driven by a drop in confidence across the manufacturing sector, where sentiment towards the outlook turned negative for the first time in five months. Service providers meanwhile remained optimistic about the year ahead, although expectations slipped slightly further from February's recent high and were just shy of the historical series average.

Comment

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

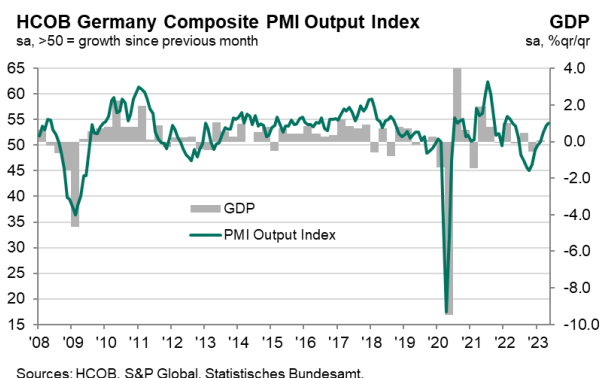
"While the signs of weakness in the manufacturing sector have become even more obvious, the rate of expansion in the services sector has accelerated, an unusual divergence between these two sectors in terms of magnitude. The good condition of the services sector suggests that consumer spending is doing better than expected, despite the inflation driven loss of household purchasing power. Manufacturing, on the other hand, is likely to be dragged down by the slump in Chinese manufacturing that has begun in the second quarter according to official data."

"Strength in the services sector is outweighing weakness in manufacturing, with the composite index indicating accelerating growth from the previous month. The ghost of a prolonged recession is thus effectively off the table, despite zero growth at the start of the year."

"The discussion about so-called greedflation in Germany may be fuelled by the PMI price data in the services sector. This is because while the upward momentum in input prices has weakened, it has increased in sales prices. This raises the suspicion that companies in this sector have been able to increase their profit margins on average and are keeping inflation high in this way."

"In the manufacturing sector, the most striking thing is the significant drop in new orders, and specifically in foreign demand, which has virtually collapsed according to the PMI survey. This means that the order backlog in German industry, which according to Destatis still ensured production for more than seven months in March, is likely to have fallen sharply and will approach 2018 and 2019 levels of just under six months over the course of the year. This is all the more true given that some companies surveyed also reported that customers had cancelled orders due in part to the ongoing uncertainty. However, the expected decline in order backlog could come to a halt at the turn of the year, when there may be a gradual recovery in the global economy."

-Ends-



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Note to Editors

Final May data are published on 1 June for manufacturing and 5 June 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.

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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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