

NEWS RELEASE
MARKET SENSITIVE INFORMATION
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HCOB Germany Manufacturing PMI®

German manufacturing sector ends Q3 firmly in contraction territory

Key findings:

- Steepest decline in output since May 2020
- Input costs continue to fall, albeit at a slower rate
- Expectations slip to lowest since November 2022

Data were collected 12-22 September 2023.

Germany's manufacturing sector remained firmly in contraction as the third quarter drew to a close, the latest HCOB PMI® survey conducted by S&P Global showed. Output fell to the greatest extent for almost three-and-a-half years amid a further sharp – albeit slightly slower – drop in new orders. Goods producers were more pessimistic about the outlook and trimmed workforce numbers accordingly, although the rate of job losses remained modest.

Weaker demand across the sector meanwhile fed through to lower prices, with September seeing further declines in both input costs and output charges.

The **HCOB Germany Manufacturing PMI®** – which is a gauge of overall business conditions based on measures of new orders, output, employment, supplier delivery times and stocks of purchases – registered 39.6 in September, up slightly from 39.1 in August. The latest reading was the highest recorded for three months but still firmly in sub-50 contraction territory.

Production levels across the German manufacturing sector fell for the fifth consecutive month in September. Furthermore, the rate of decline accelerated slightly from the previous survey period to the quickest since May 2020. Where output volumes were reduced, firms generally linked this to lower intakes of new orders.

Indeed, reports from surveyed businesses highlighted a number of headwinds to demand, including customer uncertainty, widespread efforts to reduce stocks and weakness in construction activity. New orders continued to fall sharply in September, although the rate of decline eased to the weakest since June. Export sales meanwhile fell at a marked pace that was unchanged since August, amid reports of lower demand across Europe and Asia.

A further steep drop in backlogs of work was recorded at the end of the third quarter. Manufacturers looked to trim staffing capacity accordingly, with factory employment falling for the third time in as many months. The rate of job shedding was the quickest in this sequence but still only modest. Where workforce numbers fell, firms often reported the non-renewal of contracts and leaving vacancies unfilled.

Manufacturers' purchasing activity, on the other hand, fell sharply in September, with the rate of decline little-changed from August's 39-month record. In some cases, lower buying levels reflected efforts to deplete stocks of purchases, which fell to the greatest extent for 14 years. Post-production inventories also decreased at a quicker rate – the fastest since September 2021.

Panelists reported streamlining stocks not only due to lower customer demand but also in line with better material availability. Lead times shortened considerably in September amid reports of reduced pressure on suppliers, albeit with the rate of improvement in performance the least marked since January.

Reduced demand for inputs meanwhile put further downward pressure on average purchasing costs, which fell for the eighth month running in September. The rate of decline remained historically sharp, although it eased to the weakest since April amid reports of the influence of higher oil prices.

Competition among manufacturers for new work led to a fourth straight monthly fall in average factory gate charges. The rate of decline was slightly faster than in August.

Lastly, September's survey showed a notable deterioration in goods producers' expectations towards future output to the lowest since November last year.

Comment

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

"There are tentative signs that the bottom is in sight. For sure, the HCOB Manufacturing PMI of Germany is still signalling a quick slide downhill in terms of output. Nevertheless, we see glimmers of hope that the sector is starting to turn the corner. Take new orders for instance, they are on the decline, but easing up a bit. And it is a similar situation with export orders."

"In terms of new orders, history tells us an encouraging story. In past phases of weak growth or recessions, the new orders index stayed in contractionary territory for less than two years. Then, the index moved above 50, signalling growth again. As of today, the new orders index has been below 50 for 18 months. Therefore, there is a decent shot that the order situation will start to improve by the start of next year."

"Suppliers' delivery times continue to improve at a rather fast pace. This is a sign that demand is still deteriorating, but also that supply problems have been removed. The latter is an important prerequisite for growth to pick up again once demand conditions allow for it."

"Compared to previous recessionary phases, the job market is dancing to a different beat now. It's like firms are just tiptoeing around job cuts. During the recessions at the start of the century, in 2008/2009 and during the eurozone debt crisis, jobs always took a nosedive. Today, demographics and the corresponding labour shortages, even in times of weak demand, are the obvious reasons why we are not seeing the job losses of times gone by. These factors change the character of this recession, which we assume to have started in the third quarter."

"Breaking it down by sector, the output drop is widespread. Consumer and investment goods production are dropping at faster rates, while the decline in intermediate goods output is easing up a touch. When it comes to jobs, the intermediate goods sector is looking the gloomiest. But in the world of consumer and investment goods, they're holding the line, keeping jobs steady."

-Ends-

HCOB Germany Manufacturing PMI

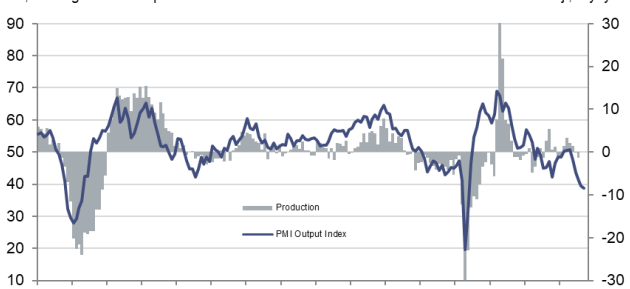
sa, >50 = improvement since previous month



Sources: HCOB, S&P Global PMI.

PMI Output Index

sa, >50 = growth since previous month



Sources: HCOB, S&P Global PMI, Statistisches Bundesamt via S&P Global Market Intelligence.

Contact

Hamburg Commercial Bank AG

Dr. Cyrus de la Rubia
Chief Economist
T: +49-160-9018-0792
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: +44-1491-461-009
phil.smith@spglobal.com

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

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 92% 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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Bundesverband Materialwirtschaft, Einkauf und Logistik e.V. (BME), Frankfurter Str. 27, 65760 Eschborn, GERMANY

Contact: Frank Rösch, Head of Press and Communications

E-mail: frank.roesch@bme.de Internet: www.bme.de

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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