NEWS RELEASE
MARKET SENSITIVE INFORMATION
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# HCOB Flash Germany PMI®

## German economy remains in contraction in October

**Key findings:**

HCOB Flash Germany Composite PMI Output Index(1) at 45.8 (Sep: 46.4). 2-month low.

HCOB Flash Germany Services PMI Business Activity Index(2) at 48.0 (Sep: 50.3). 2-month low.

HCOB Flash Germany Manufacturing PMI Output Index(4) at 41.4 (Sep: 38.7). 4-month high.

HCOB Flash Germany Manufacturing PMI(3) at 40.7 (Sep: 39.6). 5-month high.

Data were collected 12-20 October

The German economy remained in contraction at the start of the fourth quarter, according to latest HCOB 'flash' PMI® survey compiled by S&P Global. Manufacturing remained the main drag, although October also saw a renewed decline in the service sector. There further signs of weakness in activity spilling over to the labour market as employment fell for the second month running and at a slightly quicker pace. The mood among businesses remained one of pessimism.

On the price front, the rate of inflation in average prices charged for goods and services was up just a fraction from September's two-and-a-half year low. Cost pressures subsided, albeit with service providers still reporting steep increases in their operating expenses.

The headline **HCOB Flash Germany Composite PMI Output Index** registered in sub-50 contraction territory for a fourth straight month in October. The index even ticked down slightly from September's 46.4 to 45.8. This reflected developments in the service sector, where activity returned to contraction (index at 48.0) after ticking up slightly the month before. Although manufacturing remained the main drag on overall output (index at 41.4), the rate of decline in factory production did at least ease to the slowest for four months.

October's survey highlighted continued downward pressure on demand for goods and services, with overall inflows of **new business** posting the steepest decline since May 2020. Indeed, services firms reported their worst sales performance for almost three-and-a-half years, which they attributed in part to client hesitancy and tighter financial conditions. The decline in manufacturing new orders, although still sharp, eased to the weakest since June.

Companies once again reported falling **backlogs of work** in October. After reaching the fastest for over three years in September, the rate of depletion did however slow for the first time in seven months (and in both monitored sectors). Still, easing business capacity pressures resulted in a broad-based reduction in **employment** at the start of the fourth quarter. The pace of job losses quickened since September, when workforce numbers had ticked down for the first time in nearly three years, although it remained modest overall due to only slight job cuts among services firms. The rate of staff shedding in the manufacturing sector, on the other hand, was the fastest since October 2020.

**Confidence** among businesses towards the year-ahead outlook remained low. Expectations were less pessimistic than in September but still among the weakest seen this year. Cautious optimism in the service sector, where sentiment was at a four-month high, contrasted with still deeply negative expectations among manufacturers.

Turning to prices, the rate of **output charge inflation** moved broadly sideways in October after hitting a 31-month low in September. Average service sector charges continued to rise at a rate well above the historical series average, but one that was the slowest since May 2021. Factory gate charges were meanwhile down for the fifth straight month, although the rate of decline eased to the weakest since June.

These contrasting trends across the two monitored sectors continued to reflect underlying cost pressures. Whereas services firms reported another steep rise in operating expenses, which they linked to wages demands and inflation generally, purchasing costs faced by manufacturers continued to fall sharply. The rate of increase in service sector costs did however ease to the weakest since April 2021, which helped drag the overall pace of input price inflation to its second-lowest in nearly three years (undershot only by that seen in July).

**Comment**

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

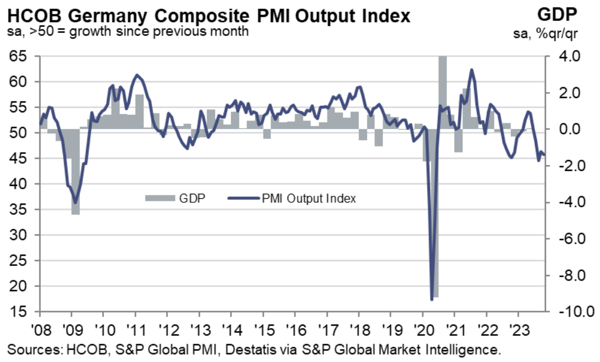
*"Germany is kicking off the final quarter on a sour note. The HCOB Composite Flash PMI is still stuck in the red this October and even slipped a notch from last month. Therefore, there is much to suggest that a recession in Germany is well underway. With the HCOB PMI indices baked into our GDP nowcast, we are calculating a -0.4 percent slip in GDP this quarter, after an estimated -0.8 percent slide the quarter before. If these nowcasts hit the mark, this would result in a -0.8 percent overall growth rate for 2023. This would make the German government's -0.4 percent shrinkage call seem pretty rosy.*

*"The PMI results show that the downturn is broad based. Manufacturing output continues to fall at a steep rate and activity in the services sector, which grew last month, swung into the red again. The jobs market is mirroring the trend - services employment is in month two of a gentle decline, while manufacturing, already four months into staff cuts, just hit the gas on layoffs. However, the recent composite PMI employment index readings are still outshining those dreary levels of the 2001/2002 and 2008/2009 recessions.*

*"Input prices in the German services sector are continuing to rise at an unusual high rate. Increased energy prices and high wage pressures are most likely at the core of this development. Firms are still managing to roll some of those inflated costs onto the customer's tab, and October did not see much change in that. Thus, there is no reason to pull the plug on inflation concerns.*

*"Looking for some glimmers of hope? Well, there are, especially in the manufacturing sector. The index of new orders, though at still low levels, has increased for the second month in a row and the output index has jumped above the 40 mark. Together with the increase in the index of stock of purchases, we take these developments as signs that there is some bottoming out happening in this sector. Manufacturing might return to growth territory in the early part of next year."*

-Ends-

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## Note to Editors

Final October data are published on 2 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?”

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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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We are widely sought after by many of the world's leading organizations to provide credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help the world's leading organizations plan for tomorrow, today.



**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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