

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

Germany PMI moves into contraction territory in July

Key findings:

HCOB Flash Germany Composite PMI Output Index⁽¹⁾ at 48.3 (June: 50.6). 8-month low.

HCOB Flash Germany Services PMI Business Activity Index⁽²⁾ at 52.0 (June: 54.1). 5-month low.

HCOB Flash Germany Manufacturing PMI Output Index⁽⁴⁾ at 41.0 (June: 43.6). 38-month low.

HCOB Flash Germany Manufacturing PMI⁽³⁾ at 38.8 (June: 40.6). 38-month low.

Data were collected 12-20 July

The German economy moved into contraction territory in July as a deepening downturn in manufacturing output coincided with a sustained slowdown in services activity growth, the latest HCOB 'flash' PMI[®] survey compiled by S&P Global showed. Business expectations towards future activity meanwhile turned negative for the first time this year, which was reflected in a weakening of job creation from the strong rates seen in the second quarter.

On the price front, rates of input cost and output charge inflation continued to slow. However, this owed exclusively to an increasing drag from falling manufacturing costs and output prices, with rates of inflation in the service sector picking up slightly from already high levels.

The headline **HCOB Flash Germany Composite PMI Output Index** dropped for the third month in a row in July. Furthermore, down from June's 50.6 to 48.3, the index moved into sub-50 contraction territory for the first time since January. Manufacturing production levels fell for the third successive month and at the fastest rate since May 2020 (output index at 41.0), amid rapidly declining demand for goods. The upturn in services activity meanwhile continued to lose momentum as growth slowed to a five-month low (business activity index at 52.0), weighed down by a renewed fall inflows of new work across the sector.

With services new business falling for the first time in six months and the downturn in manufacturing orders gathering pace, **total inflows of new work** showed the sharpest drop for more than three years in July. The sharp decrease in demand for goods and services reflected a range of factors, including customer hesitancy, destocking, high inflation and rising interest rates, reports from surveyed businesses showed. Data also indicated a decline in **new export business** across both monitored sectors.

A lack of incoming new work saw firms make further inroads into their **backlogs of work** during July. Moreover, the rate of decline was sharp and the quickest seen for over three years. A shrinking pipeline of outstanding business in turn contributed to a weakening of **firms' expectations towards future activity**, which turned negative as pessimists outnumbered optimists for the first time since December last year. By sector, the cautious optimism among services firms seen in June was replaced by slight pessimism towards the outlook, while manufacturers grew gloomier still.

In line with reduced inflows of new work and deteriorating expectations, the pace of **employment growth** across the German private sector slowed sharply in July. The overall rate of job creation was the joint-weakest in almost two-and-a-half years due to a slowdown in hiring in the service sector and the first – albeit marginal – drop in manufacturing payroll numbers since January 2021.

Whilst overall price pressures continued to ease during July, there were once again contrasting trends at the sector level. **Input cost inflation** maintained its downward trend – seen since last October – to reach the lowest for nearly three years. However, the result was driven entirely by a sharp and accelerated drop in manufacturing purchase prices – one of the fastest in the series history – with service sector costs rising sharply, and even at a slightly quicker rate than in June.

It was a similar situation for **output prices**. Here, the overall rate of inflation hit a 29-month low, although it was still firmly above pre-pandemic historical average. Deeper factory gate price cuts contrasted with a further sharp and slightly accelerated increase in services sector output charges, with the latter reflecting the pass-through of higher costs (often wages) to customers.

Comment

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

"This is a bad start to the third quarter for Germany's economy, with the flash PMI dropping into contraction territory. The downturn continues to be led by the manufacturing sector, while the slowdown in services sector growth that started last month has extended into July."

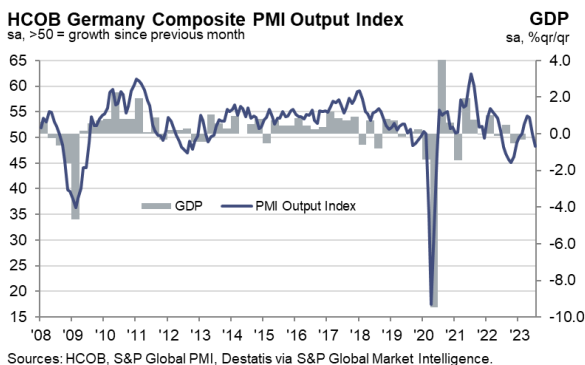
"There is an increased probability that the economy will be in recession in the second half of the year. This is because our GDP nowcast for the third quarter, which considers these latest HCOB PMI figures, points to negative growth."

"Over the last few months, we have seen a jaw dropping fall in both new orders and backlogs of work, which are now declining at their fastest rates since the initial covid wave at the start of 2020. This doesn't bode well for the rest of the year."

"Manufacturers are reacting to the drop in activity and new orders by starting to trim their workforces for the first time since January 2021. Meanwhile, in the services sector hiring has eased up significantly. The uptick in the unemployment rate, which we have seen over the last few months, is therefore likely to continue."

"Hopes for a rapid slowdown in inflation have taken a hit with these latest findings, given that the surge of input and output prices in the vast services sector has even gathered some pace in July."

-Ends-



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Note to Editors

Final July data are published on 1 August for manufacturing and 3 August 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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