

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

Services business activity remains under pressure, but expectations improve

Key findings:

HCOB Germany Services PMI Business Activity Index at 48.3 (Jan: 47.7). 2-month high.

HCOB Germany Composite PMI Output Index at 46.3 (Jan: 47.0). 4-month low.

Employment rises the most since last June as outlook brightens; inflationary pressures increase

Data were collected 12-26 February.

Germany's service sector remained under pressure from weak demand midway through the opening quarter, resulting in a fifth successive monthly drop in business activity, according to the latest HCOB PMI[®] survey compiled by S&P Global. More positively, firms' expectations for activity over the year ahead improved to the highest since last April, which in turn supported a notable pick-up in the rate of job creation.

The service sector meanwhile saw inflationary pressures intensify, with rates of increase in input costs and output prices reaching the highest for ten and six months respectively.

The **HCOB Germany Services PMI[®] Business Activity Index** once again registered below the critical 50.0 mark that separates growth from contraction, as has been the case in every month since October last year. At 48.3, up from January's 47.7, the latest reading indicated a modest rate of decline that was slightly slower than the month before.

Surveyed businesses cited factors such as tight financial conditions, client uncertainty and associated weakness in the wider economy (particularly the manufacturing and construction sectors) as having weighed on activity during the month. These numerous headwinds to demand were underscored by an eighth straight monthly reduction in new business across the service sector. The rate of decline eased since January, but it nevertheless remained solid overall. As well as domestic weakness, there was also an increased drag from falling export sales.

The dearth of incoming new work meant that services firms continued to make rapid inroads into their outstanding business (i.e. projects awaiting completion) during February. The rate of depletion eased only slightly from the month before, when it had shown the steepest drop in work-in-hand for over three-and-a-half years.

Despite there being little pressure on business capacity across the service sector, latest data showed a solid rise in employment in February. The rate of job creation was the quickest for eight months and above the historical series average. Where staffing levels rose, surveyed firms commented on the filling of vacancies, efforts to improve services and planned growth.

The pick-up in hiring coincided with greater optimism among services firms towards future activity. Expectations improved for the third month running to the highest since April last year and were broadly in line with the long-run trend level. Anecdotal evidence highlighted positivity around marketing plans and hopes for a general improvement in economic conditions over the coming year.

Turning to prices, February's survey indicated a strengthening of inflationary pressures across the service sector. The rate of increase in input costs accelerated for the fourth month in a row to the highest since last April, amid widespread reports of growing wage demands. The pass-through of higher operating expenses to clients in turn led to a sharp and accelerated rise in average prices charged across the service sector. The rate of inflation reached the highest since last August and was well above the historical series average.

Comment

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

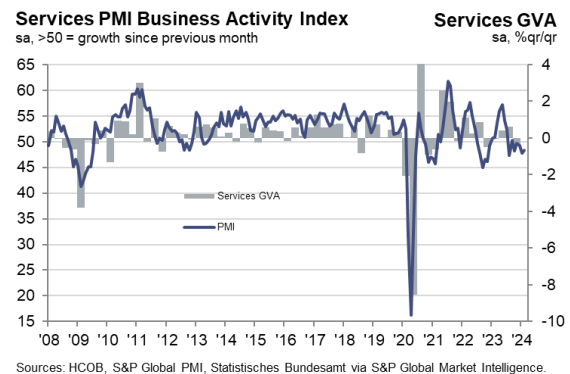
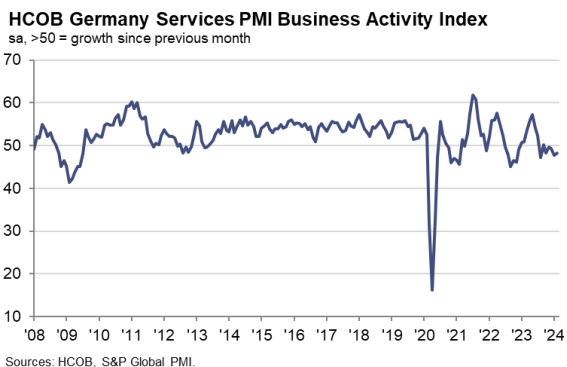
"Service providers are managing to distance themselves a bit from the depressive state in the manufacturing sector. Although their activity is shrinking again, the rate of decline has eased, standing in stark contrast to the deepening crisis gripping manufacturing. What is especially encouraging is that most of the subindicators are improving as well."

"In a sign of mounting resilience and optimism, service providers have expanded their workforce by leaps and bounds. The corresponding index surged by over three points, a stark contrast to January's signal of stagnant employment. Moreover, findings from the latest PMI survey indicate that companies are now foreseeing a swifter uptick in activity over the next 12 months compared to their previous expectations."

"On the whole, the service sector grapples with tepid demand. Despite a mild softening, new business has dipped once more, with new work from abroad taking an even steeper nosedive compared to the previous month. Meanwhile, outstanding business also slipped, though marginally slower than in January. Surveyed firms pin these trends on tight financial constraints, client hesitancy, and the overarching economic frailty, particularly prevalent in the manufacturing and construction sectors."

"Given the overall fragility of the economy, the persistent uptick in inflation within the services sector raises eyebrows. The notable increase in input prices is primarily attributed to above-average wage hikes, subsequently leading to a pass-through of these elevated costs to consumers. While this sounds trivial, the fact that service providers can successfully transfer these higher expenses to consumers underscores their robust pricing power and is a sign of economic resilience. However, this outcome, which has already been observed for a while, is drawing dissatisfaction from the European Central Bank (ECB). Isabel Schnabel, a board member of the ECB, recently highlighted concerns, stating that monetary policy has had a diminished impact on curbing demand for services and, consequently, on taming inflation within this sector. In our opinion, these figures are likely to play a prominent role in the ECB's decision-making process at their meeting on March 7."

-Ends-



HCOB Germany Composite PMI[®]

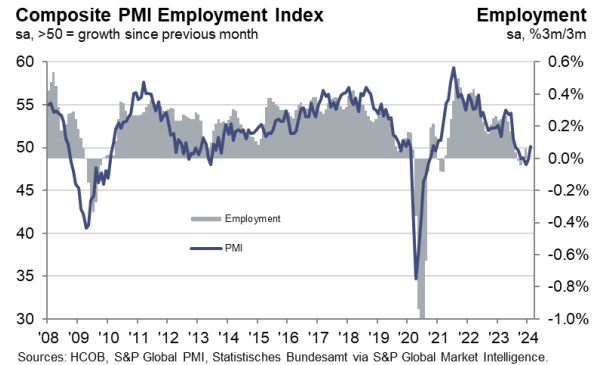
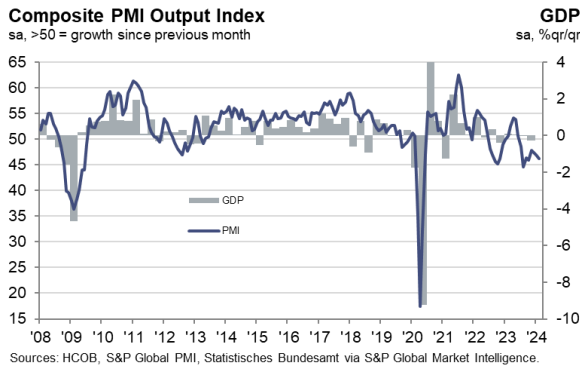
Private sector activity falls at faster rate in February due to manufacturing drag

The HCOB Germany Composite PMI Output Index slipped further below the 50.0 no-change threshold in February, down from 47.0 in January to a four-month low of 46.3. The faster rate of decline owed entirely to a sharp and accelerated reduction in manufacturing production – the quickest since last October.

As was the case with output, the downturn in new orders deepened slightly midway through the opening quarter, as a faster drop in manufacturing order books more than offset a slower decline in services new business. There was broad-based weakness in export sales.

Expectations for output did however improve, with stronger services sentiment masking renewed pessimism among manufacturers. Service-sector job creation also counterbalanced deeper factory staff cuts, bringing to an end a five-month sequence of falling private sector employment.

On the cost front, the rate of input price inflation was at a ten-month high, reflecting a faster rise in the service sector and a reduced drag from falling manufacturing costs. Output price inflation was meanwhile broadly unchanged from the month before and still comfortably above its long-run average.



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: +44-149-146-1009
phil.smith@spglobal.com

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

Note to Editors

The HCOB Germany Services PMI[®] is compiled by S&P Global from responses to questionnaires sent to a panel of around 400 service sector companies. The sectors covered include consumer (excluding retail), transport, information, communication, finance, insurance, real estate and business services. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP. Data collection began in June 1997.

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 Services Business Activity Index. This is a diffusion index calculated from a question that asks for changes in the volume of business activity compared with one month previously. The Services Business Activity Index is comparable to the Manufacturing Output Index. It may be referred to as the 'Services PMI' but is not comparable with the headline manufacturing PMI figure.

The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index. The weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Composite Output Index may be referred to as the 'Composite PMI' but is not comparable with the headline manufacturing PMI figure.

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 services data were calculated from 91% of final responses. Flash composite data were calculated from 93% of final responses. Since January 2006 the average difference between final and flash Services Business Activity Index values is -0.1 (0.6 in absolute terms). Since January 2006 the average difference between final and flash Composite Output Index values is 0.0 (0.4 in absolute terms).

For further information on the PMI survey methodology, please contact economics@spglobal.com.

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.

Hamburg Commercial Bank aligns its activities with established ESG (Environment, Social, and Governance) criteria and has anchored sustainability aspects in its business model. It supports its clients in their transition to a more sustainable future.

The bank's specialists are as experienced as they are pragmatic. They act in a reliable manner and at eye level with their customers. They provide in-depth advice in order to jointly find efficient solutions that are a perfect fit – for complex projects in particular. Tailor-made financing, a high level of structuring and syndication expertise and many years of experience are just as much a hallmark of the bank as are our profound market and sector expertise.

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The BME is the German Association for Supply Chain Management, Procurement and Logistics. Founded in 1954 it provides services for around 9750 individual and corporate members, including small and medium-sized businesses as well as Germany's top 200 companies. The BME liaises between businesses and academia, both on the demand and the supply side, by providing the necessary networks for communication and knowledge exchange. The association is open to all company types from any sector (industry, trade, banking/insurance, public sector, service providers, etc.).

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

Contact: Frank Rösch, Head of Press and Communications, frank.roesch@bme.de, 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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