

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

German private sector remains mired in contraction at start of 2024

Key findings:

HCOB Flash Germany Composite PMI Output Index⁽¹⁾ at 47.1 (Dec: 47.4). 3-month low.

HCOB Flash Germany Services PMI Business Activity Index⁽²⁾ at 47.6 (Dec: 49.3). 5-month low.

HCOB Flash Germany Manufacturing PMI Output Index⁽⁴⁾ at 46.0 (Dec: 43.8). 8-month high.

HCOB Flash Germany Manufacturing PMI⁽³⁾ at 45.4 (Dec: 43.3). 11-month high.

Data were collected 11-22 January

The downturn in Germany's private sector extended into the new year as business activity fell for a seventh straight month in January, the latest HCOB 'flash' PMI[®] survey compiled by S&P Global showed. There were continued signs of broad-based weakness in demand, albeit with only limited spillover to the labour market. The mood among businesses towards the year-ahead outlook meanwhile brightened slightly.

On the price front, inflationary pressures remained elevated in the service sector, where firms remarked on the influence of wage demands. Prices in the manufacturing sector continued to fall, although the rate of decline in factory input costs was the weakest for nine months amid reports of some supply disruption due to the events in the Red Sea.

As has been the case in each month since July last year, the headline **HCOB Flash Germany Composite PMI Output Index** registered in sub-50 contraction territory in January. Moreover, having slipped from December's 47.4 to 47.1, the index signalled the quickest rate of contraction since last October. Underlying data showed a convergence in performance between the two monitored sub-sectors, with the decline in manufacturing output easing to the weakest for eight months (index at 46.0) whilst services business activity posted its steepest drop for five months (index at 47.6).

Businesses continued to report challenging demand conditions at the start of the year, which was underlined by a ninth consecutive monthly decrease in **inflows of new work**. Where a reduction was recorded, firms commented on customer hesitancy amid a backdrop of high financing costs and geopolitical uncertainty. Matching the trends in output, a faster decrease in new business in the service sector in January contrasted with a slower (but still marked) contraction in manufacturing new orders. Lower **international demand** remained a factor behind Germany's slowdown, albeit with the drag from falling export orders easing to the weakest for nine months.

The decline in **backlogs of work** – seen since August 2022 – extended into January as firms reported a lack of new orders to replace completed projects. Furthermore, the rate of depletion was sharp and the quickest for three months. Signs of easing capacity pressures were reflected in further job losses across Germany's private sector in January. That said, the rate of decline in employment remained modest and even slowed since December, thanks to a fractional rise in services workforce numbers. As such, job cuts were confined to manufacturing, where employment fell for the seventh month running and at the quickest rate in this sequence.

Turning to prices, January's survey showed an uptick in cost pressures faced by businesses. A sharp and accelerated rise in service sector operating costs drove the steepest increase in **total input prices** for nine months. Adding to this was a cooling of the rate of decline in manufacturing purchasing costs to the weakest since April last year, amid reports of the incidents in the Red Sea impacting freight rates. The improvement in supplier delivery times meanwhile came close to stalling in January, as the effects of weaker demand for inputs were partly offset by the delays caused by the rerouting of shipping from Asia.

January saw another steep rise in services **prices charged**, with the rate of inflation ticking down only slightly from the month

before and remaining well above its long-run average. This was partly offset by a further (and slightly steeper) drop in manufacturing factory gate charges, causing the overall rate of output price inflation to retreat from December's six-month high to one of the lowest in the past three years.

Looking ahead, businesses expressed cautious optimism towards output in the forthcoming year. **Business expectations** improved for the fourth month running to the highest since April last year, though remained subdued by historical standards. By sector, a further strengthening of confidence among services firms contrasted with a drop in manufacturers' optimism.

Comment

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

"Germany has faced a sluggish start to the new year. Services activity has not only declined for the fourth consecutive month but has also accelerated in its downturn. Manufacturing, remaining in recessionary territory for the 19th straight month, has displayed a somewhat softened downturn, as reflected in the steadily rising PMI index since August of last year. Recognizing the inherent uncertainty at this early stage, our GDP Nowcast, which considers the PMI data, suggests a continuation of the recession into the current quarter, however.

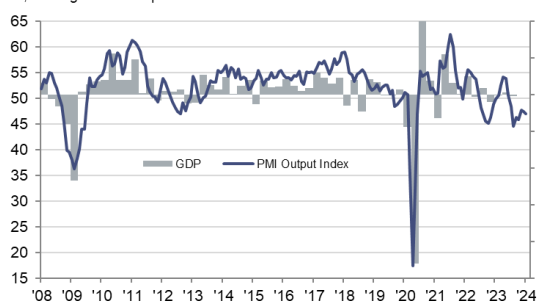
"Red Sea reroutings are having an impact on supply chains of the manufacturing sector. Evidence for this is the strong fall in the delivery times sub-index. In fact, it would be surprising if the events in the Red Sea left no traces behind, as the Houthi attacks on commercial vessels mean that most of them chose to take the detour around the Cape of Good Hope. Most ships have to extend their journey by approximately seven days, accompanied by a hefty additional million-dollar fuel cost burden, particularly affecting vessels originating in Asia bound for Europe. Despite these challenges, the ongoing dip in input costs, albeit with a softer trajectory, hints that transport expenses may not wield overwhelming influence yet over the aggregate unit costs of the myriad consumer goods traversing this route.

"In contrast to the manufacturing realm, inflation remains a pressing issue in the service sector. The acceleration of input prices throughout January marks the third consecutive month of heightened inflationary trends. Notably, output prices have risen at a robust rate and at a similar speed to that seen in December, a deviation from the norm in a country potentially facing a prolonged recession. The primary driver behind this acceleration is likely the escalating cost of labour, with employees asserting their bargaining power for above-average wage hikes. This sentiment seems justified, given employers' reluctance to trim jobs in the service sector, resulting in a relatively stable level of employment.

"Amidst the quest for positive news, the service sector unveils a notable surge in optimism about future business prospects, fitting to the absence of any job cuts. Contributing to this optimistic shift is the perception that passing on higher prices to consumers is still feasible."

-Ends-

HCOB Germany Composite PMI Output Index
sa, >50 = growth since previous month



GDP
sa, %qtr/qtr

HCOB Germany Manufacturing PMI
sa, >50 = improvement since previous month



Contact

Hamburg Commercial Bank AG

Dr. Cyrus de la Rubia
Chief Economist
T: +49-160-90180-792
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

Final January data are published on 1 February for manufacturing and 5 February 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?"

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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S&P Global (NYSE: SPGI)

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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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