

NEWS RELEASE

MARKET SENSITIVE INFORMATION

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HCOB Germany Manufacturing PMI[®]

German manufacturing recession deepens in August

Key findings:

HCOB Germany Manufacturing PMI at 42.4 (Jul: 43.2). 5-month low.

HCOB Germany Manufacturing PMI Output Index at 42.8 (Jul: 42.5). 2-month high.

New orders drop at quickest rate for nine months

Data were collected 12-22 August 2024.

The latest HCOB PMI[®] survey brought more bad news regarding the health of the German manufacturing sector, as it showed sharp and accelerated declines in new orders, purchasing activity and employment in August. Goods producers in the eurozone's largest economy were also less optimistic about their growth prospects in the coming year.

There were further signs of an imminent end to the downward trend in prices in the manufacturing sector that started last year. Costs were little-changed in August, while average factory gate charges showed the smallest monthly fall since the current sequence of discounting began. Higher transport costs were cited by a number of surveyed businesses.

The **HCOB Germany Manufacturing PMI[®]** is a gauge of overall business conditions derived from measures of new orders, output, employment, supplier delivery times and stocks of purchases. The headline PMI remained on a downward trajectory in August, dropping for the third month in a row and moving deeper into sub-50 contraction territory. Its latest reading of 42.4 was down from July's 43.2 and the lowest since March.

A sharp and accelerated decrease in new orders in August was far and away the main factor weighing on the headline index. Inflows of new work posted the steepest decline since November last year, amid reports of hesitancy among customers and weak demand from the construction sector. The downturn in new export orders likewise deepened midway through the third quarter, with foreign sales falling to the greatest extent for nine months.

Latest data showed another marked drop in production volumes across the manufacturing sector. Although the rate of contraction eased slightly since July, it was still the second-quickest over the past six months and faster than the average over the current sequence of decline that began in May last year.

August saw faster reductions in both backlogs of work and employment, pointing to spare capacity at factories. The rates of decline were the quickest for nine and five months, respectively.

The downturn in purchasing activity also gathered pace in August, reflecting falling workloads and associated attempts to run down stocks of purchases. The decrease in buying levels was the most marked for ten months. Pre-production inventories fell sharply, albeit at a slightly slower rate that was the weakest since April. Although stocks of finished goods were also down, the rate of depletion eased for the second month running and was only modest.

Weak demand across supply chains led to a further shortening of delivery times on inputs in August, the twenty-second month in a row in which this has been the case. The extent to which vendor performance improved was slightly more marked than in July, but still among the least pronounced in the current sequence.

A number of manufacturers reported successfully negotiating lower prices with suppliers due to it being a buyers' market. On the other hand, however, there were multiple mentions of higher shipping costs. Overall input prices therefore fell only fractionally, and at the slowest rate in the current sequence that stretches back to February 2023. Similarly, average factory gate charges posted the smallest decline for 15 months.

Turning to business sentiment, August's survey showed a further waning of confidence in regard to growth prospects in the coming year. Expectations retreated further from June's 28-month high to the lowest since March, reflecting declining order books and concerns for the economy.

Comment

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

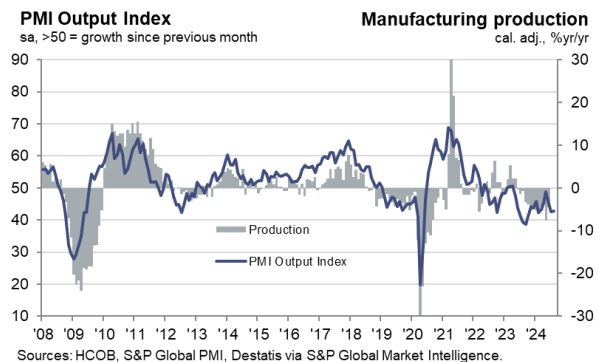
"The recession in Germany's manufacturing sector is dragging on way longer than anyone expected. August saw an even steeper drop in incoming orders, killing off any hope for a quick bounce back. The HCOB PMI shows that the downturn has been going on since mid-2022, which is unusually long. Normally, over the last 30 years, the industry has managed to recover within a maximum of 20 months of a recession starting. But this time, things are different, and China seems to be the main culprit. The country is stepping up its game, competing head-to-head with German industrial companies – not just in China, but also in Germany and in other key markets, especially in the automotive and mechanical engineering sectors.

"Just as Germany was on the verge of reaping the benefits of a tentative global manufacturing uptick, as hinted by the global PMI, the economic cycle seems to have taken another nosedive. In August, export orders in Germany dropped at a much faster pace than in previous months. This suggests that the export slump we've been seeing in recent months is probably going to stick around for a while.

"Order backlogs for German companies have been shrinking since the middle of 2022, as shown by the HCOB PMI data. While Eurostat data echoes this trend, it doesn't quite capture the full picture. What often gets missed is that companies can be struggling despite having order books filled to the brim. This happens when the prices agreed upon for those orders no longer cover rising production costs. In the worst-case scenario, these companies may face bankruptcy, but until that point, the stock of orders data can misleadingly inflate the health of business conditions.

"The recession is still hitting the consumer goods sector, and it is also dragging down the intermediate and capital goods industries. The downturn has become more pronounced in the intermediate goods sector, while the reduction in production in the capital goods sector has slowed slightly compared to the previous two months. However, with new orders declining again, and at a slightly faster pace, there's little hope that the capital goods sector will see any expansion in the coming months."

-Ends-



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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 87% 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

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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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.).

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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. www.spglobal.com/marketintelligence/en/mi/products/pmi.html

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