

NEWS RELEASE
MARKET SENSITIVE INFORMATION
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HCOB Germany Services PMI®

Service sector records steepest drop in activity for two-and-a-half years in May

Key findings:

HCOB Germany Services PMI Business Activity Index at 47.1 (Apr: 49.0). 30-month low.

HCOB Germany Composite PMI Output Index at 48.5 (Apr: 50.1). 5-month low.

Rates of input cost and output price inflation ease slightly

Data were collected 12-27 May.

Business activity fell across Germany's service sector for the second month in a row and at the quickest rate for two-and-a-half years in May, the latest HCOB PMI® survey showed. The downturn reflected persistent weakness in demand, linked in part by surveyed firms to heightened uncertainty levels. Although business expectations rebounded from April's recent low, confidence remained subdued by historical standards and May saw the pace of job creation slow.

On the price front, latest data showed slightly weaker increases in both input costs and prices charged across the services economy. For the latter, the rate of inflation eased for the third month running to the lowest since October last year.

The headline **HCOB Germany Services PMI® Business Activity Index** is based on a single question asking how the level of business activity compares with the situation the month before. A reading below 50.0 signals contraction, and the further below 50.0 the faster the rate of decline signalled. At 47.1 in May, the headline index was down from 49.0 in April and at its lowest level since November 2022.

Reports from surveyed businesses indicated that the downturn in activity was driven by weaker demand. Indeed, for the ninth month in a row in May, services firms in Germany registered a reduction in inflows of new work. The latest decrease, which was the steepest recorded since February 2024, was partly a reflection of heightened uncertainty among customers, according to anecdotal evidence. May also saw an increased drag on demand from decreasing intakes of new work from abroad, which fell to the greatest extent since December 2023.

Backlogs of work likewise declined at a faster rate at the midway point in the second quarter. Contributing to the accelerated drop in outstanding business was a further expansion in staffing capacity, with employment increasing across the service sector for the fifth month in a row in May. That said, workforce numbers rose only marginally and at the slowest rate in the current sequence of job creation.

Business expectations towards activity over the forthcoming year picked up in May, after having slumped to a seven-month low at the beginning of the second quarter. Nevertheless, the degree of optimism was still below the long-run series average, amid reports from surveyed businesses of concerns towards the geopolitical backdrop.

Turning to prices, latest data showed operating expenses continuing to rise across the Germany services economy, with a number of survey participants commenting on the influence of wage pressures. The rate of cost inflation ticked down slightly since April and was below the average seen so far this year, but it still exceeded the historical series trend.

May also saw the rate of output price inflation ease slightly, taking it to a seven-month low. Nevertheless, as with input costs, the rate of increase remained firmly above the pre-pandemic long-run average.

Comment

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

“The service sector is no longer stabilizing the overall economy, it is slowing it down instead. Business activity declined for the second month in a row, new business fell more sharply than in the previous month, and work from abroad was also lower than before. However, there are many indications that this development is not sustainable, but rather attributable to the volatility of economic activity that is observed from time to time. The conditions for a recovery are relatively good: real wages have risen and are likely to continue to do so therefore driving up demand for services, lower interest rates are helping many companies, and the new government’s expansionary fiscal policy should also have a positive impact on large parts of the service sector.

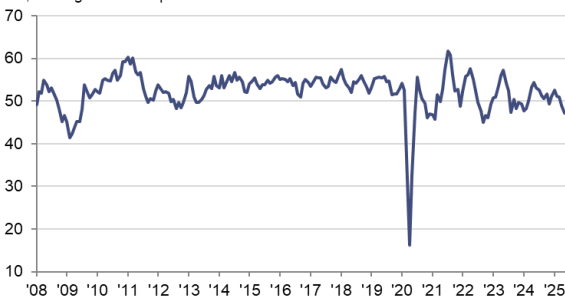
“Service providers have significantly slowed the pace of hiring, but despite weaker new business, they are not yet prepared to lay off staff on balance. This may be due to the usual lag with which lower activity is reflected in personnel decisions. However, it is also quite possible that companies are proceeding with greater caution with respect to job cuts because they are hoping for a recovery soon. This view is supported by the higher level of optimism compared with the previous month, even though it remains lower than seen on average in the past.

“The continued sharp rise in costs is a challenge for the service sector. The rise is primarily due to wage increases, as energy prices fell in May. Since it is apparently only possible to pass on smaller price increases to customers, service providers’ margins are coming under pressure. An improvement in demand as a result of expansionary fiscal policy could improve the situation here in the coming months.”

-Ends-

HCOB Germany Services PMI Business Activity Index

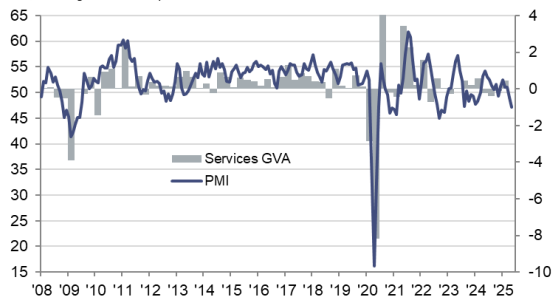
sa, >50 = growth since previous month



Sources: HCOB, S&P Global PMI.

Services PMI Business Activity Index

sa, >50 = growth since previous month



Sources: HCOB, S&P Global PMI, Destatis via S&P Global Market Intelligence.

HCOB Germany Composite PMI[®]

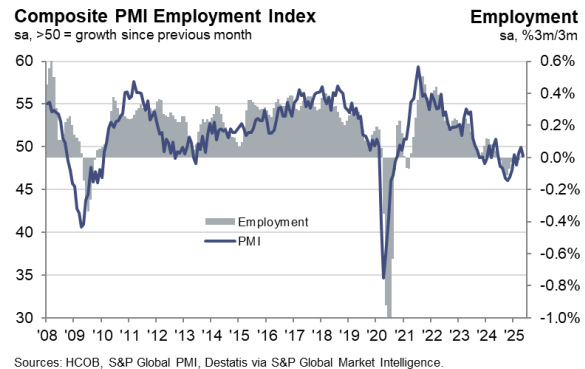
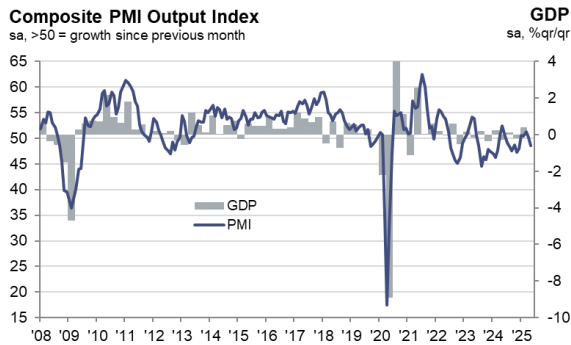
German private sector slips back into contraction

May saw the HCOB Germany Composite* PMI Output Index slip to 48.5, down from 50.1 in April and its first reading below the neutral 50.0 threshold since December last year. This reflected a combination of slower manufacturing production growth and an accelerated decline in services activity.

New orders decreased in both monitored sectors and posted the steepest overall drop so far this year. Manufacturers saw export sales rise for a second straight month, but this was offset by weaker international demand across the service sector.

Despite a broad-based improvement in business expectations, employment fell at the fastest rate for three months in May (though only slightly overall). Declining backlogs of work continued to highlight a lack of pressure on staffing capacity.

On the price front, latest data showed the slowest rise in average charges for goods and services for seven months, with renewed discounting among manufacturers seen alongside weaker pricing power in the service sector. Similarly, overall cost pressures across the private sector were the softest since October last year.



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

Hannah Brook
EMEA Communications Manager
T: +44-7483-439-812

hannah.brook@spglobal.com
press.mi@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 81% of final responses. Flash composite data were calculated from 86% 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.

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.).

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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