

NEWS RELEASE
MARKET SENSITIVE INFORMATION
Embargoed until 0955 CEST (0755 UTC) 5 July 2023

HCOB Germany Services PMI®

Service sector remains a bright spot for German economy in June, but its rate of growth slows

Key findings:

- HCOB Business Activity Index slips to three-month low of 54.1
- Job creation remains strong even as confidence wanes
- Output price inflation still elevated despite easing to 21-month low

Data were collected 12-27 June

The service sector remained a bright spot for the German economy in June as it recorded a rise in business activity for the sixth month in a row, the latest HCOB PMI® survey compiled by S&P Global showed. However, the rate of growth slowed amid signs that the recent resurgence in demand was losing steam. Firms' optimism towards the outlook dropped to its lowest in the year-to-date.

Employment in the sector nevertheless continued to rise strongly, with related wage pressures helping fuel a further steep rise in firms' input prices. However, although cost inflation remained elevated, it maintained its recent slowing tendency to fall to 25-month low. This in turn contributed to a slightly slower – albeit still sharp – rise in prices charged.

At 54.1 in June, the headline **HCOB Germany Services PMI® Business Activity Index** remained comfortably above the 50.0 no-change threshold and thereby indicative of a solid rate of growth. However, dropping from May's 13-month high of 57.2, the index indicated a loss of momentum for the first time in the current sequence of expansion that stretches back to January.

Although inflows of new business rose for a fifth straight month in June, demand showed signs of plateauing as the rate of growth slowed to only a modest pace that was the weakest since February. Reports from surveyed firms suggested that customer spending was being squeezed by high inflation. Data meanwhile showed a slight decrease in new work received from non-domestic clients, which ended a three-month sequence of growth in new export business.

Firms' expectations towards activity over the next 12 months meanwhile deteriorated further. Since hitting a one-year high back in February, confidence has weakened in every month subsequently, dropping to the lowest in 2023 so far in June. Optimists continued to outnumber pessimists, but growing concerns about high inflation and broader economic conditions saw the gap close.

June's survey nevertheless pointed to another sharp rise in service sector employment as businesses continued to fill vacancies. The rate of job creation even picked up slightly from the previous survey period, bringing it in line with April's 17-month high. This extra staffing capacity helped lead to a fall in outstanding business in June for the first time in five months.

Solid labour market conditions across the German service sector were further reflected in reports of rising wage costs, with employees reportedly able to negotiate pay increases amid the rising cost of living. Higher interest rates were another factor putting upward pressure on firms' operating expenses, which continued to rise steeply by historical standards. That said, the overall rate of cost inflation remained on a downward trajectory, falling to its lowest since May 2021.

Many service providers continued to raise prices charged during June as higher costs were passed through. The rate of inflation did however ease slightly, reversing May's brief uptick and taking it to a 21-month low. Excluding the past two years, it was still higher than at any time in the series history since 1997.

Comment

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

"Is this now the turning point in the services sector that has been expected for some time? After the HCOB PMI services business activity index had risen for the first five months of the year, signalling a sustained acceleration in growth, the rate of expansion is now slowing. In parallel, growth in new business has also softened.

"This development comes as no surprise, as the loss of momentum in France, Italy and Spain had already begun a month earlier. It was also inevitable that the decline in demand in the manufacturing sector, which began in the middle of last year, would have to leave its mark on the service sector at some point.

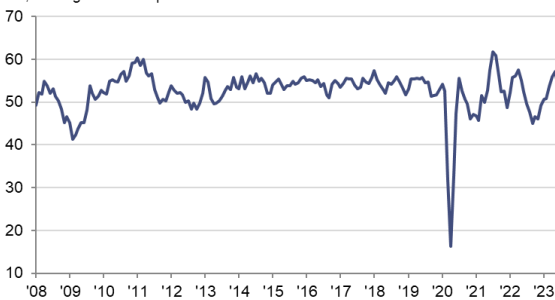
"However, it is not the case that the sector is now gripped by a deep sense of malaise. On average, companies continue to expect growth in the future, even if they are somewhat less optimistic in this respect than in May. At the same time, companies have hired slightly more staff than in the previous month, which also expresses a degree of confidence.

"Germany will probably escape a continuation of the recession that set in during the fourth quarter of last year. This can be deduced from the composite PMI, which on average signalled solid growth in the overall economy in the second quarter, but in June was only just above the expansion threshold. However, the risk of the economy slipping into recession again in the second half of the year has increased."

-Ends-

HCOB Germany Services PMI Business Activity Index

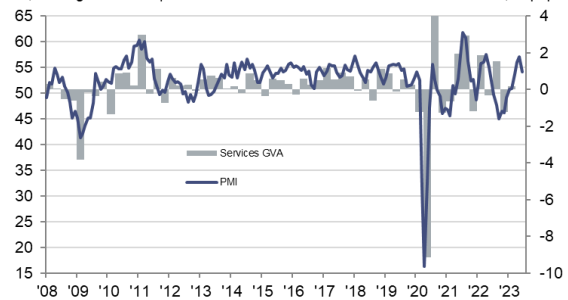
sa, >50 = growth since previous month



Sources: HCOB, S&P Global PMI.

Services PMI Business Activity Index

sa, >50 = growth since previous month



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

HCOB Germany Composite PMI[®]

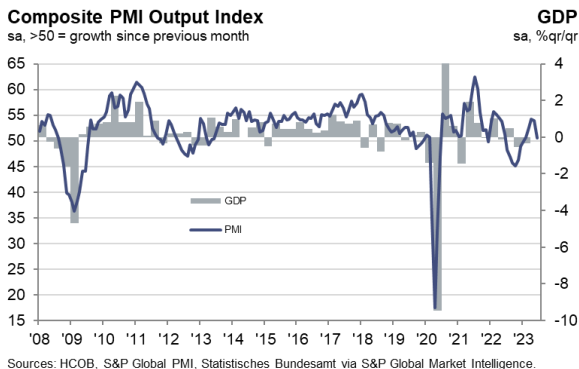
Private sector growth slows abruptly in June amid increased drag from manufacturing

The **HCOB Germany Composite PMI Output Index** signalled a noticeable slowdown in the rate of growth of Germany's private sector economy in June, dropping sharply from May's 53.9 to a five-month low of 50.6. Sector data showed that continued (albeit slower) growth in services activity was largely offset by a deepening downturn in manufacturing output.

Demand conditions meanwhile deteriorated as total inflows of new business fell for the second month running and at the quickest rate since last December, led by a sharp drop in manufacturing new orders. Business confidence also weakened, again mostly driven by the goods-producing sector.

Trends in job creation diverged in June. A faster rise in services employment contrasted with a near-stalling of factory workforce growth.

On the price front, input cost inflation slipped further below its long-run average as the decline in manufacturing purchase prices accelerated. Output charge inflation remained stickier due to steep services price increases, although it also eased, down to a 28-month low.



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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 90% 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@ihsmarkit.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.

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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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