

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

Manufacturing output contracts for first time in four months in May amid an export-led slump in demand

Key findings:

New orders post fastest decline since November last year

Business expectations turn pessimistic

Output prices close to stalling amid falling costs and growing competition

Data were collected 11-23 May 2023.

Business conditions deteriorated across the German manufacturing sector in May, according to the latest HCOB PMI[®] survey. Goods producers in the eurozone's biggest economy faced a sharp drop in new orders during the month, led by plunging export sales. The downturn in demand fed through to production, which contracted for the first time in four months. Furthermore, manufacturers' expectations towards future output turned pessimistic.

At the same time, a combination of growing competitive pressures and falling input costs saw factory gate prices come close to stalling, as they recorded only a fractional increase that was the slowest for over two-and-a-half years.

The **HCOB Germany Manufacturing PMI[®]** – which is a gauge of overall business conditions based on measures of new orders, output, employment, supplier delivery times and stocks of purchases – fell deeper into sub-50 contraction territory in May. At 43.2, the index was down from April's 44.5 and the lowest for three years.

The worsening health of the sector reflected a broad-based weakening of demand, the survey showed. Panellists cited a range of factors, including de-stocking efforts among customers, a waning appetite for investment amid tightening financial conditions, an uncertain outlook and pressure on client budgets. Inflows of new work fell at the fastest rate for six months and were down in all three main industrial groupings (i.e. consumer, intermediate and investment). New export orders dropped particularly sharply, registering the steepest decline since last October.

After posting modest gains in each of the previous three months, production levels across the German manufacturing sector returned to contraction in May. However, although solid, the rate of decline was much slower than that of new orders, as a number of companies maintained (or even increased) output volumes through work on backlogged orders. Work-in-hand has fallen continuously throughout the past year and posted the steepest decline for six months in May.

May's survey showed a sharp and accelerated reduction in stocks of purchases held by German manufacturers. The decline was linked not only to lower production requirements, but also greater supply reliability and efforts to better manage cashflow. The improvement in supply conditions was underscored by a further substantial shortening of average lead times on inputs, albeit with the respective seasonally adjusted index ticking down from April's record high. Manufacturers' preference to run down stocks saw them cut their purchasing activity considerably during the month.

Falling demand for inputs, combined with easing energy prices, contributed to further downward pressure on purchasing costs, which fell for the fourth month running and at the quickest rate since February 2016. Easing cost pressures and greater competition for new work meant that German manufacturers were less inclined to raise their own prices. Indeed, average factory gate charges rose only fractionally in May, registering the smallest rise in the current sequence of inflation that stretches back to October 2020.

In terms of the outlook, May's survey showed that manufacturers' expectations had turned pessimistic for the first time in 2023 so far, weighed down by concerns about the global economy, geopolitical tensions, rising interest rates and general hesitancy among clients. Even so, factory employment grew, and at a quicker rate than April's 26-month low.

Comment

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

"The manufacturing sector is heading towards difficult times. Results from the latest PMI survey, such as the accelerated decline in new orders and lower purchasing volumes, suggest that the sector is in for some lean quarters.

"After three months of rising output, May's PMI survey indicated a renewed fall in production. This is companies' response to declining demand, especially from abroad. In this respect, China, Europe and the U.S. were highlighted by the companies surveyed.

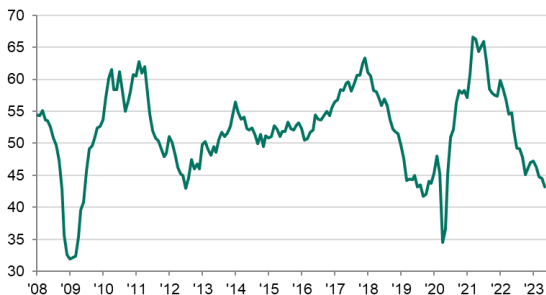
"There was an especially sharp drop in intermediate goods production. This is likely to be related to some previous overstocking when companies had looked to build up more resilience against supply problems. Now, as supply chain pressures ease, stocks are being reduced again leading to lower production of intermediate goods.

"Capital goods, which are of particular importance for German manufacturing, remain in relatively high demand, according to statistics from the European Commission and according to the corresponding PMI. Here, the EU New Generation Fund, which is intended to finance investment projects, may be playing an important role.

"Overall, there is no need to be too alarmist. For one thing, the PMI survey shows that companies are continuing to increase employment and they are still able to push through slightly higher selling prices in an environment of significantly falling input prices, which is a good thing for profit margins. For another, according to Destatis, the order backlog is falling from a high level, so we don't expect a crash in production in the next few months."

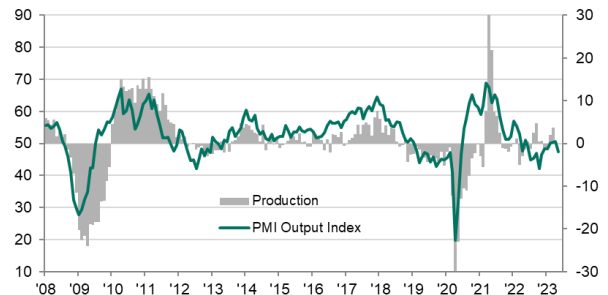
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HCOB Germany Manufacturing PMI



Sources: HCOB, S&P Global.

PMI Output Index



Sources: HCOB, S&P Global, Statistisches Bundesamt.

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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@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.

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

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