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NEWS RELEASE
MARKET SENSITIVE INFORMATION
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HCOB Flash Germany PMI®

Germany ends 2023 with further fall in activity and uptick in price pressures

Key findings:

HCOB Flash Germany Composite PMI Output Index(1) at 46.7 (Nov: 47.8). 2-month low.

HCOB Flash Germany Services PMI Business Activity Index(2) at 48.4 (Nov: 49.6). 2-month low.

HCOB Flash Germany Manufacturing PMI Output Index(4) at 43.4 (Nov: 44.2). 2-month low.

HCOB Flash Germany Manufacturing PMI(3) at 43.1 (Nov: 42.6). 7-month high.

Data were collected 6-13 December

Germany's private sector economy ended 2023 in contraction territory, according to December's HCOB 'flash' PMI® survey compiled by S&P Global, with the country's manufacturers and services firms each recording slightly faster declines in activity. Weak underlying demand was signalled by sustained downturns in both inflows of new business and backlogs of work, albeit with the survey signalling a softening of the respective rates of contraction.

Inflationary pressures meanwhile increased at the end of the fourth quarter, with firms reporting the steepest rise in output prices for seven months amid a more marked uptick in average costs. A combination of spare capacity and efforts to reduce overheads saw employment fall for the fourth month running, and at a quicker rate. This was despite a further recovery in business expectations from September's recent low.

The headline **HCOB Flash Germany Composite PMI Output Index** registered in sub-50 contraction territory for a sixth successive month in December. Furthermore, at 46.7, the latest reading was down from November's 47.8 and thereby signalled a slight acceleration in the rate of decline in activity. Both **manufacturing output** (index at 43.4) and **services business activity** (48.4) fell more quickly than in November.

December data indicated a sustained drop in demand for goods and services across the eurozone's largest economy. Customer reluctance, geopolitical uncertainty and high interest rates were just some of the headwinds cited by surveyed businesses. However, whilst remaining marked, the rate of decline in **new business** eased for the third month running to the weakest since June. This was driven by a slower (although still-sharp) decrease in manufacturing new orders as new business in the service sector fell at a slightly quicker rate. Weaker demand from abroad remained a notable drag on both monitored sectors.

The decline in total **backlogs of work** likewise eased in December, posting the smallest drop for six months. Again, the result owned exclusively to the underlying trend in the manufacturing sector, where the rate of depletion of work-in-hand was the weakest since May (although it was still far quicker than that seen in services).

Reduced workloads once again translated into job losses across the German private sector in December. Moreover, the rate of decline in **employment** quickened to the fastest since August 2020. This reflected both a renewed decline in service sector workforce numbers and a more marked reduction in factory headcounts – the sharpest for over three years.

On the cost front, December saw the fastest rise in businesses' **input prices** for seven months. Operating expenses in the service sector rose sharply and to the greatest extent since May, with surveyed firms highlighting the influence of wage pressures, increased road tolls and general inflation. At the same time, the drag from falling manufacturing input costs eased, with latest data showing the slowest rate of decline since April.

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After having been at a two-and-a-half year low during October and November, the rate of inflation in average **prices charged** for goods and services accelerated to a seven-month high and moved back above its long-run average in December. Alongside a sharp and accelerated rise in service sector output prices, the survey indicated only a marginal drop in factory gate charges that was the weakest in the current seven-month sequence of discounting.

Lastly, December saw a third straight monthly improvement in **businesses' expectations** for output in the year ahead. Notably, sentiment in manufacturing returned to positive territory for the first time in eight months. Despite the sustained upturn, however, confidence was still historically low as surveyed companies expressed concerns towards economic and political conditions, weakness in the construction sector and high energy costs.

Comment

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

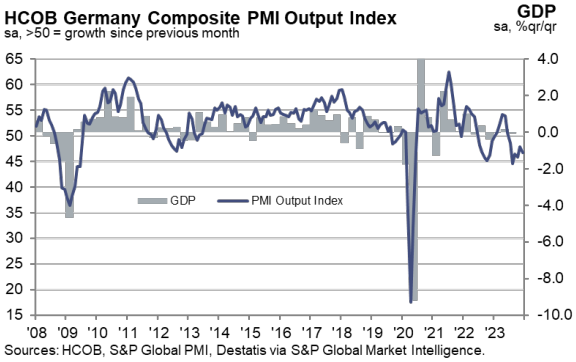
"If you are on the hunt for gifts right now, you will not strike gold in the latest PMI survey for Germany. What you will find instead is an increasing number of companies reporting a reduction in output in both the service and manufacturing sectors. This confirms our view of a second consecutive quarter of negative growth by the year's close, driven by the manufacturing sector. The less-than-encouraging development could be linked to the constitutional court ruling and the subsequent discord over the 2024 budget. This has injected a significant dose of uncertainty regarding potential new burdens for the economy.

"Despite a recent upturn in the manufacturing stocks of purchases index over the previous two months, December brought a setback. This does not necessarily spell doom for the inventory cycle's potential turnaround next year, but it does hint that the journey to recovery might be bumpier than previously thought.

"In manufacturing, new orders continue to contract rapidly, marking the twenty-first consecutive month of decline. However, the index is on an upward trajectory, fuelled in part by a reduced drag from export orders. Notably, after seven months of pessimism, companies have shifted into optimistic territory regarding future output. This aligns with our perspective that the manufacturing sector is poised for a growth recovery next year.

"In the realm of services, the economic landscape is still dominated by the gloomy hues of stagflation. Output has contracted for the third consecutive month, while input prices are on the rise at a pace mirroring that of November. Interestingly, companies have managed to hike their selling prices even more rapidly than in previous periods. This outcome serves as a stark reminder of the lingering risks to the inflation outlook, despite a substantial overall reduction in official consumer price inflation in recent months."

-Ends-



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Contact

Hamburg Commercial Bank AG
Dr. Cyrus de la Rubia
Chief Economist
T: +49-40-3333-15260
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 December data are published on 2 January for manufacturing and 4 January 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?"

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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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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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