

NEWS RELEASE

MARKET SENSITIVE INFORMATION

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HCOB Germany Services PMI®

Business activity growth regains some momentum in October, but underlying demand conditions remain weak

Key findings:

HCOB Germany Services PMI Business Activity Index at 51.6 (Sep: 50.6). 3-month high.

HCOB Germany Composite PMI Output Index at 48.6 (Sep: 47.5). 3-month high.

New business falls for second month running, leading to further job losses

Data were collected 10-28 October.

Services business activity rose at a slightly stronger rate across Germany in October, although growth remained on a fragile footing as companies in the sector reported a second consecutive monthly decrease in new work, the latest HCOB PMI® survey showed. A lack of pressure on operating capacity saw firms cut employment for the fourth month running and at a faster rate. That was despite growth expectations having recovered somewhat from a 12-month low in September.

On the inflation front, the rate of increase in services output prices was the second-lowest in the past three-and-half years (after that seen in July), while cost pressures stayed close to September's recent low.

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. October saw a reading of 51.6, up from September's 50.6 and the highest July. It was the first acceleration in the rate of growth in five months, although the pace of expansion was still only modest by historical standards.

Higher activity was recorded despite signs of ongoing weakness in underlying demand. The volume of new work received by German services providers fell for the second month running in October, albeit at a slightly slower rate than in September. Surveyed firms partly linked this to a downturn in manufacturing, although there were also reports of a lack of public sector tender opportunities as well as difficult financing conditions. Weak international demand, particularly across Europe, was also a factor, with new export business decreasing for a fourth straight month.

Growth of business activity in October was supported by the clearing of backlogs of work, which decreased for the sixth month running and at a marked rate.

With firms in Germany's services sector able to complete work at a quicker rate than it was being received, there was further scope to reduce staffing capacity. October saw employment fall for the fourth month running, equalling the longest spell of job shedding since 2009 (matching that seen between March and June 2020). The rate of decline was the quickest in the current sequence but still only modest overall.

Wage increases continued to drive up overall operating expenses across the services economy at the start of the fourth quarter. The rate of cost inflation ticked up for only the second time in the past eight months, having been at its lowest for just over three-and-a-half years in September. It was still above the average before the pandemic.

Average prices charged by German services providers, by contrast, rose at a slower rate. Here, the rate of inflation was the second-lowest since April 2021 (after that seen in July), but again it was still elevated by pre-pandemic standards.

Lastly, October's survey showed an improvement in service providers' growth expectations for the year ahead. That said, having been at a 12-month low in September, the degree of optimism remained historically subdued. Whilst there were hopes

among some firms that lower inflation, new products and greater marketing would boost activity, heightened uncertainty continued to weigh on confidence.

Comment

Commenting on the PMI data, Jonas Feldhusen, Junior Economist at Hamburg Commercial Bank, said:

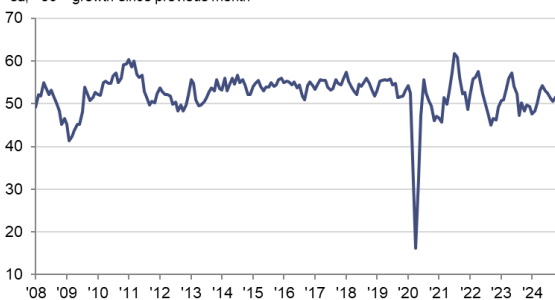
“Germany’s service sector remains resilient, undeterred by the sluggishness in manufacturing. Activity in the sector continues to rise steadily, maintaining modest growth and even gaining slight momentum in October. This raises the question of where this momentum originates, given that order volumes have been declining since September, and backlogs are gradually being reduced. Considering the underlying weakness in demand, firms are showing a tendency to downsize their workforce.

“Nonetheless, German service providers are optimistic about the future. The recent release of retail sales figures for June, July, and August—delayed due to technical issues at the Federal Statistical Office—paints a positive picture. The data suggest that households leveraged their real wage gains over the summer to increase consumption, implying that improved purchasing power is starting to have an effect. These encouraging retail sales figures may well be driving more optimistic future output expectations among service providers.

“Price dynamics within the sector remain steady. Input price inflation increased slightly in October. Nevertheless, the trend in input price inflation has been moderating in the last few months. This trend aligns with the gradual easing of wage pressures, as seen in the official data. Output prices, meanwhile, are seeing more moderate increases.”

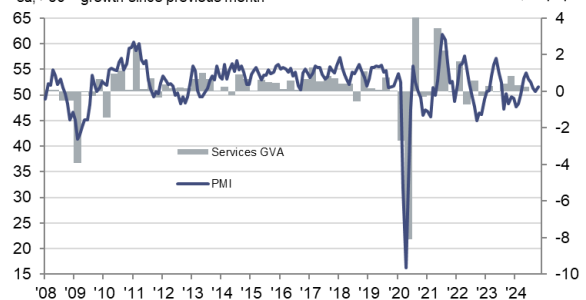
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HCOB Germany Services PMI Business Activity Index
sa, >50 = growth since previous month



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[®]

Decline in private sector activity slows at start of fourth quarter

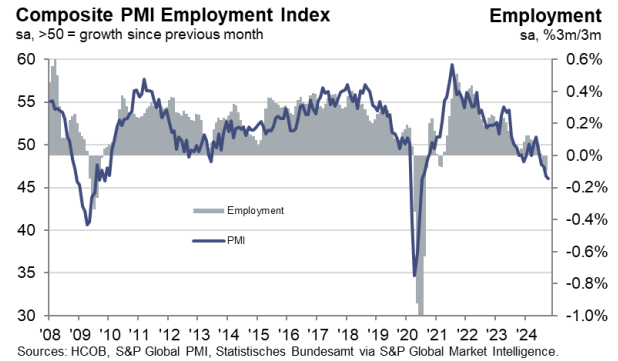
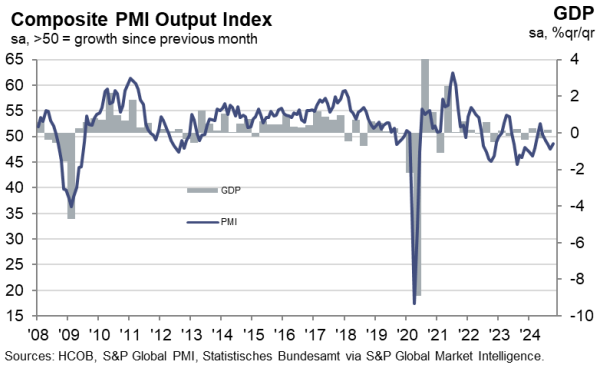
The HCOB Germany Composite PMI Output Index – which tracks changes in total services and manufacturing output – remained in sub-50 contraction territory for a fourth straight month in October. It did however tick up slightly from September’s 47.5 to 48.6, as marginally stronger growth in services activity coincided with a slower (but still marked) fall in manufacturing production.

Total inflows of new work continued falling across both monitored sectors, albeit with the respective rates of decline easing from the previous month. This was also the case for new export business.

Employment meanwhile decreased to the greatest extent since July 2020, as another marked drop in factory workforce numbers was compounded by an accelerated reduction in services headcounts.

On the price front, a slightly faster rise in input costs contrasted with a slowdown in the rate of output charge inflation to only a modest pace that was the weakest for nearly four years.

Business expectations returned to positive territory, driven by an upturn in services optimism, although they remained subdued.



Contact

Hamburg Commercial Bank AG

Jonas Feldhusen
Junior Economist
T: + 49-151-2294-2945
jonas.feldhusen@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

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 89% of final responses. Flash composite data were calculated from 89% 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.

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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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