

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

Downturn in German economy eases slightly in March

Key findings:

HCOB Flash Germany Composite PMI Output Index⁽¹⁾ at 47.4 (Feb: 46.3). 3-month high.

HCOB Flash Germany Services PMI Business Activity Index⁽²⁾ at 49.8 (Feb: 48.3). 6-month high.

HCOB Flash Germany Manufacturing PMI Output Index⁽⁴⁾ at 42.8 (Feb: 42.3). 2-month high.

HCOB Flash Germany Manufacturing PMI⁽³⁾ at 41.6 (Feb: 42.5). 5-month low.

Data were collected 12-19 March

The downturn in the German economy eased slightly in March as business activity in the country's service sector came close to stabilising, the latest HCOB 'flash' PMI[®] survey compiled by S&P Global showed. Business confidence towards future activity meanwhile continued to improve steadily, reaching its highest level for nearly a year. However, despite a more optimistic outlook, latest data showed a renewed – albeit slight – decline in employment.

Inflationary pressures meanwhile eased across the German private sector at the end of the first quarter, with the survey showing slowdowns in the rates of increase in both input costs and output prices.

The headline **HCOB Flash Germany Composite PMI Output Index** improved to a three-month high of 47.4 in March from February's 46.3. The uptick in the index was driven mainly by a near-stabilisation of business activity in the service sector, with the respective index rising from 48.3 in February to 49.8 – its highest in the current six-month sequence of contraction. Whilst also easing slightly, the rate of decline in factory production remained sharp, as highlighted by the manufacturing output index registering at 42.8 from 42.3 in February.

A sustained decline in **inflows of new work** during March highlighted continued weakness in demand across the German private sector. Surveyed businesses often remarked on customer hesitancy, attributing this in part to ongoing geopolitical tensions and high interest rates. More positively, however, the rate at which new business fell was the weakest seen since June last year. The drag from falling **new export business** meanwhile eased.

March data showed a sixth consecutive monthly improvement in **business expectations** across the German private sector. Confidence towards the year-ahead outlook reached its highest since April last year, although it was still below the long-run series average. Sentiment in the manufacturing sector turned positive once again after a brief setback in February, although the overall degree of optimism continued to trail well behind that seen in the service sector, which improved to a 12-month high and crept back above its historical trend level.

In a sign of underutilised capacity across the private sector, businesses reported a further reduction in **outstanding business** (i.e. orders received by not yet completed) in March. The rate of depletion eased notably since February due to slower falls in both monitored sectors, although it remained marked overall. Manufacturing backlogs continued to fall particularly sharply, which in turn contributed to another round of factory job losses. A further, albeit slower, rise in service sector workforce numbers provided some support to the labour market, but it wasn't enough to prevent a renewed decline in overall **employment** at the end of the first quarter.

Turning to prices, March saw the rate of **input cost inflation** slow for the first time in five months, down to its lowest since November last year. The result was driven by a weaker increase in service sector costs, with the decline in manufacturing purchase price having eased to the slowest for 12 months. Nevertheless, services input cost inflation remained historically high, driven in large part by ongoing wage increases.

The rate of **output price inflation** likewise dropped to the lowest for four months in March, bringing it back broadly in line with its historical series average. This reflected both a slower rise in service sector output prices – the weakest since last November – and deeper cuts to manufacturing factory gate charges.

Lastly, March's survey showed a more marked improvement in supplier delivery times faced by German manufacturers. Alongside faster falls in both factory employment and stocks of purchases, this acted to weigh on the headline **Germany Manufacturing PMI**, which fell to a five-month low of 41.6.

Comment

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

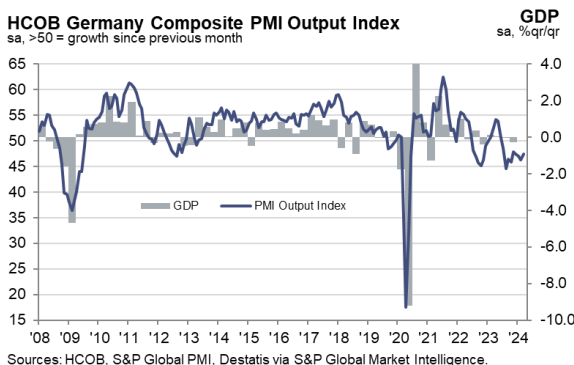
"Germany is not getting back on track. The manufacturing sector closed the first quarter of 2024 with a disconcerting rate of contraction, echoing the woes of the previous month. By contrast, the services sector has managed to hold its ground, maintaining activity at the weak levels observed in February. Overall, Germany now teeters on the edge of a technical recession. According to our nowcast model, which takes the latest PMIs into account, the manufacturing sector shrank by a whopping 1.7% in the first quarter. The more important service sector stagnates according to our model and stabilises the overall situation somewhat. Therefore, our GDP nowcast is at -0.3 %. This corresponds to the rate of contraction in the fourth quarter of 2023.

"While there are signs of a turnaround in manufacturing worldwide - in February the global PMI moved into expansion territory for the first time since August 2022 - there are virtually no indications of a recovery in Germany. Incoming orders are continuing to shrink almost unabated, the reduction in employment even accelerated in March and companies have reduced their inventories of purchased goods more sharply than in any of the previous five months. The latter is surprising insofar as a stabilisation has recently been observed globally. So far, Germany has clearly not been able to participate in the global turnaround in the inventory cycle. However, we are confident that this trend will also arrive in Germany with a certain delay.

"The services sector could soon start to pick up again. For March, the PMI is signalling stagnation, but the index has moved upwards for the second month in a row. In addition, service companies have been building up their workforce for three months, even if new orders are still shrinking. The increased confidence that things will be better in twelve months' time is also in line with the rise in staff. Service providers are experiencing some relief in terms of input costs, which did not rise quite as sharply in March as in previous months. However, pricing power also appears to have declined somewhat, as charges for clients were raised significantly less than before.

"The numerous delivery delays, particularly relating to transport via the sea - the Houthi attacks in the Red Sea and the drought problems in the Panama Canal are the key words here - are not causing any difficulties for German producers overall. In fact, delivery times were significantly shorter in March, which is to be welcomed. The flip side of the coin is that these improving delivery times are a clear sign of the continuing weakness in demand."

-Ends-



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Note to Editors

Final March data are published on 2 April for manufacturing and 4 April 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?"

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. <https://www.spglobal.com/marketintelligence/en/mi/products/pmi.html>

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