NEWS RELEASE
MARKET SENSITIVE INFORMATION
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# HCOB Germany Manufacturing PMI®

## German manufacturing downturn continues to gather pace at start of Q3

**Key findings:**

HCOB Germany Manufacturing PMI at 43.2 (Jun: 43.5). 3-month low.

HCOB Germany Manufacturing PMI Output Index at 42.5 (Jun: 45.1). 5-month low.

Decline in input prices eases amid pressure from shipping costs

Data were collected 11-24 July 2024.

The downturn in Germany's manufacturing sector continued to gather pace as the third quarter got underway, latest HCOB PMI® data showed, with rates of decline in output, new orders and employment all accelerating in July. Reflecting this, goods producers were less optimistic about their growth prospects for the year ahead.

Prices across the German manufacturing sector meanwhile moved closer to stabilisation. Input costs fell only modestly and at the slowest rate in one-and-a-half years, amid reports of higher freight rates partially offsetting lower raw material prices.

The **HCOB Germany Manufacturing PMI®** is a gauge of overall business conditions derived from measures of new orders, output, employment, supplier delivery times and stocks of purchases. The headline PMI fell for the second month running in July, down from June's 43.5 to 43.2. The latest reading indicated a sharp deterioration in business conditions that was the most marked since April. The current 25-month sequence of sub-50 readings is the longest on record since 1996.

The main factor behind the drop in the headline PMI in July was a sharp and accelerated reduction in output. The rate of contraction has quickened notably in the previous two months, after having signalled only a modest decline in production that was the weakest in over a year in May.

The deteriorating trend in factory output reflected ongoing weakness in demand across the sector. New orders fell sharply and to the greatest extent for three months in July, amid reports from panellists of hesitancy among clients and a lack of new work coming from the construction sector. New export orders continued falling at a marked pace, albeit one that was slightly slower than in June and weaker than the decline in total new business.

Backlogs of work posted the steepest drop for five months in July. With firms completing orders at a much faster rate than they received them, staffing capacity was scaled back as employment fell for the thirteenth month in a row. Furthermore, the pace of job shedding was the quickest since March.

July data also showed a steep reduction in manufacturers' purchasing activity, with the rate of decline accelerating for the second month running and far outstripping that of output. Indeed, firms once again reported deliberate attempts to run down stocks of purchases, which registered one of the steepest monthly falls seen since the 2008/9 global financial crisis. Post-production inventories were also down on the month.

Shorter average lead times on purchases were recorded again in July. However, amid reports of delays to shipping due to the crisis in the Red Sea, the latest improvement in supplier performance was the least marked since January.

Higher freight rates were meanwhile cited by a number of surveyed businesses in July. Reductions in raw material prices (particularly metals) meant that average input costs continued falling, but the rate of decline slowed for the seventh time in the past eight months and was the weakest in the current sequence of deflation that began in early 2023.

The decline in average factory gate charges also eased, with July's decrease being only modest and the weakest seen since

January.

Lastly, July's survey showed a downward revision in manufacturers' growth forecasts for the year ahead. After reaching the highest since before Russia's full-scale invasion of Ukraine in June, expectations retreated to a three-month low and moved back below the long-run average.

**Comment**

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

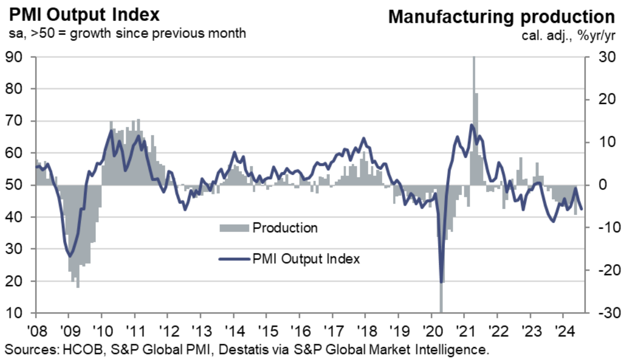
*"Germany's industry is off to a rough start in the second half of the year. Manufacturing production dropped further in July, showing no signs of slowing down. At the same time, companies are ramping up their staff cuts, clearly having little hope for improvement. A look at the order intake backs up their concerns. Orders fell at the fastest rate in three months, continuing a persistent decline since spring 2022. It's no wonder confidence in this sector has taken a hit. A manufacturing recovery probably won't happen before autumn.*

*"Due to the sharp drop in production and new orders, we're revising our growth forecast down. With manufacturing being so crucial to Germany's economy (accounting for 22.6% of gross value added), we are now expecting the overall economy to grow by just 0.2% this year, down from our previous forecast of 0.5%.*

*"The old playbook is not working anymore. Back in the day, German companies could count on a boost whenever emerging markets were on the up. But these days, while industries in those countries are growing — as shown by the PMI data — German firms are not reaping much benefit. Instead, the drop in export orders keeps on going. Meanwhile, Chinese companies are seeing a rise in their foreign orders. This backs up the idea that competition from China is heating up.*

*The reduction in inventories of materials continues unabated. While the initial impression was that many companies had stocked up on too many goods in order to protect themselves from new supply disruptions, the reduction in inventories now has more to do with the fact that companies see no reason to prepare for increased demand for the time being. In addition, high interest rates mean that stockpiling is tying up capital, which is no longer as cheaply available as it was a few years ago."*

-Ends-

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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 93% 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@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.

The bank's specialists are as experienced as they are pragmatic. They act in a reliable manner and at eye level with their customers. They provide in-depth advice in order to jointly find efficient solutions that are a perfect fit – for complex projects in particular. Tailor-made financing, a high level of structuring and syndication expertise and many years of experience are just as much a hallmark of the bank as are our profound market and sector expertise.

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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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