

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

Service sector business activity ticks up in December, but so do price pressures

Key findings:

HCOB Germany Services PMI Business Activity Index at 51.2 (Nov: 49.3). 2-month high.

HCOB Germany Composite PMI Output Index at 48.0 (Nov: 47.2). 2-month high.

Rates of input cost and output price inflation accelerate

Data were collected 5-18 December.

Firms in Germany's service sector reported a slight rise in business activity in the final month of 2024, but at the same time they also signalled an intensification of price pressures, the latest HCOB PMI[®] survey showed. The uptick in business activity followed a decrease in November and was supported in large part by progress on backlogs of work as inflows of new business fell once again.

Despite a sustained steady decline in employment in the sector, December's survey indicated a wages-led rise in business costs. The latest increase in total operating expenses was in fact the steepest since last February, which in turn translated into a quicker rate of services output price inflation.

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. Its latest reading of 51.2, up from November's 49.3, signalled a return to growth of service sector business activity following a brief decline midway through the final quarter. The figure was broadly in line with the average recorded in 2024.

The upturn in business activity was on fragile foundations, however, with latest data indicating that underlying demand for services remained sluggish. December saw a fourth successive monthly reduction in inflows of new business across the sector, linked to customer uncertainty, a lack of public sector tender opportunities and weakness in manufacturing. There was also a sustained downturn in demand from abroad. Consumer services was one area that did see a healthy intake of new work, however.

With total new business continuing to fall, activity levels across the service sector were supported to some extent by work on backlogs. The number of projects and orders outstanding dropped markedly in December and at a slightly quicker than the month before.

Employment fell across Germany's services economy for the sixth month in a row in December. That said, as has been the case throughout most of this sequence, the extent to which staffing levels decreased was only modest. Where workforces were scaled back, firms commented on a lack of new projects, targeted productivity gains and cost-saving efforts.

Indeed, December saw a steep rise in business costs in the service sector, with surveyed firms often citing the influence of growing wage bills. The overall rate of input price inflation accelerated for the third month running to the quickest since last February.

Increased cost pressures led services firms to be more aggressive in their own price-setting at the end of the fourth quarter. Average prices charged rose to the greatest extent for eight months and at a rate that far exceeded the long-run trend seen prior to the pandemic.

Looking ahead, German service providers were cautiously optimistic about the prospect of business activity rising over the next 12 months, with sentiment strengthening slightly since November. Alongside a boost from lower interest rates, there were hopes that a more stable political situation following next year's elections would facilitate higher business activity. However, concerns towards the health of industry and a lack of public sector projects constrained growth expectations to a level comfortably below the historical average.

Comment

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

“The main takeaway from the December PMI in services is weak growth paired with strong inflation—stagflation at almost its finest. The surge in costs is jaw-dropping, with the PMI input prices index jumping nearly four points, marking the fastest increase since February last year. The primary culprit here is likely wages, which soared nearly 9% in the third quarter compared to the previous year.

“High inflation within the services PMI is quite unusual for an economy flirting with recession. Since 2021/2022, we have seen a stark contrast between high inflation levels and slow growth, or even stagnation, in activity. This mismatch started with the economic shocks of the pandemic and then the war in Ukraine but also hints at a structural shift, possibly tied to demographics and ongoing labour market shortages.

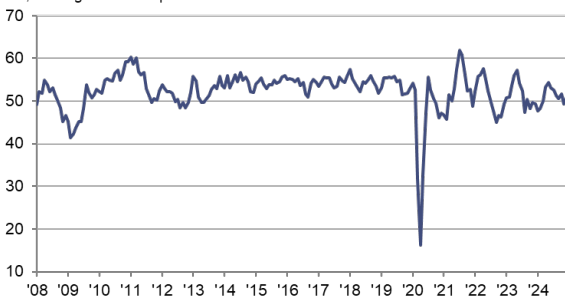
“The services sector is back in, if only moderate, growth mode after a dip below 50 in November, and the increased optimism among respondents about future business activity is good news. However, the sustained decline in new business and outstanding business dampens the positive activity numbers.

“It is pretty remarkable that services activity has remained resilient despite the prolonged manufacturing recession. Historically, services activity has closely mirrored manufacturing output, except for a few instances during the great recession of 2008/2009 and in 2019/2020. This suggests that a growing portion of services is becoming more independent of industrial activity, highlighting the increasing role of services in stabilizing the economy.”

-Ends-

HCOB Germany Services PMI Business Activity Index

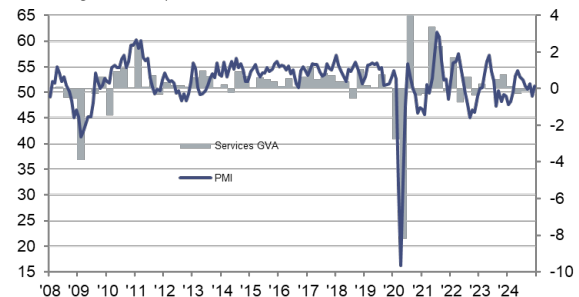
sa, >50 = growth since previous month



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[®]

Uptick in services activity not enough to offset declining manufacturing output

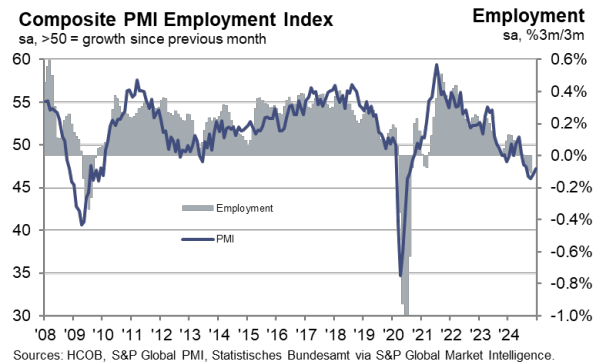
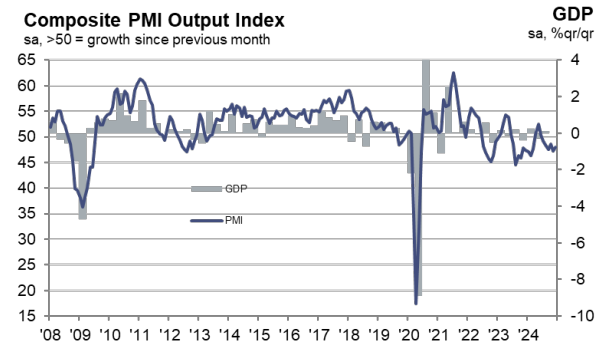
December's slight rise in services business activity paled in comparison to a sharp and accelerated decline in manufacturing production during the month, to leave the HCOB Germany Composite* PMI Output Index still inside sub-50 contraction territory. Its latest reading of 48.0 was however up from November's nine-month low of 47.3.

New business fell on a broad-based basis, led by a steep decline in manufacturing new orders. The overall rate of decline was the quickest for three months despite a slightly slower fall in total new export business.

Employment across the two sectors combined decreased for the seventh month running. That said, the rate of job shedding eased to the weakest since last August.

Driven by increased services price pressures, rates of input cost and output price inflation accelerated to their highest for 20 and 10 months, respectively.

Lastly, business expectations ticked up slightly to a four-month high, although they were still historically subdued due in the main to a lack of optimism in manufacturing.



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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 87% 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.

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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