

NEWS RELEASE

MARKET SENSITIVE INFORMATION

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HCOB Germany Services PMI®

German service sector activity contracts for first time in eight months in August as inflationary pressures remain stubbornly high

Key findings:

Sustained slowdown in demand weighs on activity

Service sector price pressures remain elevated, driven by rising wages

Job creation close to stalling amid subdued outlook

Data were collected 10-25 August.

Germany's service sector slipped back into contraction in August after having grown throughout the first seven months of the year, the latest HCOB PMI® survey compiled by S&P Global showed. Businesses reported a sustained weakening of demand amid a backdrop of economic uncertainty and strong inflationary pressures. Rates of increase in both service sector input costs and output prices remained well above their long-run averages, with the former even accelerating slightly from the month before.

Business expectations in the service sector meanwhile picked up slightly after hitting an eight-month low in July. Confidence remained historically subdued, however, which was reflected in a near-stalling of job creation.

A third straight monthly fall in the headline **HCOB Germany Services PMI® Business Activity Index** saw it drop below the neutral 50.0 threshold for the first time since December last year. At 47.3, down from 52.3 in July, the latest reading signalled a solid rate of decline in activity that was the quickest since November 2022.

The survey showed that activity had finally succumbed to a sustained decline in demand, with inflows of new business across the service sector falling for a second straight month in August. Furthermore, the rate of decline accelerated to the quickest since last November, amid reports of growing reluctance amongst clients and persistently high inflation. Weaker foreign demand was also a factor behind the sector's downturn, although the third successive monthly fall in new export business was softer than that seen in July.

The lack of incoming new work saw services firms make rapid inroads into their outstanding business, which fell for the third month in a row and to the greatest extent since June 2020.

Slightly more firms expected a rise in activity over the next 12 months (22%) than those forecasting a fall (18%), which represented an improvement from the situation in July when the number of optimists was equal to the number of pessimists. Nonetheless, continued concerns about the economic outlook meant that business confidence was the second-lowest in the year-to-date and well below the historical series average.

Falling workloads and muted business expectations placed the brakes on job creation across the service sector in August. Staffing levels rose only marginally and at the joint- slowest rate in the current sequence of employment growth that stretches back to mid-2020.

Turning to prices, latest survey data showed sustained strong inflationary pressures across the services economy, driven in part by rising wage demands. Furthermore, amid reports of increasing fuel prices, the rate of input cost inflation accelerated for the second month running, pushing it further above its long-run average.

August saw many service providers pass on higher costs to customers, leading to a further steep rise in average output prices.

Here, the rate of inflation was little-changed from the previous survey period, meaning it was still close to June's 21-month low but higher than any time in the series history prior to October 2021.

Comment

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

“There is something odd occurring in the German service economy: activity is slowing down, but prices are revving up. Usually, downbeat activity goes hand in hand with less price pressure. One reason for this puzzle is most probably that labour dependent services are feeling the heat of major wage increases. The latter kick in with some delay as a result of rolling new longer term collective negotiations. As roughly two-thirds of Germany's economy is tied to services, the ECB authorities may fear that inflationary pressure in the eurozone's biggest economy will remain high, threatening their goal to bring down overall inflation to 2%. The latest inflation figures for the eurozone confirm this.

“There was this final shot of hope, that the service sector may continue to provide some stabilisation to the overall economy. This optimism proved short-lived as the sector contracted at a rather substantial rate and for the first time this year. This bad news has contributed to a downward revision of our GDP nowcast for the third quarter, which stands now at around -0.8%.

“Workforce expansion has practically stalled as backlogs of work disappeared at a quicker rate. We might see a few people losing their jobs in the months ahead. However, we would not expect companies to turn to very aggressive staff downsizing as the ongoing labour shortage remains at the forefront of their minds.

“Both input and output prices, where we saw less upward pressure as of lately, rose sharply and the former surprisingly kicked into a higher gear this time. It signals that companies still have some power to pass higher costs on to consumers. The loss in activity and in new business shows, however, that this comes at a cost.”

-Ends-

HCOB Germany Services PMI Business Activity Index

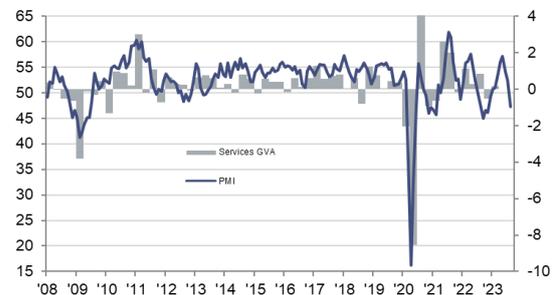
sa, >50 = growth since previous month



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[®]

Downturn in German private sector deepens in August

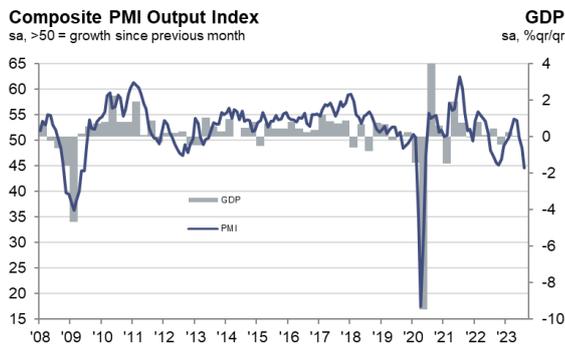
A renewed contraction in services activity in August coincided with an accelerated fall in manufacturing production to push the German private sector into a deeper downturn. The **HCOB Germany Composite PMI Output Index** fell from July's 48.5 to 44.6, its lowest since May 2020.

The steep drop in output was driven by a broad-based reduction in demand, which included lower volumes of new export business across both monitored sectors.

Employment was little-changed across manufacturing and services alike, despite each recording rapidly declining backlogs of work.

Business expectations improved slightly in August. Still, confidence was subdued, with the number of firms forecasting a rise in activity over the next 12 months equal to those predicting a decline.

On the price front, rates of input cost and output charge inflation ticked up from 36- and 29-month lows respectively. The latter remained above its historical average, driven by steep increases in prices charged for the provision of services.



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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 91% 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@ihsmarkit.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.

S&P Global (NYSE: SPGI)

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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.).

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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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