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IHS MARKIT GERMANY SERVICES PMI®

INCLUDING IHS MARKIT GERMANY COMPOSITE PMI®

Business activity growth slips to three-month low in February amid slump in foreign demand

KEY FINDINGS

New business close to stalling as international client sales plummet

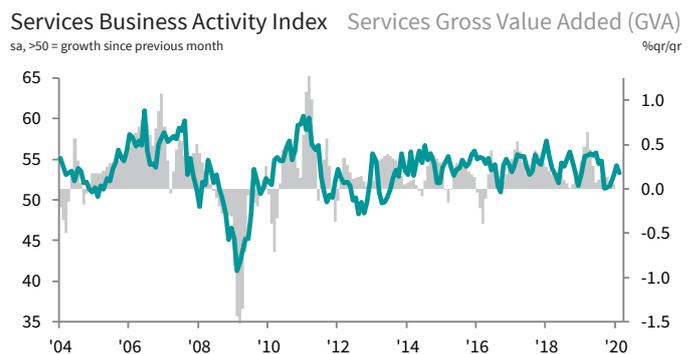
Pace of job creation at near four-year low

Competitive pressures weigh on firms' pricing power

February saw the rate of growth of business activity across Germany's service sector ease to a three-month low, latest PMI® data from IHS Markit showed. Behind the slowdown was a near-stalling of new business, with the survey revealing a marked downturn in demand from foreign clients. There were subsequent slippages in the rate of job creation and firms' future output expectations, with pricing power also waning.

The final headline seasonally adjusted IHS Markit Germany Services PMI Business Activity Index – which is based on responses to a single question asking about changes in the volume of business activity compared with one month previously – registered 52.5 in February, down from a five-month high of 54.2 in January and its lowest reading since November last year. Despite the overall slowdown however, five of the six services sub-sectors monitored by the survey still recorded growth in business activity. The only exception was Transport & Storage, which has indeed been the worst-performing category throughout most of the past year.

The amount of new business received by German service providers rose only marginally in February. The rate of growth was noticeably slower than that seen in January and the weakest in the current three-month sequence of increase. A key factor behind this was a sharp downturn in new export business, which was found to have affected almost all monitored sub-sectors and was partly linked by survey participants to the coronavirus outbreak. The drop foreign client demand was in fact the steepest seen since this series began in September 2014.



Note: Services GVA data include retail, which is not included in the PMI.
Sources: IHS Markit, Federal Statistical Office

Firms in Germany's service sector continued to take on additional workers in February. However, with backlogs falling at a faster rate and firms' noting greater caution towards the outlook, the rate of job creation slipped to its lowest for almost four years.

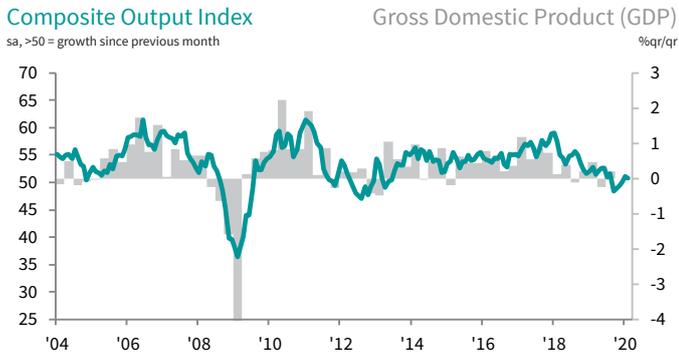
On balance, German service providers remained confident of business activity rising over the year ahead. However, uncertainties towards global economic conditions, the car industry, Brexit and the effects of the coronavirus outbreak saw the degree of optimism among firms retreat to its lowest for three months.

Average prices charged across Germany's service sector rose at the slowest rate for more than two-and-a-half years in February, as growing competitive pressures weighed on firms' pricing power and reduced their willingness to pass on higher costs to clients. That said, in the context of historical data, the rate of inflation was still relatively solid.

The main sources of cost pressure facing businesses in February were wages, energy and fuel, according to anecdotal evidence provided by survey participants. Overall, input prices continued to increase at a marked pace that was comfortably above the series long-run average (since 1997), albeit with the rate of inflation easing from January's nine-month high.

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February sees only modest rise in output as new business stalls



Sources: IHS Markit, Eurostat.

Germany's private sector saw business activity rise for the third month in a row in February. However, the increase was only modest and slower than that seen at the start of the year, as highlighted by the Germany Composite* Output Index registering a reading of 50.7, down from 51.2 in January.

At the sector level, a weaker rise in services activity contrasted with a further (albeit moderated) decline in manufacturing production.

Total inflows of new business across Germany's private sector barely rose in February. Though the drag from falling manufacturing order books eased, this was offset by a slowdown in the rate of growth of services new business. The main source of weakness in both sectors was new export orders, the total level of which fell at the fastest rate for three months in February.

The trend in employment mirrored that of new orders, with overall workforce numbers remaining little-changed from the month before. The decline in manufacturing staffing levels eased, but at the same time job creation in the services economy hit a 46-month low.

Rates of input price and output charge inflation meanwhile diverged, with costs rising at the quickest pace for seven months, while selling prices showed the smallest increase for three-and-a-half years.

Lastly, February saw overall business confidence towards the year-ahead outlook for activity fall to a three-month low. This reflected weaker expectations in both sectors.

**Composite PMI indices are weighted averages of comparable manufacturing and services PMI indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Germany Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index.*

COMMENT

Commenting on the PMI data, Phil Smith, Principal Economist at IHS Markit said:

"Though the February data revealed a clear and immediate impact from the outbreak of coronavirus in China on foreign client demand, the domestic market had looked to be holding firm, helping the service sector achieve further – albeit slower – growth. But given the spread of Covid-19 to many other parts of the world including Germany – and the subsequent financial market reaction, it would seem that this domestic resilience is about to be broken.

"Labour market trends were already showing signs of softening in February, as services firms recorded the slowest rate of job creation for almost four years. It's looking increasingly likely that the heightened uncertainty about outlook will – at least temporarily – tip overall employment into decline."

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Methodology

The IHS Markit Germany Services PMI® is compiled by IHS Markit 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.

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.

February data were collected 12-25 February 2020.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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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.

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