EMBARGOED UNTIL: 00:01 (UTC) July 13th 2020

IHS Markit Germany Business Outlook

COVID-19 and trade fears suppress German business confidence

Key findings:

- Sentiment particularly low among country's manufacturers
- Employment and capex set to fall amid squeeze on corporate earnings
- Outlook for output prices turn negative for first time in over ten years

Data collected June 12-25

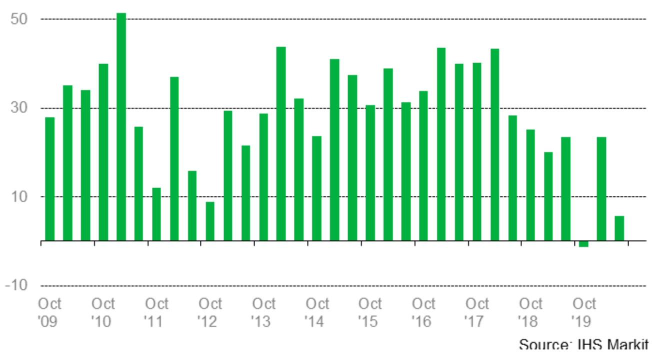
Fears of a second wave of the coronavirus and uncertainty around trade each weighed heavily on German business confidence at the mid-way point in the year, with firms across the country expecting to cut both employment and capital expenditure over the next 12 months amid a sharp squeeze on profitability.

June's Business Outlook survey from IHS Markit – which asks manufacturers and service providers their thoughts on future business conditions – showed muted expectations among German companies for activity over the coming year. A net balance of just +6% of firms predicted a rise in output, which compared with eurozone and global averages of +15%.

Confidence towards future activity was particularly subdued among Germany's manufacturers (net balance at -4%). As well as raising concerns about potential disruption to demand and supply from the COVID-19 pandemic over the next 12 months, goods producers were also fearful of the threat of trade wars and a disorderly Brexit.

Service providers were relatively more upbeat about the outlook (+11%), though even here expectations were subdued by historical standards. The threat of a second wave of the coronavirus was a major concern among services firms, while COVID-19-related restrictions and financial difficulties among clients were expected to hamper a recovery in activity.

Germany business activity expectations



Employment & Investment Plans

Latest results pointed to the prospect of a decrease in employment across Germany's private sector over the coming year. Negative expectations for employment were centred on the manufacturing sector, where a little over half (51%) of surveyed businesses signalled their intention to cut workforce numbers, against only 13% forecasting a rise. This represented the gloomiest outlook for factory jobs in the survey's history, worse than that recorded even at the depths of the global financial crisis. Service providers, on the other hand, reported a neutral outlook for employment.

Expectations towards future business investment also turned negative in June. Moreover, at -27%, the net balance of companies predicting a decrease in capital expenditure was the lowest since comparable data were first compiled in 2009. On this front, both manufacturers and service providers signalled a strong intention to reduce capex.

It was a similar picture for spending on research & development, with June's survey pointing to a broad-based decrease by sector over the next 12 months. Manufacturers (-18%) were more pessimistic about future R&D than their services counterparts (-10%).

Inflation Expectations

Price expectations were revised down sharply to the lowest in over a decade in June. The prospect of persistent weakness in demand and strong competition for new work meant that both manufacturers (net balance at -14%) and service providers (-4%) expected lower average output charges over the next 12 months.

On the cost front, however, there were contrasting forecasts across the two sectors monitored by the survey. Manufacturers reported expectations of a decrease in both staff and non-staff costs over the year ahead. Conversely, service providers predicted a broad-based rise in operating expenses, albeit with the respective net balances down sharply from the previous survey period and among the lowest on record.

Corporate Earnings

Concerns over the combination of weak pricing power and subdued activity weighed heavily on firms' profit forecasts in June. At -28%, the corresponding net balance was in fact at a record low, with both manufacturers (-33%) and service providers (-25%) anticipating a severe drop in profitability.

Comment:

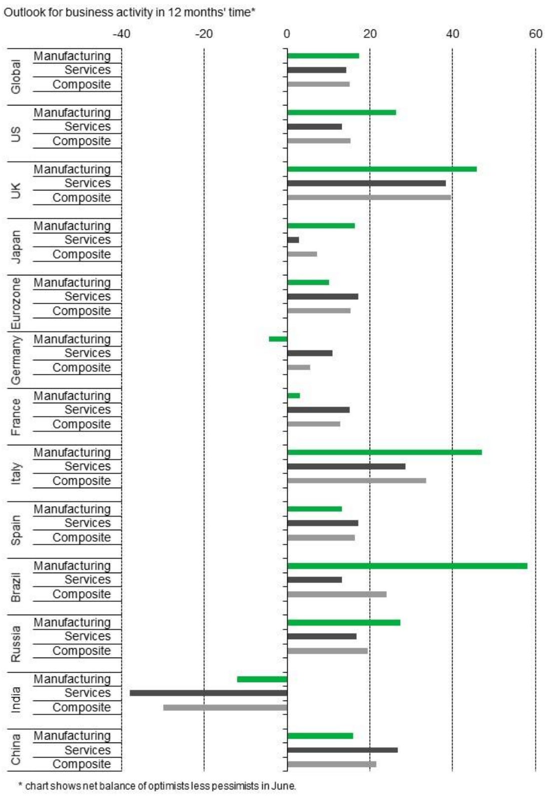
Commenting on the Germany Business Outlook survey data, **Phil Smith**, Associate Director at IHS Markit, said:

"There are tough times ahead for the German economy, according to the Business Outlook survey. Firms are not only fearful of a second wave of the coronavirus derailing a recovery, but there are lingering concerns about protectionism and Brexit uncertainty is also firmly in their minds. Even in the service sector, which is more shielded from external headwinds, firms are expecting a slow recovery in activity due to new regulations and widespread financial difficulties.

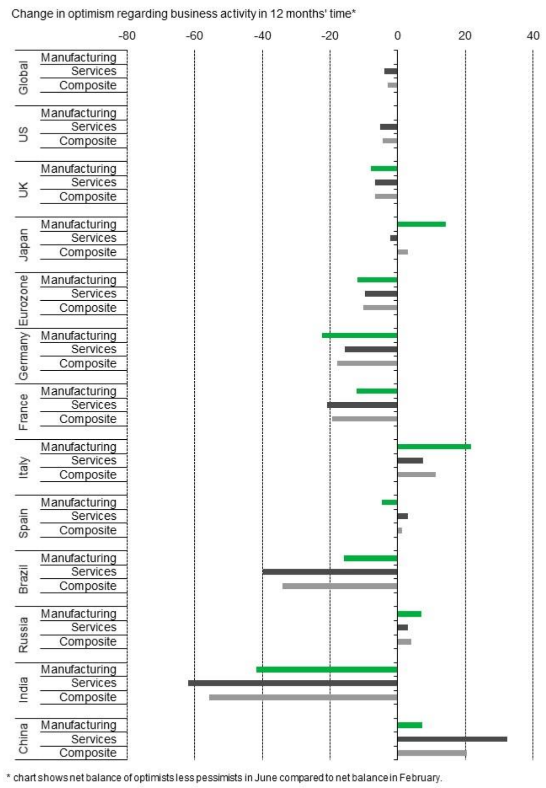
"The survey results suggest that the situation in the labour market could get worse before it gets better, as manufacturers in particular look to scale down workforce numbers. At the same time, businesses are planning to cut back on much-needed capital expenditure, which places further onus on the government to support investment."

-Ends- Full data available on request from economics@ihsmarkit.com

Business optimism in June



How business activity expectations have changed since February



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Notes to Editors:

The Global Business Outlook Survey for worldwide manufacturing and services is produced by IHS Markit and is based on a survey of around 12,000 manufacturers and service providers that are asked to give their thoughts on future business conditions. The reports are produced on a tri-annual basis, with data collected in February, June and October. The latest survey was conducted between June 10 and 29.

Interest in the use of economic surveys for predicting turning points in economic cycles is ever increasing and the Business Outlook survey uses an identical methodology across all nations covered. It gives a unique perspective on future business conditions from Global manufacturers and service providers.

The methodology of the Business Outlook survey is identical in all countries that IHS Markit operates. This methodology seeks to ensure harmonization of data and is designed to allow direct comparisons of business expectations across different countries. This provides a significant advantage for economic surveillance around the globe and for monitoring the evolution of the manufacturing and services economies by governments and the wider business community.

Data collection is undertaken via the completion of questionnaires three times a year at four-month intervals. A combination of phone, website and email are used, with respondents allowed to select which mechanism they prefer to use.

The Business Outlook survey uses net balances to indicate the degree of future optimism or pessimism for each of the survey variables. These net balances vary between -100 and 100, with a value of 0 signalling a neutral outlook for the coming 12 months. Values above 0 indicate optimism amongst companies regarding the outlook for the coming 12 months while values below 0 indicate pessimism. The net balance figure is calculated by deducting the percentage number of survey respondents expecting a deterioration/decrease in a variable over the next twelve months from the percentage number of survey respondents expecting an improvement/increase.

Questionnaires are sent to a representative panel of around 12,000 manufacturing and services companies spread across the global economy in the countries mentioned above. Companies are carefully selected to ensure that the survey panel accurately reflects the true structure of each economy in terms of sectoral contribution to GDP, regional distribution and company size. This panel forms the basis for the survey. The current report is based on responses from around 7,000 firms.

About IHS Markit (www.ihsmarkit.com)

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.