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IHS MARKIT GERMANY SERVICES PMI®

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Service sector growth remains solid, but signs of underlying weakness build

KEY FINDINGS

Business activity and employment continue to rise

Increased reliance on backlogs as growth in new work eases

Expectations for future activity at near five-year low

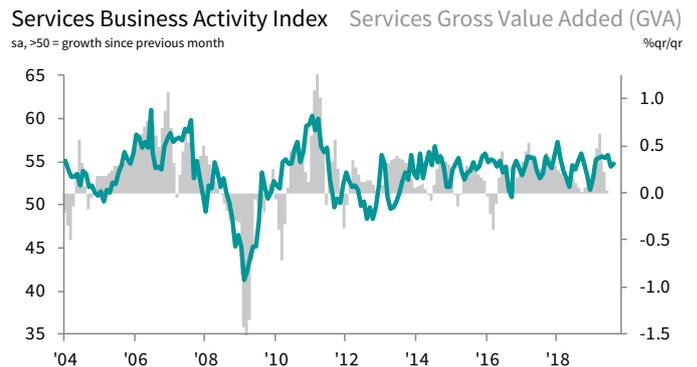
Latest PMI® data from IHS Markit indicated robust growth in both business activity and employment across Germany's service sector in August. However, the survey showed many firms relying on backlogs of work to sustain growth as inflows of new orders eased to the slowest for seven months. Accordingly, expectations with regard to future activity weakened, slipping to the lowest in almost five years.

The 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 – read 54.8 in August. This was up from July's six-month low of 54.5 and compared with a historical series average of 53.3 (since mid-1997).

At the sub-sector level, Renting & Business Activities recorded the strongest rate of growth, followed closely by Financial Intermediation and Hotels & Restaurants. Post & Telecommunications was meanwhile the weakest-performing area.

Though overall business activity remained solid, there were signs of underlying demand becoming increasingly fragile. Total volumes of new business across the service sector rose only modestly and at the weakest rate since January. Contributing to this was a solid and accelerated drop in new work from abroad.

The dichotomy between business activity and new orders was reflected in a decrease in backlogs of work – the first since January. The rate of depletion was solid and the



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

quickest in fact since May 2016.

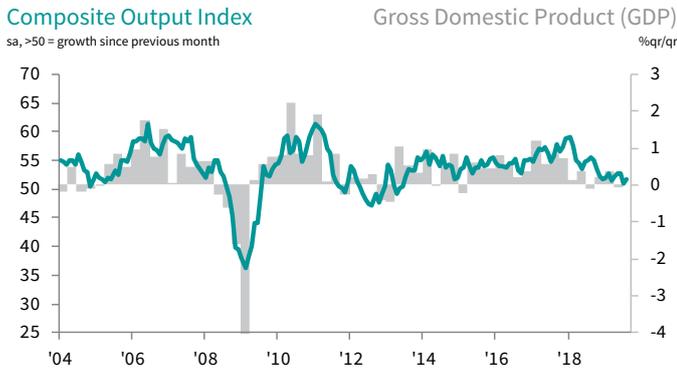
August's survey meanwhile showed increasing concerns among service providers towards the outlook for business activity. Weakening for the sixth month in a row, sentiment reached the lowest since October 2014 and was only just inside positive territory. Principal to this were growing worries about the economy, anecdotal evidence showed.

Despite reporting falling backlogs of work and lower confidence, service providers maintained a preference for higher workforce numbers in August. The rate of job creation during the month was solid and slightly quicker than the average recorded over the current sequence of growth stretching back to late-2013. By sector, the single-biggest contributor to the rise in employment was Renting & Business Activities.

Elsewhere, latest data showed the continuation of inflationary pressures across the service sector. Underpinned by rising labour costs, August saw overall input prices increase steeply and at a rate that was little-changed from the month before. Average prices charged were raised accordingly, with the rate of inflation likewise broadly in line with that recorded in the previous survey period and above the historical average.

IHS MARKIT GERMANY COMPOSITE PMI®

Firmer output growth masks softer demand and confidence



Sources: IHS Markit, Eurostat.

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.

August saw the Composite Output Index tick up to 51.7 from July's 50.9, buoyed by the combination of marginally faster service sector business activity growth and a slower decrease in manufacturing production. Nevertheless, the latest reading was still one of the lowest seen over the past six years.

Overall output increased during August despite inflows of new work falling at a faster rate, with businesses maintaining growth by eating into backlogs of work. Work-in-hand fell for the tenth straight month and to the greatest extent since November 2012. The downturn in order books was led by lower external demand, with new export business continuing to fall sharply.

Output expectations meanwhile turned negative – meaning the number of firms forecasting a fall over the next 12 months exceeded those predicting a rise – for the first time in almost five years. Expectations were the lowest overall since November 2012.

The negative trends in new orders and business confidence spilt over to the labour market, with latest data showing a further (albeit only slight) slowdown overall in jobs growth. The rise in employment in August was only modest and the least marked since April 2015.

On the price front, August saw rates of inflation in input costs and output charges ease to 38- and 34-month lows respectively, weighed on by faster decreases in both manufacturing purchase prices and factory gate charges.

COMMENT

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

"The worry was that the weakness in the manufacturing sector would eventually infect the rest of the economy, and the service sector is certainly showing symptoms of the malaise having spread."

"Concerns about the health of the economy have steadily built up over the past six months, causing business confidence across the service sector to deteriorate to its lowest in almost five years. Now, almost as many services firms expect activity to contract over the next 12 months as those forecasting growth. The loss of confidence could have ramifications for investment and job creation over the coming months."

"Business activity and employment across the service sector has so far held up well, but with inflows of new work starting to dwindle there is an increasing reliance on backlogs of work to support growth and a potential headwind to future hiring."

"Job creation across the service sector remains a buoyancy aid for the economy, at least for now, while low and potentially easing inflation across the private sector is another supportive factor for domestic demand over the rest of the year."

CONTACT

IHS Markit

Phil Smith
Principal Economist
T: +44-1491-461-009
phil.smith@ihsmarkit.com

Joanna Vickers
Corporate Communications
T: +44-207-260-2234
joanna.vickers@ihsmarkit.com

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.

August 2019 data were collected 12-27 August 2019.

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. To learn more go to ihsmarkit.com/products/pmi.html.

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