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IHS MARKIT GERMANY SERVICES PMI®

INCLUDING IHS MARKIT GERMANY COMPOSITE PMI®

Services activity slips back into contraction in October as second wave of coronavirus hits

KEY FINDINGS

Business activity declines for first time in four months

New restrictions and client hesitancy weigh on demand

Employment rises modestly despite faltering confidence

Data were collected 12-27 October 2020.

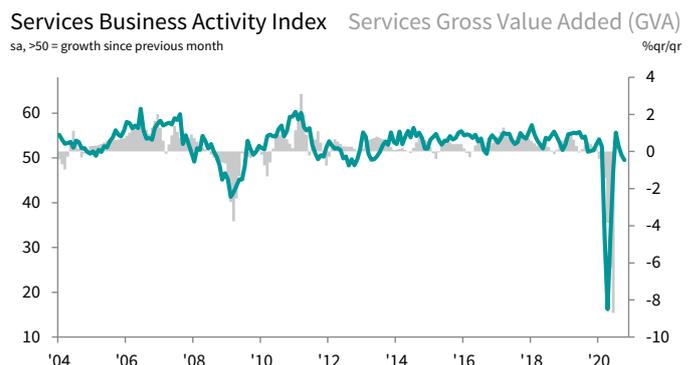
Business activity across the German service sector returned to contraction at the start of the fourth quarter, as a rising number of coronavirus disease 2019 (COVID-19) cases weighed on demand and led to new restrictions. Business confidence was also hit, although employment, which is often adjusted with a lag, showed another modest increase.

October saw the headline seasonally adjusted 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 – move back below the 50.0 no-change mark for the first time in four months, registering 49.5, down from 50.6 in September (but above the preliminary 'flash' estimate of 48.9).

Unsurprisingly, the greatest drop in activity in October was seen across Hotels & Restaurants amid the introduction of new travel restrictions and curfews. The Transport & Storage and Financial Intermediation sectors also recorded lower activity.

Surveyed businesses highlighted an increased reluctance among customers due to a second wave of coronavirus cases, with inflows of new work decreasing in October following three months of steady growth. New business from abroad fell particularly sharply during the month, recording its steepest decline since May.

The lack of incoming new work was reflected in a further decrease in the level of outstanding business at German service providers, pointing to underutilised capacity across the sector. Still, employment increased for the fourth month



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

in a row in October. Although picking up slightly, the pace of job creation remained only modest, with any new positions often being only part-time or temporary.

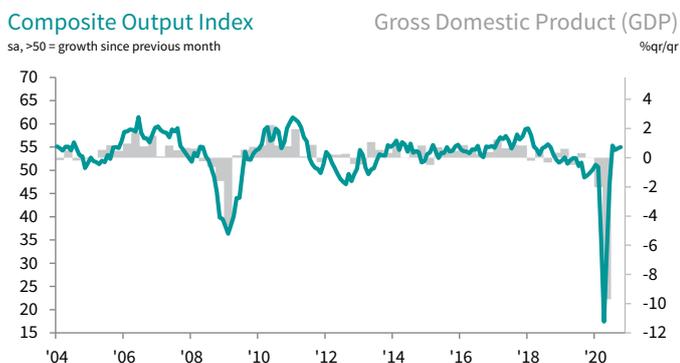
As well as impacting activity in October, the rise in COVID-19 cases also dented firms' confidence towards the outlook. Expectations weakened for the third month in a row to the lowest since May. That said, sentiment was still in positive territory overall, and much higher than seen during the initial lockdown in the spring.

Turning to prices, October's survey showed an end to the recent run of discounting by service providers that was brought on by the COVID-19 pandemic. Average charges increased for the first time in eight months. The rate of inflation was above the series long-run average, although lower than at any point in the three years prior to the coronavirus outbreak.

Latest data meanwhile showed a further – albeit slower – rise in input prices, linked to higher wage costs and supplier charges.

IHS MARKIT GERMANY COMPOSITE PMI®

Strong manufacturing growth offsets downturn in services



Sources: IHS Markit, Eurostat.

The Germany Composite* Output Index remained in growth territory at 55.0 in October, up slightly from 54.7 in September. This owed exclusively to a sustained sharp upturn in manufacturing production, with services activity having fallen slightly on the month.

Similarly, a record rise in factory order book volumes in October offset lower inflows of new work across the services economy, with overall new business increasing for the fourth month in a row, albeit at a slower rate than in September. It was an identical story for new export business.

On the job front, however, manufacturing was the weak link, with a further round of factory staff cuts contrasting with another modest increase in service sector workforce numbers. The overall fall in employment was modest and the weakest the current eight-month sequence.

Latest data showed pricing power returning to companies in both monitored sectors, with average charges for goods and services rising for the first time since February. Services firms recorded the slightly stronger increase in output prices, having also faced the steeper rise in input costs.

Looking ahead, sentiment towards future output eased to the lowest since June. Manufacturing expectations weakened slightly but still remained highly positive, whereas services confidence ebbed more noticeably.

*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, Associate Director at IHS Markit said:

"With the coronavirus rearing its ugly head once again in October and measures being introduced to stop its spread, activity across Germany's service economy returned to contraction, led by a renewed slump in the Hotels & Restaurants sector. As many businesses close their doors again during November and virus cases continue to rise, a double dip in economic activity is looking increasingly likely.

"It remains to be seen exactly how the increase in COVID-19 cases and the anxiety it brings will affect those service sectors outside of the hospitality and leisure industry, but the initial signs look somewhat ominous with new business down almost across the board in October.

"A further slight rise in services employment was the main positive takeaway from October's survey, but these signs of improvement in the labour market could be short-lived as the economy heads into a new, albeit 'lighter', lockdown."

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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.

October data were collected 12-27 October 2020.

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

Flash vs. final data

Flash services data were calculated from 93% of final responses. Flash composite data were calculated from 94% 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).

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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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