

News Release

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IHS MARKIT GERMANY SERVICES PMI®

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Service sector sees positive end to 2019

KEY FINDINGS

Activity growth ticks up to highest for four months

New business rises for first time since August

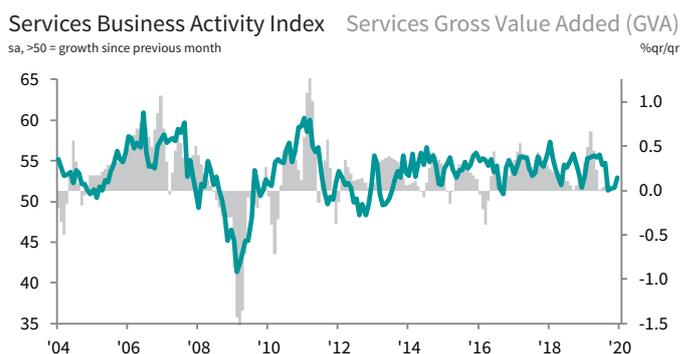
Business expectations jump to eight-month high

Germany's service sector ended 2019 on a more solid footing, recording the strongest activity growth for four months and the first increase in overall new business since August, latest PMI® data from IHS Markit showed. Furthermore, business confidence climbed sharply to the highest since April. There were rises in employment, input costs and output prices, though in each case the rate of increase eased since November and was below the respective average for 2019.

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 – improved for the third month in a row in December, indicating a further recovery in growth from September's three-year low. At 52.9, up from 51.7 in November, the latest reading was the highest since August, though still below the year's average (54.0).

As was the case throughout the final quarter of 2019, growth was recorded in five of the six monitored services categories, the only exception being Transport & Storage. Data showed particularly steep increases in activity in the Hotels & Restaurants and Post & Telecommunications sectors.

Supporting the upturn in performance in the final month of 2019 was a return to growth in new business. Firms recorded a modest rise in inflows of new work after three months of decline, often linking this to the securing of new clients. New business received from abroad continued to fall, though the rate of decline was the weakest for ten months and only



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

modest.

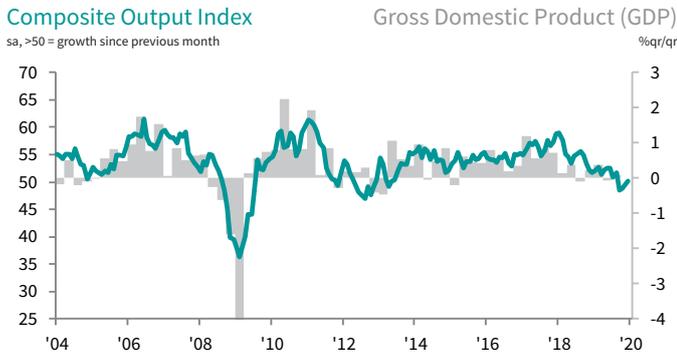
Amid signs of overall demand steadily improving, firms' expectations for future activity strengthened in December. The degree of optimism improved sharply on the month to signal a sustained and marked recovery from October's near seven-year low. Confidence was at its highest overall level since April and back above the long-run average (since 1997), with a number of firms highlighting expectations for new projects and company expansions in 2020.

Employment in the service sector continued to rise during December. The pace of job creation was the second-weakest in the past 19 months and below the highs seen earlier in the year, but still comfortably above the historical series trend rate.

It was a similar picture for prices. Input costs posted another substantial increase in December, with principal upward pressure coming from wages, according to anecdotal evidence. However, the rate of input cost inflation ticked down from November and eased further from the cyclical peak seen at the start of 2019. Average prices charged by service providers showed the smallest rise since September 2017 amid strong competition for new work. That said, the rate of output price inflation was still firmly above the long-run series average.

IHS MARKIT GERMANY COMPOSITE PMI®

Fractional rise in output ends three months of decline



The Germany Composite* Output Index registered 50.2 in December, up from 49.4 in November, signalling the first – albeit fractional – rise in combined manufacturing and services output for four months. With goods production down markedly on the month, growth was driven by the service sector.

Output expectations meanwhile improved to a ten-month high, buoyed by increased optimism across both monitored sectors (although confidence was notably stronger among service providers).

Inflows of new business neared stabilisation in December, falling only marginally and at the slowest rate in the current six-month sequence of decrease. This was helped by a modest upturn in demand across the service sector and a further moderation in the rate of decline in total new export business.

Employment showed little change during December, which was consistent with the trend across the final quarter of 2019. Further job gains in the service sector were again offset by manufacturing staff cuts. Data showed a broad-based fall in backlogs of work, albeit with the overall rate of depletion easing to the slowest since June.

Prices pressures meanwhile moderated. Rates of increase in both input and output prices were the weakest since 2016. Whilst manufacturers reduced charges for a sixth straight month amid sharply falling purchasing costs, service providers noted further (albeit slower) increases in both their input and selling prices.

**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:

"Germany's service sector saw a welcome upturn in December and, thanks to upward revisions across both manufacturing and services from the flash estimates, the final composite PMI data showed output rising for the first time in four months, albeit marginally.

"However, despite a final flurry from the service sector in December, it's looking like stagnation at best for economic growth in the final three months of the year. Nothing spectacular is expected for the opening quarter of 2020, though the signs are that things might be starting to turn, with indicators for new orders and business confidence on an upward trajectory across manufacturing and services alike.

"Employment was largely flat during the fourth quarter, as a loss of manufacturing jobs counterbalanced recruitment in the service sector, so for the sake of domestic consumption it was good to see price pressures coming down further."

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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.

December data were collected 5-18 December 2019.

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

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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. To learn more go to [ihsmarkit.com/products/pmi.html](https://www.ihsmarkit.com/products/pmi.html).

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