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IHS MARKIT GERMANY SERVICES PMI®

INCLUDING IHS MARKIT GERMANY COMPOSITE PMI®

Business activity rises for first time in six months in March

KEY FINDINGS

Easing of lockdown restrictions helps lift activity

Vaccine optimism pushes expectations to three-year high

Faster rise in employment despite growing cost pressures

Data were collected 12-26 March 2021.

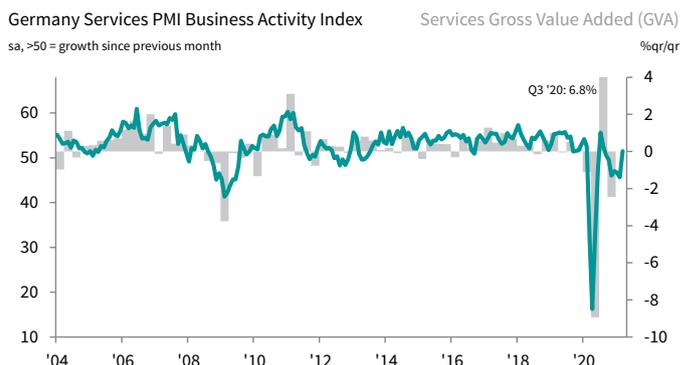
Latest PMI® showed a rise in business activity across the German service sector for the first time in six months in March, helped by the easing of lockdown measures and recovering confidence among clients. Firms' expectations for activity meanwhile hit a three-year high, amid hopes that progress in the vaccine rollout would allow restrictions to be lifted further in the coming months.

The progress seen in activity and business sentiment translated into a sustained upturn in employment across the sector, despite firms reporting increased pressure on margins from rising costs.

March 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 into growth territory for the first time since September last year. At 51.5, the latest reading pointed to only a modest increase in activity, but it nevertheless marked a notable improvement on February's 45.7.

Several surveyed businesses reported reopening during the month as some coronavirus disease 2019 (COVID-19) lockdown measures were lifted, while some others recorded higher activity thanks to greater optimism among clients.

Underlying demand remained subdued but did show signs of stabilising towards the end of the first quarter, with inflows of new work falling at the slowest rate in the current six-month sequence of contraction. A lack of new business from abroad remained a drag on overall demand, with the



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

pandemic continuing to disrupt international sales across all parts of the private sector services economy.

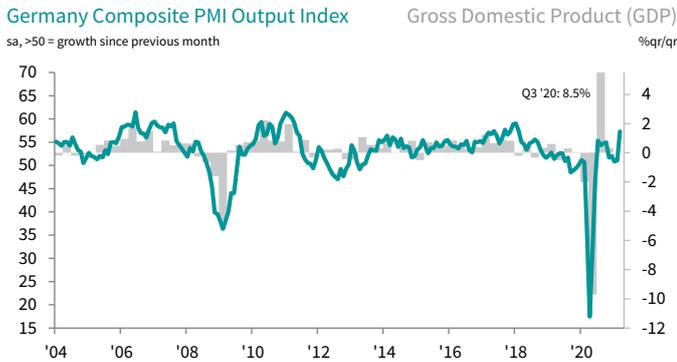
Looking ahead, however, services firms were increasingly optimistic about the outlook for activity over the next 12 months, citing hopes that the vaccine rollout would eventually allow for many of the restrictions on activity and travel to be lifted. The degree of confidence was in fact the highest since March 2018.

The strong confidence shown towards future activity was reflected in a further rise service sector employment in March. The pace of job creation even gathered pace slightly, though it remained modest compared to the trend seen prior to the pandemic.

Service providers' margins came under pressure from rises in the cost energy, fuel and freight charges at the end of the first quarter. The overall rate of input price inflation spiked to the highest since January 2020 and was well above the historical series average. This in turn contributed to a rise in average output charges for the first time in three months.

IHS MARKIT GERMANY COMPOSITE PMI®

Business activity rises at fastest rate for over three years in March



Sources: IHS Markit, Federal Statistical Office.

A renewed upturn in services activity in March coincided with survey-record growth in manufacturing production, leading to the quickest rise in output across the two sectors combined for more than three years. The Germany Composite Output Index registered a reading of 57.3, up sharply from 51.1 in February.

There was a similarly strong upturn in overall inflows of new business at the end of the first quarter, driven largely by a surge in manufacturing export orders.

Employment trends likewise improved in March, reflecting increased pressure on firms' operating capacity and growing confidence about the outlook. Staffing levels rose to the greatest extent since June 2019, with a return to growth in manufacturing workforce numbers for the first time in two years adding to a sustained upturn in services employment.

Businesses' expectations about future activity improved to a series-record high (since July 2012) in March. This was despite a slight dip in the degree of optimism across manufacturing.

Turning to prices, March's survey revealed a notable acceleration in the rate of inflation of average charges for goods and services to the quickest for two years. This reflected near decade-high cost pressures across the private sector, with goods producers in particular facing a sharp increase in input prices during the month.

*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, Economics Associate Director at IHS Markit said:

"March saw tentative signs of an upturn in activity across the German service sector, with some businesses having opened their doors to customers for first time in months as lockdown restrictions were eased. The data also hinted at domestic demand picking up in other areas as confidence improved."

"We're seeing more and more services firms reporting optimism about the outlook for activity, which has been helped by progress in the vaccination programme and is in turn supporting a continued recovery in employment in the sector as companies plan for busier times in the months ahead."

"However, that's where the good news stops, with the survey showing growing cost pressures at services firms due to rising energy and fuel prices. Moreover, efforts to contain a third wave of COVID-19 infections is a risk to the service sector's immediate prospects at the start of the second quarter."

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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.

March data were collected 12-26 March 2021.

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

Flash vs. final data

Flash services data were calculated from 95% of final responses. Flash composite data were calculated from 96% 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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