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IHS MARKIT GERMANY SERVICES PMI®

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New COVID-19 lockdown restrictions weigh on service sector activity in November

KEY FINDINGS

Business activity falls at fastest rate since May...

... though downturn far less severe than in the spring

Hopes brighten on news of vaccines, supporting hiring

Data were collected 12-25 November 2020.

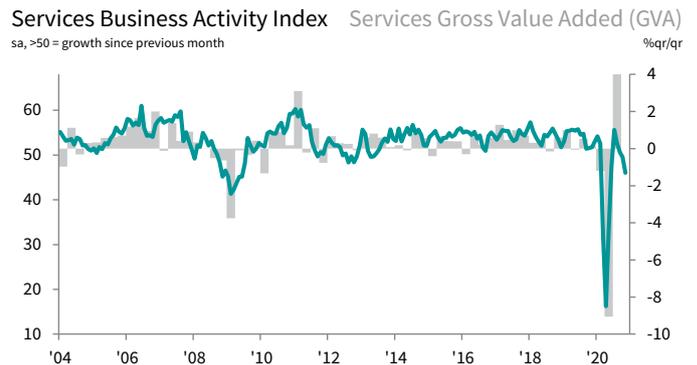
Germany's service sector slipped into a deeper rate of contraction in November amid the introduction of new lockdown measures to combat a second wave of coronavirus disease (COVID-19) infections, latest PMI® data showed. However, with the latest restrictions largely confined to the hospitality and leisure industries, the overall impact on activity – though marked by historical standards – was shown to be far less severe than during the initial lockdown in the spring.

Furthermore, progress in the development of COVID-19 vaccines helped boost firms' expectations for activity over the year ahead, which in turn supported another modest rise in service sector employment.

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 – moved further below the 50.0 no-change threshold to 46.0 in November, from 49.5 in October.

With the exception of the lows seen during the first coronavirus wave between March and May, the latest reading was the worst since June 2009 during the global financial crisis. That said, it was comfortably higher than April's record nadir of 16.2.

The drop in activity was led by the Hotels & Restaurants sector, where forced closures and stringent restrictions were in place during the month, with the consumer-focussed 'Other Services' sector also severely impacted. Activity



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

across the Financial Intermediation and Renting & Business Activities sectors showed little effects, however.

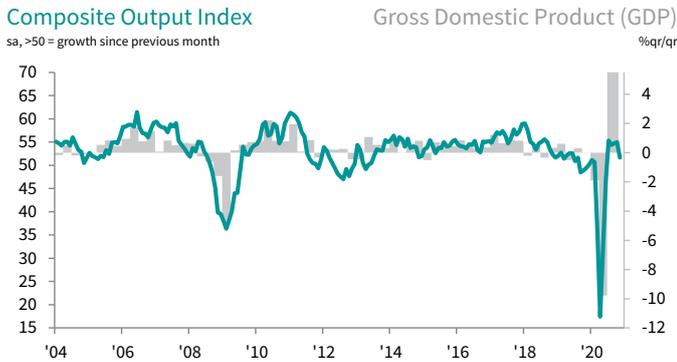
Inflows of new business likewise fell for the second month running and at the quickest rate since May. Demand from abroad was particularly weak amid travel restrictions and new lockdowns across other countries.

On a more positive note, firms' expectations for activity over the next 12 months improved sharply in November on the news of successful vaccine trials, reaching the highest since January. With a number of firms reportedly taking on staff in anticipation of higher activity in the coming months, November saw a fifth straight monthly rise in service sector employment.

At the same time, however, the survey pointed to increased use of short-time work in some of the sectors forced to close. This, coupled with generally weaker market demand, contributed to a slowdown in input cost inflation to a four-month low in November. Average prices charged by services firms also increased more slowly, rising only marginally overall.

IHS MARKIT GERMANY COMPOSITE PMI®

Economic recovery slowed by new lockdown in November



Sources: IHS Markit, Eurostat.

New lockdown measures to curb a second wave of COVID-19 infections slowed Germany's economic recovery in November. This was shown by the Composite* Output Index slipping from 55.0 in October to 51.7, its lowest for five months.

At the sector level, manufacturing output growth remained strong but eased slightly since October, while service sector activity showed a quicker rate of decline.

The recent upturn in new business across the private sector nearly stalled in November. This was despite another steep manufacturing-led increase in export sales.

Turning to employment, November data pointed to the first – albeit marginal – rise in private sector payroll numbers for nine months. Job creation was largely confined to services, though the decline in manufacturing employment was the slowest in nearly a year-and-a-half.

Average prices charged for goods and services increased only marginally in November, and at a slower rate than the month before. It was a similar picture for average input costs, though data did show increasing inflation pressures across manufacturing.

Expectations towards output over the next 12 months improved to a 31-month high in November. This reflected stronger confidence across both monitored sectors, with manufacturers remaining the more optimistic overall.

*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:

"The impact of Germany's new lockdown measures in November was clearly visible in the services PMI data, which showed the level of business activity down markedly and to the greatest extent since May. However, the results indicate a far shallower overall contraction compared to that seen in the spring, with the data showing a milder impact on activity outside of those sectors directly affected by the new lockdown restrictions, helped in part by ongoing strength in manufacturing."

"There was further encouraging news for the labour market in November, as signs of a pick-up in hiring in the service sector accompanied the recent news of a slowdown in factory job cuts. However, the increased use of the short-time work scheme across those sectors forced to close was evidenced by the latest survey results, which showed service sector cost pressures subsiding during the month."

"The extension of lockdown measures into December means it is going to be a difficult end to the year for the German economy, of course, for some sectors more than others. The recent progress on vaccines has helped brightened the outlook for businesses, though it still remains a long road to full recovery."

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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.

November data were collected 12-25 November 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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