

News Release

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IHS MARKIT GERMANY SERVICES PMI®

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Service sector returns to growth in May

KEY FINDINGS

Activity up modestly after stagnating in April

New business rises at fastest rate for nearly two years

Cost pressures continue to build

Data were collected 11-25 May 2021.

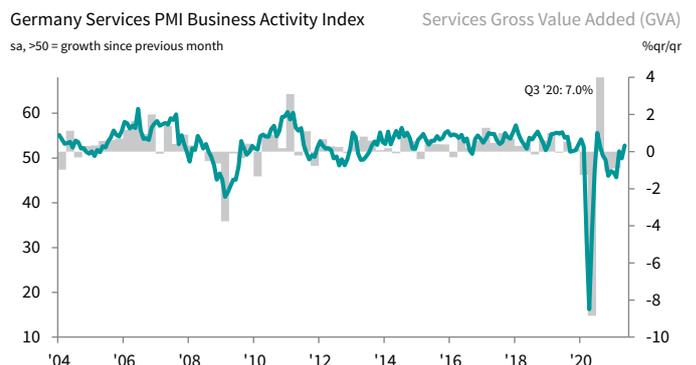
Activity across Germany's service sector return to growth in May after stagnating at the start of the second quarter, latest PMI® data showed. Businesses revealed a boost from the easing of COVID-19 restrictions as well as a marked rise in new business – the strongest in almost two years. At the same time, however, the survey showed a further intensification of cost pressures in the sector to the highest since mid-2008.

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 back above the 50.0 no-change threshold in May, rising from 49.9 in April to 52.8. Activity has now risen in two of the past three months, though rates of growth have so far been below the peak seen after the first COVID-19 wave.

By sub-sector, solid growth was seen across both Renting & Business Activities and Transport & Storage, while the drag on overall activity from the survey's customer-facing segments (Hotels & Restaurants and 'Other Services') eased.

As well as highlighting the influence of looser COVID-19 restrictions, the survey also revealed a notable upturn in underlying demand, which was partially linked to spillovers from strong manufacturing growth and progress in the vaccine rollout. Inflows of new business rose for the first time in eight months and to the greatest extent since June 2019.

New export business meanwhile moved closer to stabilisation, recording only a modest decline that was the weakest for 16 months.



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

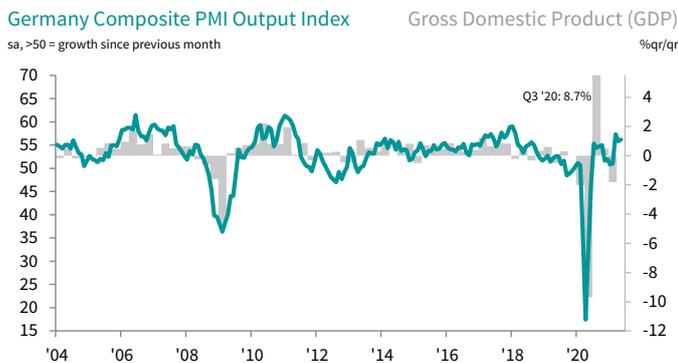
The upturn in activity in May coincided with an improvement in firms' confidence towards the year-ahead outlook. Expectations were just below March's three-year high, with almost 40% of businesses anticipating a rise in activity over the next 12 months amid hopes of an end to the pandemic and a continued recovery in demand.

The combination of rising workloads and positive growth projections saw service providers raise their staffing levels during May, the eleventh month in a row in which this has been the case. The pace of job creation was solid and unchanged April's 15-month high.

That was despite growing pressure on the cost front, with May seeing the rate input price inflation climb steeply to its highest for more than 13 years. Prices charged also rose at a faster rate, one that was the quickest since January 2020, but still much more slowly than costs.

IHS MARKIT GERMANY COMPOSITE PMI®

Signs of revival in services lifts German output growth



Sources: IHS Markit, Federal Statistical Office.

At 56.2, up from 55.8 in April, the Germany Composite Output Index pointed to a solid and slightly accelerated rate of growth in private sector activity in May. Driving the uptick was a renewed increase in services activity after a brief stagnation in April. Manufacturing remained the stronger performer of the two sectors but showed a further loss of output growth momentum from March's record high.

Overall new business registered the steepest rise since December 2017. Again, manufacturing continued to see the stronger demand conditions, but it was a return to growth in services new business that underpinned the improved performance compared to April.

The rate of private sector job creation was at a 31-month high in May. Hiring continued to be led by manufacturers, reflecting especially strong pressure on capacity at factories. Overall backlogs of work rose at the second-fastest rate since this series began in September 2002.

Turning to prices, the rate of inflation of average charges for goods and service reached a record high in May, surpassing the previous peak seen at the start of 2018. This reflected unprecedented business cost pressures.

Expectations towards the year-ahead outlook for activity edged higher and were just below March's series high. There was a slight convergence at the sector level, though manufacturers remained by far the more optimistic.

*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:

"Germany's service sector started to revive in May, buoyed by the partial easing of lockdown measures and a surge in new business as progress in the vaccine rollout helped spur confidence and demand.

"If the easing of coronavirus restrictions goes as planned in the coming months, and if the recent experiences of the US and UK are anything to go by, then we should see growth of services activity in Germany gather momentum and be sustained this time.

"The other standout feature of the survey remains the growing cost pressures in the service sector, which have now reached the highest since mid-2008. While more services firms are starting to raise prices, the full extent of the cost pressures across sector is by no means reflected in the rate of output charge inflation. When factoring in that many services businesses have been mostly absorbing higher costs up to now and are facing up to the prospect of a rapid release of pent up demand, there is scope for services prices to rise further in the coming months."

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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.

May data were collected 11-25 May 2021.

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

Flash vs. final data

Flash services data were calculated from 89% of final responses. Flash composite data were calculated from 92% 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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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.

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