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IHS MARKIT GERMANY SERVICES PMI®

INCLUDING IHS MARKIT GERMANY COMPOSITE PMI®

Service sector business activity continues to fall in February

KEY FINDINGS

Business activity down for fifth month running and at quickest rate since last May

Expectations stay close to January's near two-year high

Employment continues steady recovery

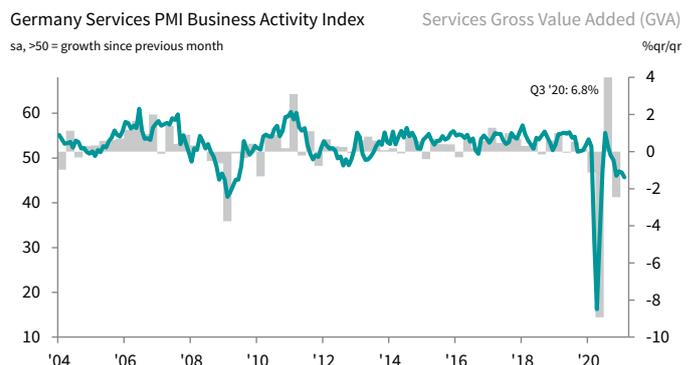
Data were collected 11-23 February 2021.

The German service sector remained in contraction territory in February, with lockdown measures to control the spread of coronavirus disease 2019 (COVID-19) infections leading to a fifth straight monthly decline in business activity. Still, firms remained highly optimistic about the year-ahead outlook, enthused by the prospect of the removal of restrictions as vaccines are rolled out, while employment in the service sector continued to edge higher.

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 – registered 45.7 in February. That was down from 46.7 in January and the lowest since May last year. However, it still pointed to a much shallower contraction than at the nadir of the first lockdown last spring (April 2020: 16.2).

Business activity fell in almost all sub-sectors monitored by the survey. The only category that recorded growth was Transport & Storage.

February's survey pointed to a general weakness in demand faced by German services firms, with the pandemic and associated lockdown measures causing hesitancy among clients and impacting sales opportunities. New business was down for the fifth month in a row and at the fastest rate since last November, even falling in non-consumer-facing sectors such as Financial Intermediation and Renting & Business Activities. A further marked contraction in new business from abroad was a contributing factor.



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

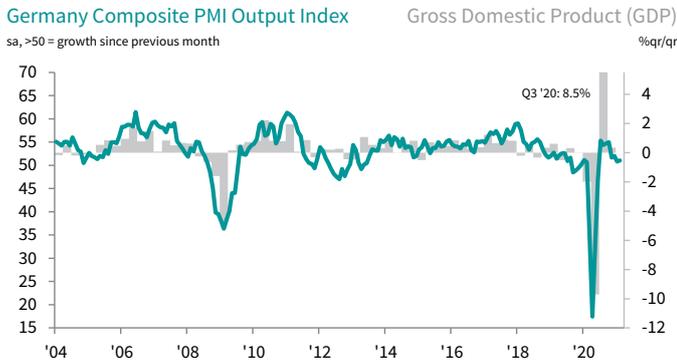
Despite the falls in activity and new business, service providers noted a further – albeit slower – rise in employment in February, continuing the steady recovery in payroll numbers seen since the sharp decline in the first half of last year. Job creation was slow and confined mainly to the Renting & Business Activities sector, with a steep fall in backlogs of work pointing to underutilised capacity across much of the services economy.

Service providers were strongly optimistic about the year-ahead outlook in February, reflecting hopes of a more normal operating environment once COVID vaccines have been widely rolled out. The overall degree of confidence stayed close to January's near two-year high and was comfortably above the historical series average.

Lastly, February saw little change in average prices charged by services firms, following a slight decrease at the start of the year. Cost pressures in the sector were meanwhile relatively muted, with input prices rising only modestly and at the slowest rate for three months.

IHS MARKIT GERMANY COMPOSITE PMI®

Manufacturing growth continues to offset lower services activity



Sources: IHS Markit, Federal Statistical Office.

Strong growth of manufacturing output offset continued weakness in services activity in February, with the Germany Composite Output Index staying just above the 50.0 no-change threshold at 51.1. That was even a slight improvement on January's seven-month low of 50.8.

Overall inflows of new business likewise recorded a marginal increase midway through the opening quarter, helped in large part by rising foreign sales of manufactured goods.

While there was evidence of pressure on capacity at manufacturers, latest data by contrast showed an accelerated decline in outstanding work at services firms. Measured overall, backlogs recorded a slight increase.

February also saw a marginal rise in employment across the two sectors combined. Services firms noted a further steady increase in payroll numbers, while factory staffing levels stabilised after a near two-year run of decline.

Driven by a sharp rise in manufacturing purchase prices, overall input cost inflation accelerated to the quickest in over two years in February. Average prices charged by firms also increased at faster rate, the quickest since August 2019, but one that was still only mild overall due to weak pricing power among services firms.

Though still highly positive, expectations about future output ticked down slightly from January's near three-year high, due to a dip in services firms' confidence.

*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:

"The impact of Germany's extended lockdown was seen in February's services PMI data, with business activity in the sector down markedly and for the fifth month in a row.

"Weakness in demand was seen across the board, with even firms operating in sectors outside of hospitality and leisure noting a wait-and-see attitude among clients and disruption from the restrictions on face-to-face contact and travel. Still, all in all we've seen a much more resilient performance during the latest lockdown than was seen last spring and, unlike then, firms are now highly optimistic about the outlook.

"Contrary to the picture for manufacturing, inflationary pressures across the service sector remained relatively muted in February, with any cost increases often being absorbed by firms due to the softness in demand.

"The survey will be able to offer early insights into how price pressures across the service sector are evolving as swathes of businesses reopen and pent-up demand is released over the coming months. The trend in employment at services firms, which in February continued to show only a slow recovery amid underutilised capacity in the sector, will also help gauge wage pressures, or the lack of."

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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.

February data were collected 11-23 February 2021.

Flash vs. final data

Flash services data were calculated from 90% 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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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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