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IHS MARKIT GERMANY SERVICES PMI®

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Record drop in activity as service sector succumbs to COVID-19 outbreak

KEY FINDINGS

March sees record falls in activity, new business and employment

Business confidence collapses to historical low

Prices charged drop for first time in more than five years

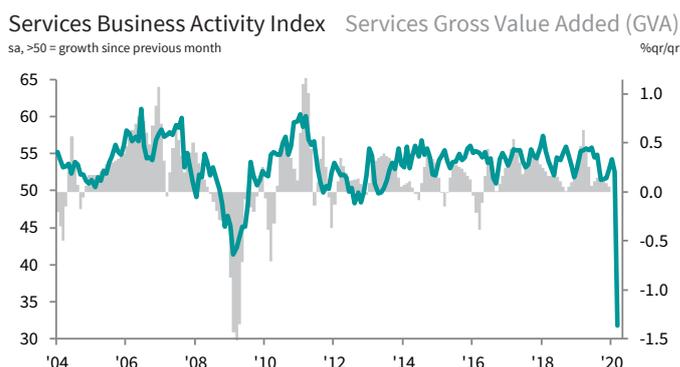
Germany's service sector suffered a record contraction in activity in March, as demand collapsed on the back of the spread of the coronavirus disease 2019 (COVID-19) and the resulting efforts to contain the outbreak. Latest PMI® data from IHS Markit showed services employment falling at the fastest rate in almost 23 years of data collection as new work dried up and business confidence hit an unprecedented low.

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 – posted a record month-on-month fall in March, slumping from 52.5 in February to 31.7. The latest reading pointed to the steepest drop in activity since the survey's inception in June 1997 and eclipsed the previous low of 41.3 seen in February 2009.

Underlying data showed a notable drop in activity across all broad services categories monitored by the survey, with the steepest decline seen in Hotels & Restaurants.

There was severe disruption to demand during March, with data showing by far the steepest decline in new business in the series history. Coinciding with an abrupt drop in market demand across Germany, the global spread of COVID-19 and growing international containment measures saw the decline in new work from non-domestic based clients accelerate.

A lack of incoming new work was reflected in a sharp drop in outstanding business in March, the joint-steepest on record.



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

Falling workplace activity in turn led service providers to cut staffing numbers for the first time in almost six-and-a-half years. Moreover, the pace at which employment fell was historically marked, surpassing the previous record set in early-2003. At the same time, some firms reported using short-time working to avoid job cuts.

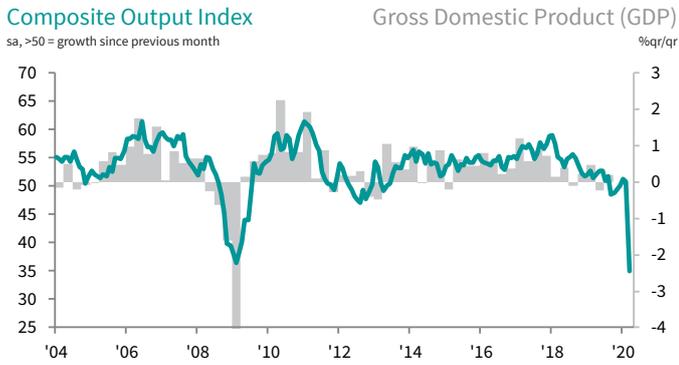
Business confidence across Germany's service plunged in March amid the escalation of the COVID-19 outbreak. Expectations towards the outlook for activity over the next 12 months had remained in positive territory during the previous survey, but the progression of the outbreak into a pandemic and the associated financial market turmoil saw expectations rapidly descend to the lowest since the start of the survey in 1997.

Elsewhere, latest data revealed notable developments on the price front. The recent oil price collapse and a general waning of demand for raw materials and other inputs led to a sharp slowdown in the rate of cost inflation faced by services firms, to the weakest for four years.

Softer cost pressures, combined with efforts to secure new work, saw average prices charged by service providers fall for the first time in more than five years in March. Furthermore, the decline in output price was solid and the steepest seen since February 2010.

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March sees record contraction in private sector activity



Sources: IHS Markit, Eurostat.

Driven by a record contraction in services activity, Germany's private sector posted its steepest drop in output since comparable data were first available in 1998. The Germany Composite* Output Index registered 35.0 in March, down from 50.7 in February and surpassing the previous low of 36.3 in February 2009.

Alongside the steep drop in services activity, March also saw a sharp and accelerated reduction in manufacturing production, the most marked since April 2009.

Reflecting the global nature of the COVID-19 crisis, the level of new export business received by firms in Germany fell at the quickest rate since at least September 2014, when this particular series began. And with domestic demand also hit hard by shutdowns and heightened uncertainty, inflows of total new business likewise posted a record fall.

Employment fell sharply across both monitored sectors at the end of the first quarter. The overall decline was the second-fastest in more than 22 years of data collection.

Sentiment towards future activity turned negative in March, slumping to its lowest since the start of comparable data (i.e. the introduction of manufacturing expectations) in mid-2012.

On the price front, average charges for goods and services fell for the first time in more than five years and at the fastest rate since November 2009. This reflected not only a collapse in demand, but also a drop in firms' average costs, the first such fall in almost four years.

*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:

"The unprecedented drop in services business activity in March makes the impact of the COVID-19 pandemic and resulting efforts to contain the spread of the virus all too clear. The damage to the economy has been abrupt and widespread, with those sectors hit particularly hard by social distancing and other containment measures, such as hotels and restaurants, coming to a complete standstill.

"Lockdowns began earlier in the other big-three eurozone countries, where PMI data have signalled even steeper declines in services activity in March. Germany's economy is somewhat shielded by a lesser reliance on travel and tourism – and consumer services in general – though it does have a relative weakness in its greater exposure to import and export disruption.

"The extent of the job losses highlighted by the survey data mean we can expect to see the first discernible increase in Germany's unemployment rate since the global financial crisis. The hope is, however, that extensive use of the government's short-time work scheme can save some jobs that would have otherwise been lost and support incomes during the downturn."

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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 2020.

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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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