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IHS MARKIT GERMANY SERVICES PMI®

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Service sector takes another stride towards recovery in August

KEY FINDINGS

Business activity maintains strong rate of growth

Further marked rise in employment as capacity pressures build

Near-record increases in input costs and prices charged

Data were collected 12-25 August 2021.

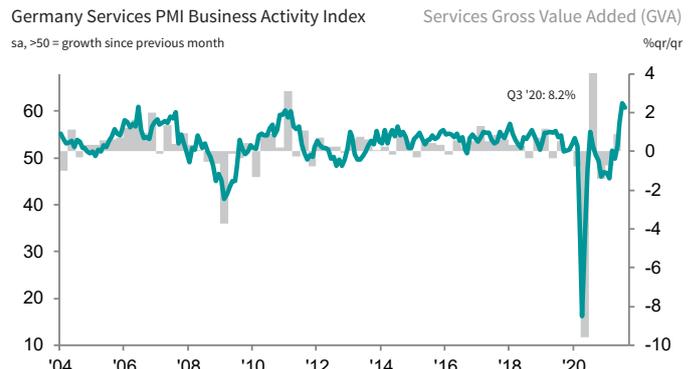
Business activity within Germany's service sector maintained a strong rate of recovery in August, following record growth in July as virus containment measures were scaled back. It was a similar picture for the pace of job creation, which was among the quickest on record thanks in part to growing capacity pressures and still-strong business confidence towards future activity.

The rebound in activity continued to coincide with elevated price pressures, however, with rates of inflation in both input costs and output prices reaccelerating to just shy of June's peaks.

At 60.8 in August, 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 – remained firmly above the 50.0 no-change threshold, albeit down slightly from July's record high of 61.8.

Reflecting the recent loosening of restrictions, the strongest rates of growth in business activity were recorded in consumer services sectors, alongside Post & Telecommunications.

August's survey pointed to a continued recovery in demand for German services from both domestic and international sources. The overall rate of growth in inflows of new work was the second-fastest since January 2011 behind that seen in July.



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

In a sign of growing capacity pressures across the service sector, August saw a fifth straight monthly rise in backlogs of work. Moreover, the rate at which outstanding business accumulated was the quickest observed for more than ten years. A number of firms reported difficulty keeping pace with demand due to insufficient capacity and material shortages.

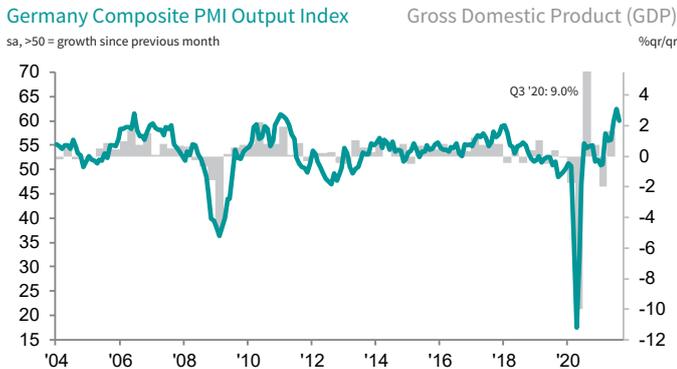
German services firms continued to add to their workforce numbers at a rapid pace during August. Though easing from July's all-time high, the rate of job creation was still among the quickest in the series history.

Higher personnel costs, alongside increases in the price of energy, fuel and materials generally, were widely reported in August. The overall rate of input cost inflation was the second-fastest on record behind that seen in June. An identical trend was recorded for output prices, as many firms looked to pass on higher costs to customers.

Lastly, August data showed a slight uptick in firms' expectations for growth prospects in the coming year. Sentiment was highly positive by historical standards, reflecting widespread hopes of an end to the pandemic and an associated improvement in travel activity in a year's time.

IHS MARKIT GERMANY COMPOSITE PMI®

Pace of economic recovery remains strong in August



Business activity in Germany's private sector rose sharply again in August, following a record performance at the start of the third quarter. At 60.0, the Germany Composite Output Index was down from July's all-time high of 62.4 and the lowest for three months, but it crucially remained firmly above the 50.0 no-change threshold to signal a still-strong speed of recovery.

Rebounding services activity was the main growth driver, with manufacturing recording its slowest increase in output for a year owing in large part to supply constraints.

Overall inflows of new work posted another sharp increase midway through the third quarter, albeit with the rate of growth on this front also at a three-month low. New export business was less of a supportive factor than earlier in the recovery, rising at the slowest rate for six months (though still strongly overall).

Turning to prices, sharply rising input costs drove another steep increase in average charges for goods and services, with manufacturing seeing especially strong pressures. The overall rate of output price inflation retreated further from June's peak, however.

Business confidence towards future activity also waned a touch, as did the rate of job creation. On both fronts, however, the latest data were still highly positive by historical standards, with the corrections coming on the back of series record highs in June and July respectively.

**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 Economics Director at IHS Markit said:

"The service sector followed up July's record performance with another sharp increase in business activity in August, and has taken the mantle from manufacturing as the main driver of growth. Although the rate of expansion on a monthly basis looks like it has passed its peak, the scene is already set for strong growth in the third quarter, even if we were to see a further loss of momentum in September.

"The Delta variant is a risk to service sector demand in the near term. But looking further ahead, businesses remain optimistic that conditions will have improved come this time next year, with many still hoping for an end to the pandemic and an associated recovery in travel activity. The steep rebound in activity and strong business confidence about longer-term prospects continue to help drive a rapid pace of job creation, albeit with the rate of employment growth in August easing from July's all-time survey high.

"Price pressures remained historically elevated across the service sector in August, adding to even stronger inflation in manufacturing. Large numbers of services firms continued to hike their prices to cover against rising costs, emboldened by rising demand and growing backlogs of work."

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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.

August data were collected 12-25 August 2021.

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

Flash vs. final data

Flash services data were calculated from 88% of final responses. Flash composite data were calculated from 90% 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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