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## IHS MARKIT GERMANY SERVICES PMI®

INCLUDING IHS MARKIT GERMANY COMPOSITE PMI®

### Services economy nears stabilisation in June as activity returns to some sectors

#### KEY FINDINGS

Decline in activity far and away the slowest in the crisis so far

Subdued demand leads to further – albeit fewer – job losses

Expectations turn positive for first time in four months

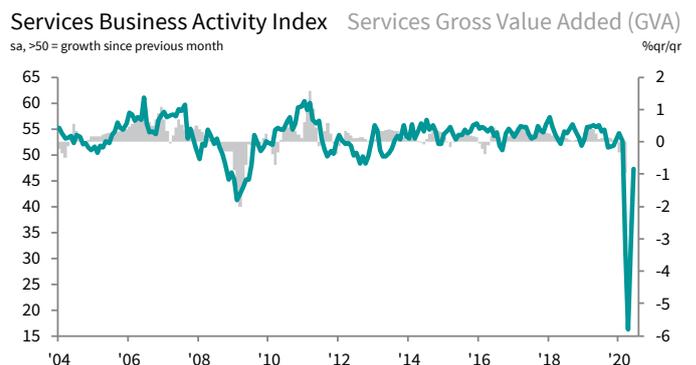
Data were collected 12-25 June 2020.

German's services economy ended the second quarter on a more stable footing, helped by signs of a pick-up in activity across some of the sectors hit hardest by the initial coronavirus disease 2019 (COVID-19) lockdown. Latest IHS Markit PMI® data showed the declines in total services activity and new orders easing to the weakest during the crisis so far, whilst a strong recovery in business confidence also helped soften the rate of job losses.

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 – climbed sharply for the second month in a row in June, rising further from the historical low seen at the height of the lockdown in April. At 47.3, up from 32.6 in May (and above the preliminary 'flash' reading of 45.8), the index was nevertheless still inside contraction territory.

Underlying data showed that business activity was subdued across all parts of the services economy, amid widespread reports of a general lack of demand. That said, there was evidence of activity gradually returning to those sectors previously shut down, and to the Hotels & Restaurants sector in particular.

Lower inflows of new business were recorded across the services economy for the fourth month in a row in June, which was often linked by firms to hesitancy among clients. Furthermore, travel restrictions meant that export business remained particularly weak, dropping again in all sectors.



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

As was the case for activity, however, new business showed signs of stabilising towards the end of the second quarter, falling much more slowly than in each of the previous three months.

In a blow to the labour market, service providers reported further cuts to payroll numbers during June, often citing redundancies and the non-replacement of leavers due to lower workloads. That said, the decline was the weakest in the current four-month sequence of retrenchment.

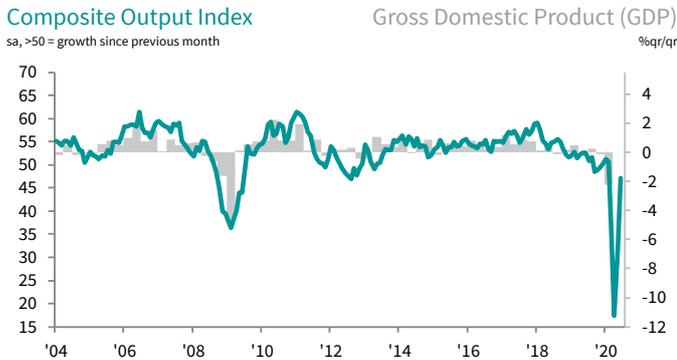
Helping curb the rate of job losses was a marked improvement in firms' expectations towards future activity. Rebounding further from a record low in April, sentiment was back in positive territory for the first time since February amid growing hopes of a return to more normal conditions over the next 12 months.

Elsewhere, June's survey showed that fierce competition for new work continued to weigh on prices, with average charges levied by service providers falling for the fourth month in a row in June. This contrasted with the strong inflation seen prior to the virus outbreak and subsequent lockdown.

However, discounting was less widespread than in both April and May, which in part reflected a slight uptick in cost pressures in the sector. After falling in April for the first time in over a decade and showing no change in May, average input prices rose modestly in June. Alongside an increase in food prices, anecdotal evidence linked this to an easing drag from falling payroll costs.

## IHS MARKIT GERMANY COMPOSITE PMI®

## Downturn in private sector continues to ease in June



Sources: IHS Markit, Eurostat.

Germany's economy showed more signs of having turned a corner in June, following a record contraction in activity at the start of the second quarter, and the subsequent easing of lockdowns. The Germany Composite\* Output rose sharply for the second month running, climbing from 32.3 in May to a four-month high of 47.0 (and up from an earlier 'flash' estimate of 45.8).

The PMI fell short of signalling a return to growth, however, with both the manufacturing and service sectors signalling further – albeit much slower – declines in activity.

Business confidence towards future activity meanwhile recovered strongly at the end of the second, with both monitored sectors seeing record increases in sentiment.

Weighing on current activity levels was a continued lack of demand and, in particular, a sustained slump in new export business. There were some hopeful signs, however, as firms reported the smallest drop in order books during the crisis so far.

With inflows of new business remaining depressed, firms in both sectors continued to work through backlogs of work. Payroll numbers were reduced accordingly, led by a steep decline in manufacturing employment.

Finally, the recent downwards pressure on prices eased in June. Average charges for goods and services fell at the slowest rate in four months as costs neared stabilisation.

\*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 relaxation of the lockdown has breathed life back into some parts of the economy, though June's PMI survey suggests that activity is still largely depressed thanks in part to persistent weakness in demand. Export business was a particularly soft aspect of the latest data, so the reopening of borders should add extra impetus to a recovery."*

*"The decline in employment due to the COVID-19 pandemic has been softened by the short-term work scheme, but it means we are likely to see a quicker turnaround in activity than in the jobs market, which seems to have been borne out in the latest PMI data."*

*"On its current trajectory the PMI suggests the economy will see a rebound in the third quarter. However, even if the country is able to avoid a full-scale second wave of the coronavirus, the prospects of further local lockdowns and more job losses point to a bumpy road to recovery."*

## CONTACT

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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.

June data were collected 12-25 June 2020.

For further information on the PMI survey methodology, please contact [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com).

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IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

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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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