

**EMBARGOED UNTIL: 00:01 (UTC) November 11<sup>th</sup> 2019**

# IHS Markit Germany Business Outlook

## Survey issues warnings for growth, employment and profits in Germany

### Key findings:

- Output and employment expectations turn negative for first time since financial crisis
- Capex set to fall, led by slump in factory spending
- Businesses anticipate notable drop in profits

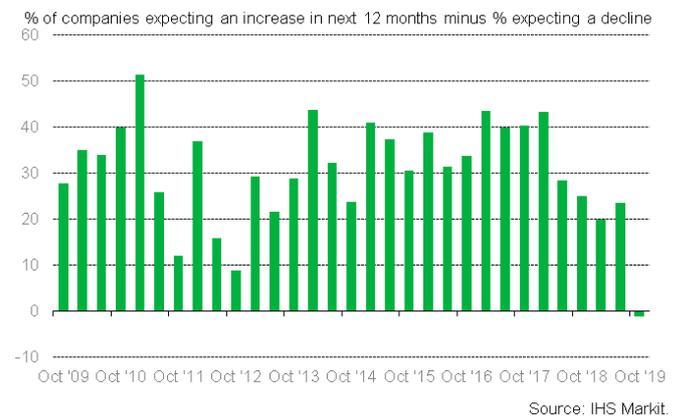
Data collected October 11-28

Business confidence across the German private sector has slipped to the lowest since the global financial crisis, according to the latest IHS Markit Global Business Outlook survey. Output of goods and services is on average expected to fall slightly over the next 12 months, while firms have signalled their intention to cut workforce numbers for the first time in ten years. Concerns about future profits are meanwhile reflected in a negative outlook for capital spending (capex).

The latest report, which asked around 800 German manufacturers and services firms for their assessment of business conditions in the year ahead, shows that the number of companies expecting output to fall over the year ahead exceeds those predicting an increase – albeit only just – for the first time since compared data were first available in late-2009. At -1%, the net balance is down sharply from +24% in June and compares with a historical average of +30%. Moreover, among the 12 countries for which both manufacturing and services data are available, Germany is the only nation with a negative net balance – although eight others have seen confidence wane since mid-year, including the US (+10% from +16%) and France (+23% from +26%).

Broken down by sector, the data indicate that German manufacturers are the most downbeat about future output (-9%) since the start of 2009. Expectations among service providers are only mildly positive (+3%), which points to the lowest degree of confidence in that sector in ten-and-a-half years.

### Germany business activity expectations



The factors weighing on sentiment can be grouped into a few main categories: a global and domestic economic slowdown, troubles in the automotive sector, trade wars, and Brexit uncertainty. Additionally, despite generally subdued growth forecasts, firms in some sectors still highlight concerns about skill shortages.

Greater efficiency through automation and digitisation is highlighted as a key growth opportunity, alongside the development of new, innovative (and in some cases sustainable) products. A recovery in exports is also seen by some as a potential upside risk to the outlook.

### Employment & Investment Plans

For the first time since late-2009, more firms are expecting to reduce employment over the next 12 months than those planning to create jobs. Though indicative of only a modest fall in workforce numbers, at -7% the net balance is down from a record high of +31% in early-2018 and the lowest globally where comparable data are available. Job losses are set to be centred on the manufacturing sector (net balance of -25%).

Expectations for capex are meanwhile the lowest in nearly ten years, with the respective net balance also slipping into negative territory (-3%). Again, the

weakness mainly reflects the manufacturing sector (-14%). Overall spending on research and development is forecasted to remain broadly flat (+1%).

## Inflation Expectations

Despite firms signalling their intentions to trim payroll numbers, the main source of cost pressures over the next 12 months is expected to come from salaries and wages. A net balance of +44% of businesses foresee staff costs rising, which compares with +22% for non-staff costs. However, on both fronts (and across both monitored sectors), forecasts have been revised down since June.

Manufacturers highlight their intentions to reduce output charges over the next 12 months (net balance at -7%). Coupled with lower expectations among service providers, it means the outlook for selling price inflation is now the weakest in over three years.

## Corporate Earnings

Manufacturers and service providers alike expect profits to fall in the coming year. The outlook on this front has been subdued since mid-2018, but has now turned negative (net balance at -18%) for the first time since the depths of the eurozone debt crisis in 2012.

## Comment:

Commenting on the Germany Business Outlook survey data, **Phil Smith**, Principal Economist at IHS Markit, said:

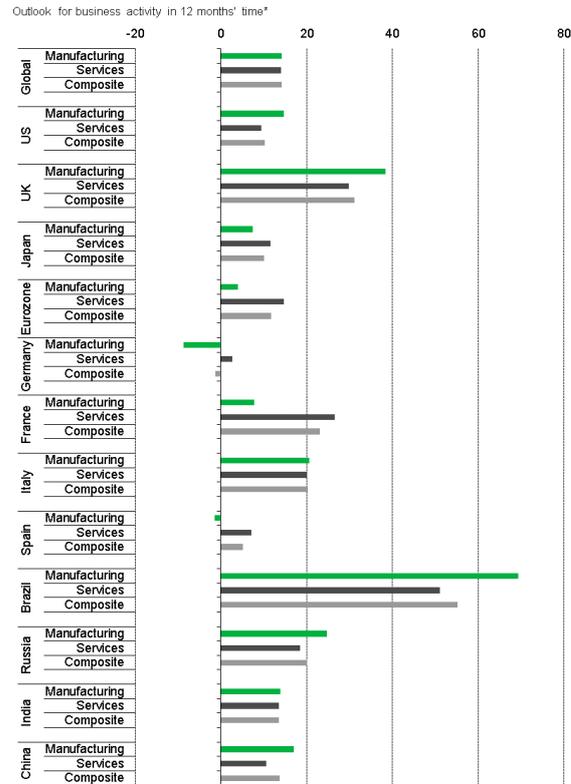
*“German business expectations have fallen off a cliff since early summer. The current economic and geopolitical backdrop has firms in Germany fearing about future output and profits in particular. According to the Business Outlook survey, Germany is looking like the ‘sick man’ of not only Europe but globally as well.*

*“The data point to troubles ahead for the labour market. Employment growth has slowed from an average rate of around 50,000 jobs per month in 2017/18 to under 15,000 over the past six months, and now these latest figures point to private sector workforce numbers actually falling over the coming year.*

*“With automation, digitisation and product innovation seen as some of the best opportunities for businesses to grow, it’s disappointing to find that plans for capex and research and development have been scaled back.”*

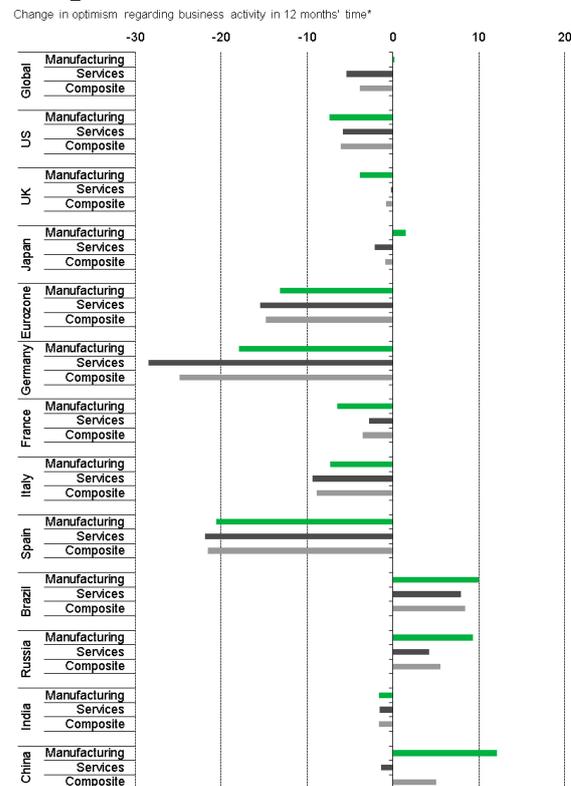
**-Ends-**

## Business optimism in October



\* chart shows net balance of optimists less pessimists in October.

## How business activity expectations have changed since June



\* chart shows net balance of optimists less pessimists in October compared to net balance in June.

**For further information, please contact:****IHS Markit**

Phil Smith, Principal Economist  
Telephone +44-149-146-1009  
Email [phil.smith@ihsmarkit.com](mailto:phil.smith@ihsmarkit.com)

Katherine Smith, Public Relations  
Telephone +1 781 301 9311  
Email [katherine.smith@ihsmarkit.com](mailto:katherine.smith@ihsmarkit.com)

**Notes to Editors:**

The Global Business Outlook Survey for worldwide manufacturing and services is produced by IHS Markit and is based on a survey of around 12,000 manufacturers and service providers that are asked to give their thoughts on future business conditions. The reports are produced on a tri-annual basis, with data collected in February, June and October. The latest survey was conducted between October 9 and 30.

Interest in the use of economic surveys for predicting turning points in economic cycles is ever increasing and the Business Outlook survey uses an identical methodology across all nations covered. It gives a unique perspective on future business conditions from Global manufacturers and service providers.

The methodology of the Business Outlook survey is identical in all countries that IHS Markit operates. This methodology seeks to ensure harmonization of data, and is designed to allow direct comparisons of business expectations across different countries. This provides a significant advantage for economic surveillance around the globe and for monitoring the evolution of the manufacturing and services economies by governments and the wider business community.

Data collection is undertaken via the completion of questionnaires three times a year at four-month intervals. A combination of phone, fax, website and email are used, with respondents allowed to select which mechanism they prefer to use.

The Business Outlook survey uses net balances to indicate the degree of future optimism or pessimism for each of the survey variables. These net balances vary between -100 and 100, with a value of 0 signalling a neutral outlook for the coming 12 months. Values above 0 indicate optimism amongst companies regarding the outlook for the coming 12 months while values below 0 indicate pessimism. The net balance figure is calculated by deducting the percentage number of survey respondents expecting a deterioration/decrease in a variable over the next twelve months from the percentage number of survey respondents expecting an improvement/increase.

Questionnaires are sent to a representative panel of around 12,000 manufacturing and services companies spread across the global economy in the countries mentioned above. Companies are carefully selected to ensure that the survey panel accurately reflects the true structure of each economy in terms of sectoral contribution to GDP, regional distribution and company size. This panel forms the basis for the survey. The current report is based on responses from around 7,000 firms.

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