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IHS Markit Germany Business Outlook

COVID-19 outbreak threatens to unwind renewed optimism in Germany

Key findings:

- Confidence recovers from ten-year low last October
- Survey captures firms' concerns towards outbreak of COVID-19 in China...
- ...but comes too early to gauge the reaction to the growing spread of the disease globally
- Wage pressures expected to remain high in 2020

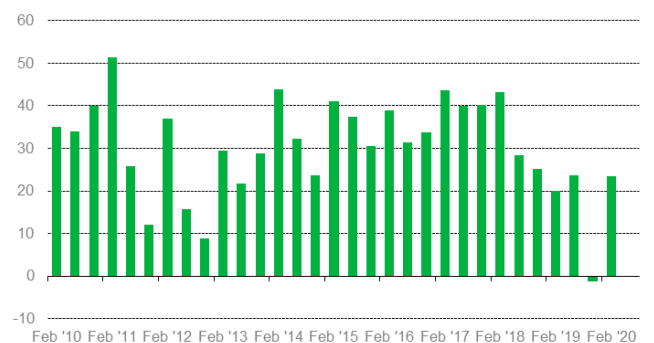
Data collected February 12-25

The start of 2020 has seen an improvement in German companies' expectations towards the business outlook, with confidence recovering from a ten-year low at the end of 2019. The Business Outlook report from IHS Markit – which was conducted around the third week in February and therefore before the spread of Coronavirus disease 2019 (COVID-19) across Europe – shows the net balance of firms expecting a rise in business activity increasing sharply from -1% last October to +24%. However, profit forecasts remain in negative territory and the impact of COVID-19 represents a growing threat to the business outlook.

Notwithstanding the risks posed by the coronavirus outbreak in China to supply chains and demand, manufacturers and service providers alike saw improvements in confidence since last October, with firms across both sectors highlighting the importance of digitisation and a greater focus on sustainability – including a shift towards electric vehicle production – in supporting future growth.

Service providers are more upbeat about the outlook for activity than their manufacturing counterparts, as has been the case since mid-2018. German business confidence is broadly in line with eurozone average (net balance at +25%) and compares favourably with the picture globally (+18%).

Germany business activity expectations



Source: IHS Markit.

Of the 12 countries for which comparable data are available, the lowest business confidence is found to be in China (+1%), while the highest is seen in Brazil (+58%).

Employment outlook turns positive

In a turnaround from October, when the survey pointed to the prospect of job losses across the German private sector, businesses on average are now expecting to raise workforce numbers over the next 12 months. At +10%, however, the respective net balance remains subdued by historical standards, with manufacturers maintaining plans to reduce payrolls.

The data show a similar pattern with regards to future capital expenditure, with a prospective rise in spending among the country's service providers set to be partially offset by potential cuts in manufacturing. Though back in positive territory, the overall net balance of firms expecting to increase capex (+5%) remains the second-lowest in over five years.

More positively, the data point to a broad-based increase in R&D spending over the coming year, which reflects firms' assessment of the importance of new products and services to growth.

Wage pressures expected to remain high

Wage pressures are expected to remain strong during the course of 2020. Service providers in particular are anticipating a rise in average staff costs, with the respective net balance increasing to the joint second-highest in the series history since 2006. Non-staff costs are also predicted to rise, and more quickly than was anticipated in October thanks to expectations of a renewed (albeit modest) rise in manufacturing input costs.

The net balance of firms planning to raise prices charged for goods and services is meanwhile unchanged from October's +13%, remaining below the historical series average of +16%.

Profit forecasts stay in negative territory

The latest business outlook survey data point to a negative outlook for profits across the German private sector in 2020. Though in both of the monitored sectors the net balances have improved from October's lows, they remain in negative territory and among the weakest globally.

Comment:

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

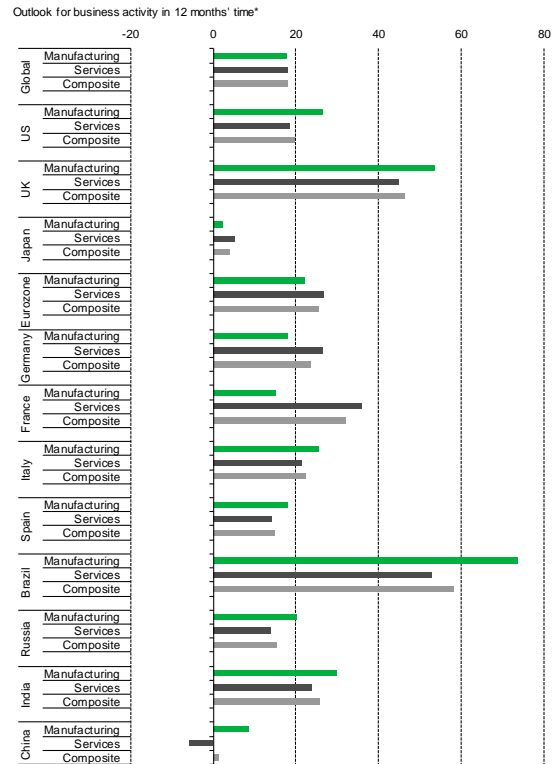
“Confidence among German businesses has improved from last October, when the economy was staring down the barrel of a technical recession, though the ever-growing threat of COVID-19 to supply chains and demand suggests that this renewed optimism could be short-lived.”

“Skill shortages are expected to lead to further strong wage growth over the coming year, eating into profitability. Nevertheless, the view from businesses is that, to get back to a place of growth, efficiency through digitisation is key, which is reflected in slightly improved forecasts for capex and R&D.”

-Ends-

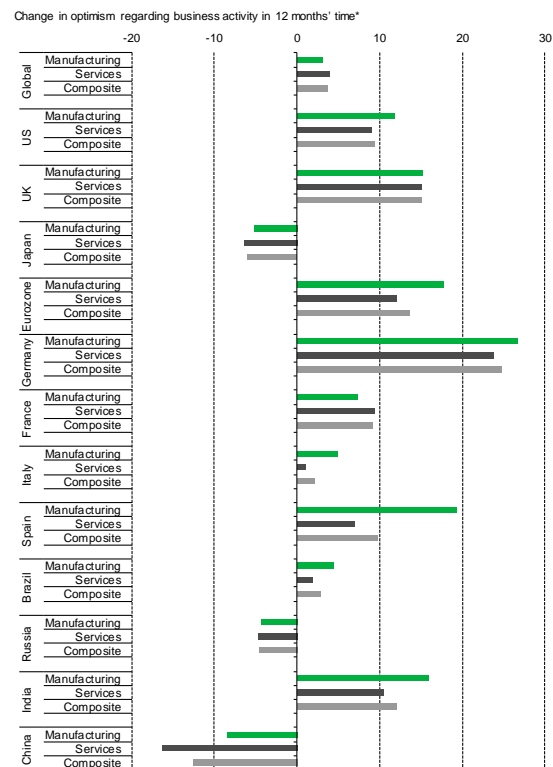
Full data available on request from economics@ihsmarkit.com

Business optimism in February



* chart shows net balance of optimists less pessimists in February.

How business activity expectations have changed since October



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

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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 February 12 and 27.

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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