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IHS Markit Germany Services PMI®

Including IHS Markit Germany Composite PMI®

Service sector grows at slowest rate in six months

Key findings

October sees recovery lose further momentum

Record rise in output prices as cost pressures intensify

Rate of job creation remains strong

Data were collected 12-26 October 2021.

The German service sector recorded its smallest rise in business activity for six months in October as the pace of economic recovery lost further momentum. At the same time, there was an intensification of inflationary pressures, with surging costs driving a record rise in prices charged by services firms.

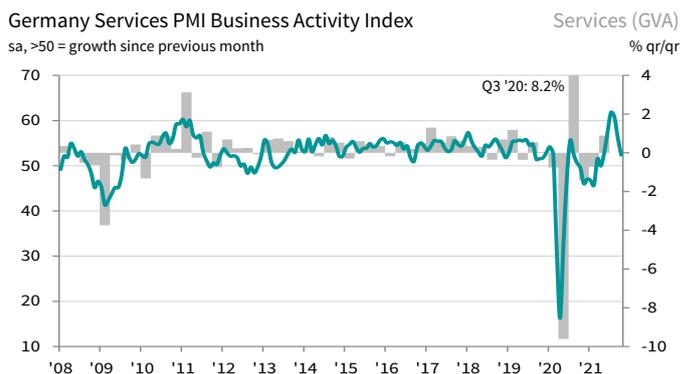
Business confidence towards the outlook nevertheless remained strong and even showed a slight improvement. This in turn helped maintain a rapid pace of job creation.

The headline seasonally adjusted IHS Markit Germany Services PMI® Business Activity Index fell for the third month in a row in October. At 52.4, down from September's 56.2, the latest reading was the lowest since the current upturn began in May and indicative of only a modest overall rate of expansion.

As well as noting an easing of catch-up effects, surveyed businesses also highlighted a drag on activity from supply chain issues.

The rate of growth in new business at German services firms slowed notably at the start of the fourth quarter. As was the case with business activity, the increase was the weakest in the current six-month sequence of expansion. This was despite a solid and accelerated rise in new work from abroad, linked in part by survey respondents to recovering travel activity.

German services firms reported higher backlogs of work for the seventh month in a row in October. Material shortages and staffing constraints were the main factors leading to the build-up of outstanding business, according to anecdotal evidence. That said, with inflows of new business rising more



slowly, the rate of accumulation in work-in-hand moderated to the weakest in the current sequence.

Another contributing factor was an increase in employment across the sector. The result represented a sixteenth successive monthly increase in services workforce numbers. Moreover, the rate of job creation was marked and accelerated for the first time in three months.

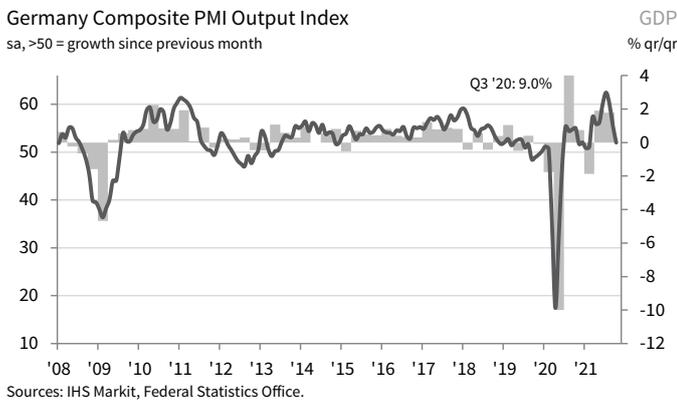
German services reported strong optimism towards the year-ahead outlook for activity in October. Although still below recent highs, expectations showed a marginal improvement from the previous survey period and remained firmly above the historical series average. Many businesses cited hopes that any remaining constraints on activity and travel stemming from the pandemic would fade in the coming year.

Turning to prices, latest data showed inflationary pressures continuing to heat up. Underpinning this was a sharp and accelerated increase in firms' input costs, which showed the joint-steepest rise in the survey's history (matching that recorded in June). Firms widely reported paying more for energy, fuel and raw materials, with some also commenting on greater labour costs.

More businesses looked to pass on higher operating expenses to customers in October. As a result, the rate of output price inflation across the service sector ticked up for the third straight month to a survey-record high.

IHS Markit Germany Composite PMI®

Activity rises only modestly as growth continues to cool



Business activity across Germany's private sector showed only a modest rise in October as the pace of growth slowed notably and for a third straight month. The seasonally adjusted Germany Composite PMI Output Index registered 52.0, down from September's 55.5.

The composite index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index*.

Both monitored sectors posted slowed rises in output and new orders. Measured overall, the rate of growth in new business was the slowest since February, although it remained slightly quicker than that of output.

The rate of private sector job creation was solid and, driven by a faster increase in services employment, even picked up slightly in October. Firms took on staff to expand capacity and curb rising backlogs of work, the rate of accumulation of which was robust but eased to a seven-month low.

On the price front, October saw broad-based accelerations in both input cost and output charge inflation, with the latter hitting a survey-record high.

Business expectations moderated for a fourth straight month to the lowest in the year-to-date, with a drop in manufacturing confidence offsetting a slight upturn in services optimism.

*Composite indices are weighted averages of comparable manufacturing and services indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index.

Comment

Phil Smith, Economics Associate Director at IHS Markit, which compiles the survey:

"The service sector's recovery continued to lose steam in October, with business activity showing the smallest rise for six months.

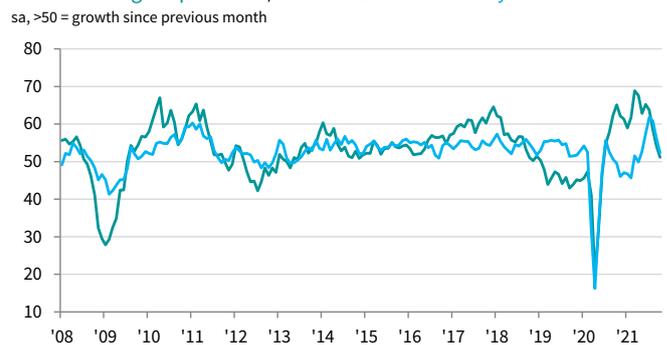
"Surveyed firms tell us that not only is momentum steadily being lost as activity levels normalise, but that supply-chain issues and staffing capacity constraints are also holding back activity in some cases.

"Economic growth disappointed in the third quarter and judging by the results from October's survey data and the ongoing supply chain problems, GDP growth looks set for a further slowdown in the final quarter of the year.

"Encouragingly, services firms reported another solid rise in workforce numbers in October to keep the labour market recovery going at a decent clip. The service sector is looking increasingly important to the near-term employment outlook, with data showing a sustained slowdown in factory jobs growth.

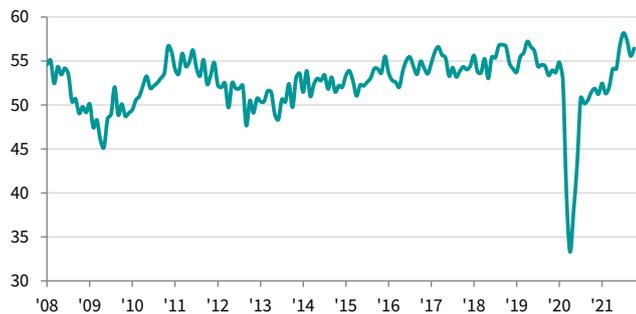
"Price pressures intensified further at the start of the fourth quarter, driven by a surge in energy costs. Goods inflation continues to run well ahead of that of services, but the latter is nevertheless now at a record high as firms in the sector pass on a multitude of increasing costs to customers."

Manufacturing Output Index / Services Business Activity Index



Germany Services PMI Employment Index

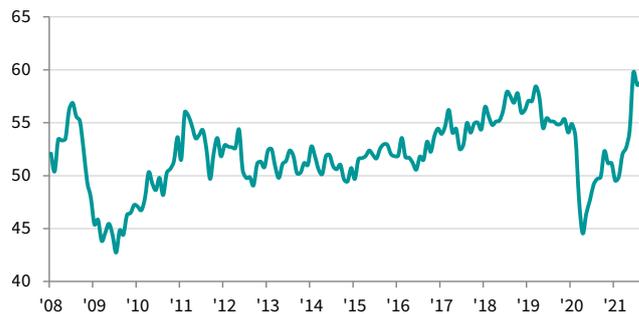
sa, >50 = growth since previous month



Source: IHS Markit.

Germany Services PMI Prices Charged Index

sa, >50 = inflation since previous month



Source: IHS Markit.

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Survey 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.

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

Survey dates and history

Data were collected 12-26 October 2021.

Survey data were first collected June 1997.

Flash vs. final data

Flash services data were calculated from 84% of final responses. Flash composite data were calculated from 88% 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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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. ihsmarkit.com/products/pmi.html