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IHS MARKIT GERMANY SERVICES PMI®

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Decline in business activity deepens to new record low in April

KEY FINDINGS

April sees further collapse in business activity amid COVID-19 lockdown

Unprecedented job losses as firms report bleak outlook

Deepest cuts to output prices for over a decade

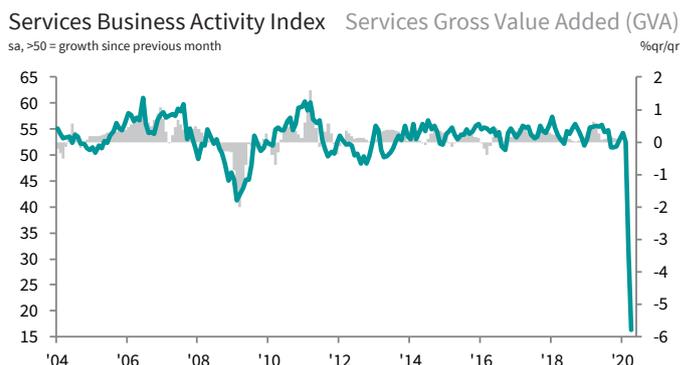
Data were collected 7-27 April 2020.

Disruption to business activity across Germany's service sector from the coronavirus disease 2019 (COVID-19) outbreak and resulting lockdown was on an unprecedented scale in April, latest PMI® data from IHS Markit showed. The rate of decline in activity eclipsed that seen even in March, whilst there were also new record falls in both new business and employment.

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 – fell sharply again in April, dropping from a prior all-time low of 31.7 in March to 16.2. Business closures, short-time working and a collapse in incoming new work all contributed to the decline in activity.

Hotels & Restaurants and 'Other Services' – which includes education, recreation and cultural services – were the two hardest-hit areas, though underlying data also showed steep falls in activity in all other sub-sectors.

With many businesses temporarily closed, and demand stifled by a wait-and-see attitude among consumers and firms alike, inflows of new work across the German service sector fell sharply in April. The decline accelerated to a new all-time low, with the proportion of firms reporting a reduction in new work increasing from around 50% in March to 75% in April. There was a similarly sharp decrease in new export business amid travel restrictions and disruption to economies globally.



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

Service providers in general remained pessimistic about the year-ahead outlook for activity. Sentiment had fallen sharply to a record low in March, and showed little improvement in the latest survey period. Concerns remained over the unpredictable nature of the virus outbreak and potential lasting effects on demand.

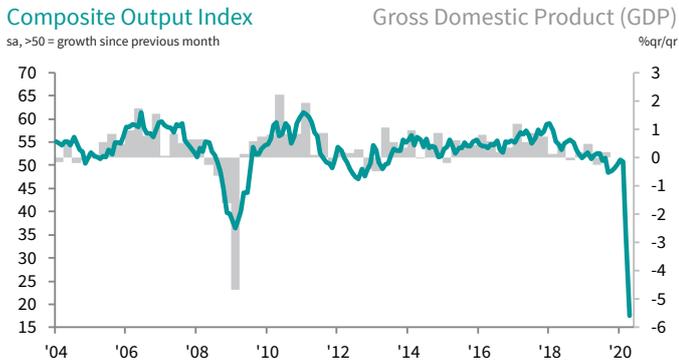
A lack of work and doubts about a swift recovery led service providers to further reduce workforce numbers during April, following the first decline for almost six-and-a-half years in March. Furthermore, the pace of job losses continued to accelerate, reaching a new record. Firms that reported a decrease in employment commented on cuts to temporary staff and redundancies, whilst numerous others also mentioned the use of short-time working.

Elsewhere, data showed prices charged by service providers falling at a faster rate amid intensifying competition for new work. Lower charges had been recorded for the first time in over five years in March, and in April the decline accelerated to the quickest in over a decade.

At the same time, firms recorded a decline in operating expenses, linked to reductions in payroll costs, rental payments, and energy and fuel prices. Though only marginal, it was the first such fall since the aftermath of the financial crisis in late-2009, and contrasted with the strong rates of cost inflation seen only a few months ago.

IHS MARKIT GERMANY COMPOSITE PMI®

New record contraction in private sector activity in April



Sources: IHS Markit, Eurostat.

The decline in German business activity deepened in April, as the COVID-19 pandemic and subsequent global lockdowns led to record declines in both manufacturing output and services activity. The Germany Composite* Output Index posted a historic low of 17.4, down from the previous record of 35.0 in March and nearly 20 points below its nadir during the depths of the global financial crisis.

As demand collapsed, data showed an unprecedented fall in new business at German private sector firms. As was the case with output, the decline in new work was led by the service sector.

Job losses accelerated at the start of the second quarter, showing the steepest fall in employment since comparable data were first compiled in January 1998. Another record fall in services payroll numbers was accompanied by the deepest cuts to manufacturing headcounts since May 2009.

Data meanwhile showed further downwards pressure on prices, with average charges levied by manufacturers and services firms falling to the greatest extent since September 2009. This was helped by an accelerated decline in firms' input costs.

Business confidence towards future activity stabilised in April, after having fallen to a record low in March. Firms remained strongly pessimistic towards the outlook, with manufactures more bearish than their service sector counterparts.

*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, Principal Economist at IHS Markit said:

"As was expected following the first full month of lockdown, the decline in services business activity across Germany accelerated in April, with the rate of contraction moving well beyond that seen even during the depths of the global financial crisis.

"However, though manufacturing also suffered a record drop in output in April, the PMI surveys confirm that the decline in Germany's economy has been less severe than in France, Italy and Spain, where lockdowns have been more strict.

"Despite the easing of restrictions having already begun, there is still so much uncertainty among businesses about the timing of further relaxation of measures and the health of demand going forward.

"The uptake of short-time work has been on an unprecedented scale, yet the record job losses in April clearly show that businesses aren't expecting a full recovery in activity anytime soon."

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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.

April data were collected 7-27 April 2020.

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

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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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