

EMBARGOED UNTIL: 00:01 (UTC) November 19th 2018

IHS Markit Germany Business Outlook

Growth expectations at German firms dip lower as global trade stifles forecasts

Key findings:

- Optimism regarding future activity weakest in four years
- Subdued profitability expectations, but capex plans improve
- Firms least confident about pricing power since June 2017

Data collected October 12-26

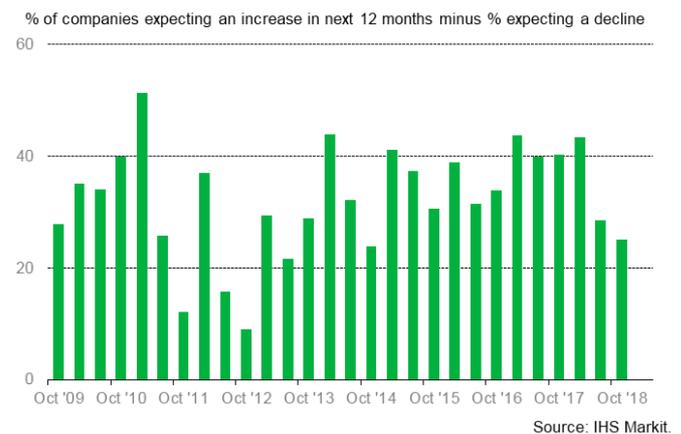
October's Business Outlook data from IHS Markit show optimism levels at German private sector firms dampening further since June, as fears over global trade policy intensify.

The net balance of companies in Germany expecting output to be higher in the next 12 months is slightly weaker in October, at +25%, down from +28% in June. The latest reading is the lowest in four years and the second-weakest of all European Union nations for which comparable data are available (ahead only of Spain).

Manufacturing firms are again less optimistic than their services counterparts in October, with the net balance falling strongly to its weakest level since October 2012. Trade policy is a key concern for many businesses, including the trade war between the US and China, Brexit negotiations and fresh sanctions on Iran. Government crises in the EU region, such as Italy and Greece, have also dampened prospects of future demand.

On the positive side, services firms report a slight uplift in expectations in October, bringing the net balance in line with the average seen across the series history. While there are many concerns among German private sector businesses, the overall outlook is positive. Several firms cite opportunities for expansion into new markets, while some believe that the trade war will lessen competition and drive up demand for local goods.

Germany business activity expectations



Employment & Investment Plans

German businesses plan to raise employment in the coming year, though the level of confidence is weaker than in June. In particular, manufacturing firms register the lowest degree of optimism in four years.

In addition, capital expenditure plans have been revised lower at manufacturing firms in October, with research and development intentions also dropping slightly. Meanwhile, services firms report an uplift in capex forecasts, the highest seen in the series history.

Inflation Expectations

Businesses in Germany continue to foresee input and output price inflation in the coming 12-month period, although output price forecasts are down compared to earlier in the year.

The outlook for input cost inflation stays elevated, with the net balance unchanged at +50%. Only Ireland posts a higher composite net balance in the EU region. By sector, German manufacturing firms anticipate cooling price pressures, whereas services firms have revised higher their expectations for input costs.

While overall expectations for input prices are unchanged, the net balance for output prices is slightly lower in October. Firms from both sectors note weaker expectations towards charge inflation, with the overall net balance falling to +28%, the lowest since June 2017. That said, it remains high compared to the EU average (+24%).

Corporate Earnings

Following a sharp decline in optimism towards profits in June, the net balance is the lowest since June 2013, falling marginally to +2% in October. Manufacturing firms continue to project a negative outlook for profitability as cost pressures are expected to stay strong. Overall, Germany has the weakest earnings optimism across all global composite surveys.

Comment:

Commenting on the Germany Business Outlook survey data, **David Owen**, Economist at IHS Markit, said:

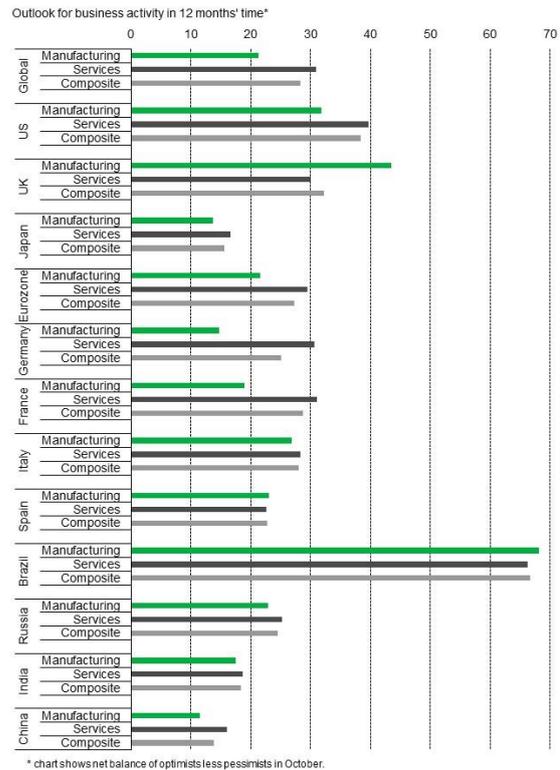
“German businesses continue to express strong fears that global trade policies and an unsettled EU will dampen output growth in the coming year. Confidence levels are at their lowest in four years, while also trailing behind comparable composite data for EU countries. Businesses highlight Brexit negotiations and the US-China trade war as factors to watch closely in the coming months.”

“Indicative of the overall outlook, firms are downgrading their profit expectations even further in October, with manufacturers remaining pessimistic in their forecast. Likewise, manufacturers are reining in their capital expenditure plans, while services firms are raising theirs to the highest level in the series history. With output growth forecasts also much stronger for services, there is evidence of a widening gap between the prospects of the two sectors.”

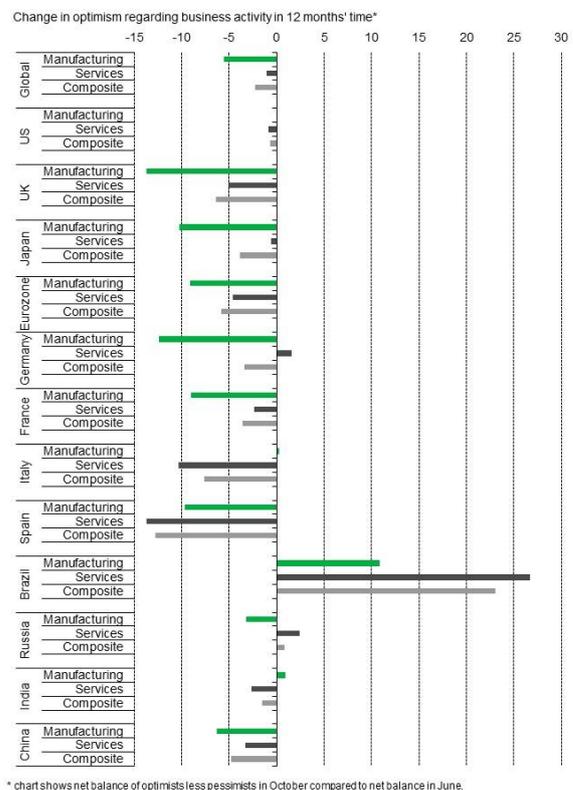
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Full data available on request from economics@ihsmarkit.com

Business optimism in October



How business activity expectations have changed since June



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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 October 12 and 26.

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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