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## IHS MARKIT GERMANY SERVICES PMI®

INCLUDING IHS MARKIT GERMANY COMPOSITE PMI®

### Service sector sees further drop in business activity in May

#### KEY FINDINGS

Declines in activity and new work ease since April but remain severe

Job losses continue to mount

Expectations recover further from March's low, but remain deep in negative territory

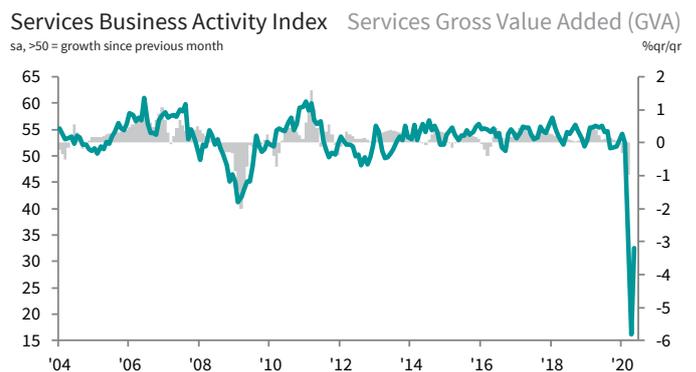
Data were collected 12-26 May 2020.

Activity across Germany's service sector remained in decline in May, with the coronavirus disease 2019 (COVID-19) pandemic continuing to disrupt business and hinder demand. The loosening of lockdown restrictions saw rates of contraction in business activity, new orders and employment ease compared to the record falls in April, however, as parts of the service economy resumed operations.

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 – registered 32.6 in May. This was up from April's unprecedented low of 16.2 and the highest reading for three months, though it was still comfortably below even the nadir during the global financial crisis of 2008/9.

Underlying data showed further decreases in activity across five of the six broad services sub-sectors. The only exception was Hotels & Restaurants, though even here activity barely rose following steep contractions in both March and April.

Inflows of new business across the service sector were down for third month in a row in May. Whilst less marked than April's record fall, the rate of decline remained severe by historical standards. Surveyed firms highlighted the impact of business closures and client uncertainty, while travel restrictions were reported to have further limited the inflow of new business from abroad, which decreased to a greater extent than overall new work.



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

In line with the trend in new business, backlogs of work continued to fall sharply during May, albeit at a much slower rate than in April. As such, service providers remained in retrenchment mode, cutting payroll numbers for the third consecutive month and at a rate second only to that seen in April. Furthermore, job losses were broad-based by sub-sector.

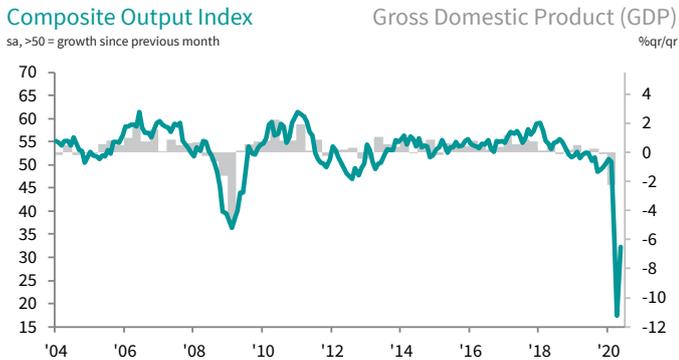
The sustained reduction in staffing capacity was consistent with businesses remaining downbeat about the outlook for activity over the coming year. Though recovering further from March's record low, expectations remained firmly in negative territory, reflecting high levels of business uncertainty and concerns about a squeeze on incomes and COVID-19 regulations.

On the cost front, latest data showed no change in service providers' input prices. This followed the first – albeit marginal – decrease in expenses for over a decade in April and strong rates of cost inflation seen prior to the virus outbreak in March. Alongside lower payroll expenditure, the survey highlighted the influence of the recent drop in fuel prices. Where an increase in costs was recorded, this was often linked to higher food prices.

Service providers meanwhile continued to discount prices charged due to fierce competition for new work. The rate of decline eased since April, but it was still the second-fastest seen since October 2009.

## IHS MARKIT GERMANY COMPOSITE PMI®

## Private sector activity remains in decline in May



Sources: IHS Markit, Eurostat.

Though ticking up from April's historic low of 17.4 to 32.3, the Germany Composite\* Output Index remained deep in contraction territory in May amid further – albeit slower – declines in both manufacturing production and service sector activity.

Identical trends were also observed for new business and backlogs of work. On both fronts, rates of decline eased more noticeably in the service sector than in manufacturing. Export sales remained particularly weak.

After a record fall in employment in April, the rate of staff shedding slowed only slightly in May, owing in part to a further acceleration in the pace of factory job losses to the fastest in 11 years.

The deep cuts to payroll numbers not only reflected low capacity utilisation, but also a pessimistic assessment of activity over the coming year. Expectations rebounded further from March's record low, led by the service sector, but nevertheless remained deep in negative territory and lower than at any point prior to March (since comparable data were first available in July 2012).

Elsewhere, May saw sustained declines in both output prices and input costs. Data showed similarly marked falls in service sector charges and factory gate prices, albeit with the respective rates of decline easing slightly since April. Lower input costs were driven by a further steep reduction in manufacturing purchase prices.

\*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:

*"The PMI data have so far largely been in line with expectations, with April representing the trough of the economic contraction, followed by an easing of the downturn in May as more businesses resumed operations. However, the data show that there is still considerable slack in the economy, and point to the real possibility of a double-digit contraction in the second quarter."*

*"As such, disinflationary forces still are looming large over the private sector economy, with fierce competition among businesses driving down prices charged for goods and services. Lower costs have so far helped facilitate discounting, however."*

*"There was more bad news for the German labour market in May as job losses continued to mount. Staff cuts were initially centred on services at the start of lockdown, but here the rate of decline has eased slightly and now been overtaken by manufacturing."*

## CONTACT

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### IHS Markit

Phil Smith  
Principal Economist  
T: +44-1491-461-009  
[phil.smith@ihsmarkit.com](mailto:phil.smith@ihsmarkit.com)

Katherine Smith  
Public Relations  
T: +1-7813-019-311  
[katherine.smith@ihsmarkit.com](mailto:katherine.smith@ihsmarkit.com)

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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.

May data were collected 12-26 May 2020.

For further information on the PMI survey methodology, please contact [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com).

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IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

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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](https://ihsmarkit.com/products/pmi.html).

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Bundesverband Materialwirtschaft, Einkauf und Logistik e.V. (BME), Frankfurter Str. 27, 65760 Eschborn

Frank Rösch E-Mail: [frank.roesch@bme.de](mailto:frank.roesch@bme.de) Internet: [www.bme.de](http://www.bme.de).