

**EMBARGOED UNTIL: 00:01 (UTC) July 15<sup>th</sup> 2019**

# IHS Markit Germany Business Outlook

## Outlook for jobs gloomiest since 2013 amid increased profit worries

### Key findings:

- Factory job cuts to weigh on employment growth
- Profit expectations sink to lowest in six years
- Output outlook remains among weakest since 2013

Data collected June 12-25

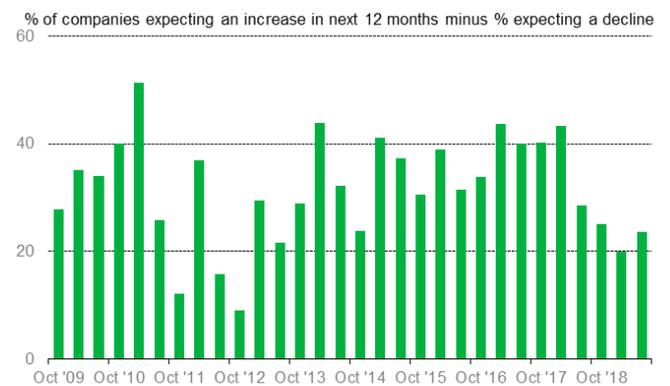
Hiring intentions across Germany's private sector are the lowest since 2013, according to the latest IHS Markit Global Business Outlook survey, as a combination of subdued growth and squeezed margins looks set to weigh on firms' profitability over the next 12 months.

The report – which asks around 800 German manufacturers and services firms for their assessment of business conditions in the year ahead – shows that the net balance of firms expecting to add to their workforce numbers has fallen sharply to just +9%, down from +19% in February and the lowest since late-2013. The equivalent figure for expected profitability is meanwhile 0%, which is the lowest in six years and shows an equal number of firms forecasting profits to increase as those predicting a decline.

Expectations towards future output have strengthened slightly since the opening quarter of 2019 but are still among the lowest over the past six years. This largely reflects a lack of optimism in the manufacturing sector, where the survey reveals lingering concerns towards trade wars, the future of the car industry and the risk of a disorderly Brexit. Services firms remain comparatively more upbeat, citing solid domestic fundamentals and a growing trend towards digitisation as reasons to be optimistic, though the degree of confidence here remains well below the highs in 2017 and 2018.

The slight increase in the net balance of German firms expecting a rise in business activity over the next 12 months – from February's six-and-a-half-year low of +20% to +24% – is in line with a modest recovery in

### Germany business activity expectations



Source: IHS Markit.

sentiment across the eurozone as a whole (from +25% to +27%). Expectations in the UK have also improved (albeit only slightly) for the first time in over a year, up from a record low in February. However, business confidence has worsened in all countries outside of Europe where comparable data are available, with optimism weakening in the US, Japan and across all of the major emerging economies.

### Employment & Investment Plans

Hiring intentions among firms in Germany are lower than the euro area average for the first time since 2011. The main weak point in the currency bloc's largest economy remains manufacturing, where for the first time since 2014 firms are signalling their intention to cut staff numbers. Service providers are set to continue to creating jobs, although the data show a reduced appetite for new staff compared with earlier in the year.

Optimism towards future capital expenditure has also weakened, with the respective net balance of +14% the lowest since early-2017 (albeit still above the long-run series average of +9%). It matches a similar dip in expectations towards future R&D spending; however, here the reduction in confidence is led by services.

## Inflation Expectations

A tight labour market means that average staff costs are expected to rise steeply over the next 12 months, and more quickly than other expenses such as raw material prices, rents and utilities. Germany's net balance of +53% for staff costs is in fact the second-highest globally behind Ireland (+56%). Compared with the opening quarter, service providers' forecasts for costs are little-changed, but their manufacturing counterparts have significantly revised down their expected rates of input price inflation.

The overall net balance of firms expecting to raise output prices over the coming year has meanwhile fallen for the fourth survey in a row to a three-year low of +18%. While service providers are now less confident in their ability to hike charges, the main drag on the net balance is from manufacturing, where there is now a broadly equal number of firms expecting to reduce output prices as those planning to raise them.

## Corporate Earnings

The profit outlook in Germany is the gloomiest since mid-2013. Manufacturers on balance expect profits to fall over the next 12 months, while optimism among services firms is the joint-lowest in over five years.

### Comment:

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

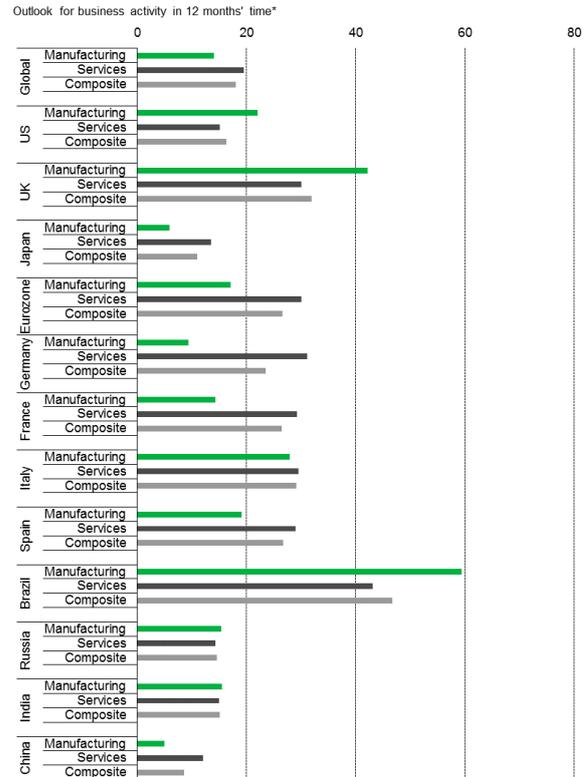
*"In the space of just a few months, German businesses have gone from being the most confident in the euro area about hiring, to the least. The drop in sentiment means that employment looks set to rise only slightly over the next 12 months, with more factory job cuts planned for the year ahead."*

*"The data point to an increased risk of profit warnings from German businesses in the coming months. Amid continued worries about trade tensions, the future of the car industry and Brexit, near-term growth projections are subdued and a squeeze on margins is expected."*

*"In this currently testing environment, product innovation and digitisation are some of the areas where German businesses see the best opportunities for growth."*

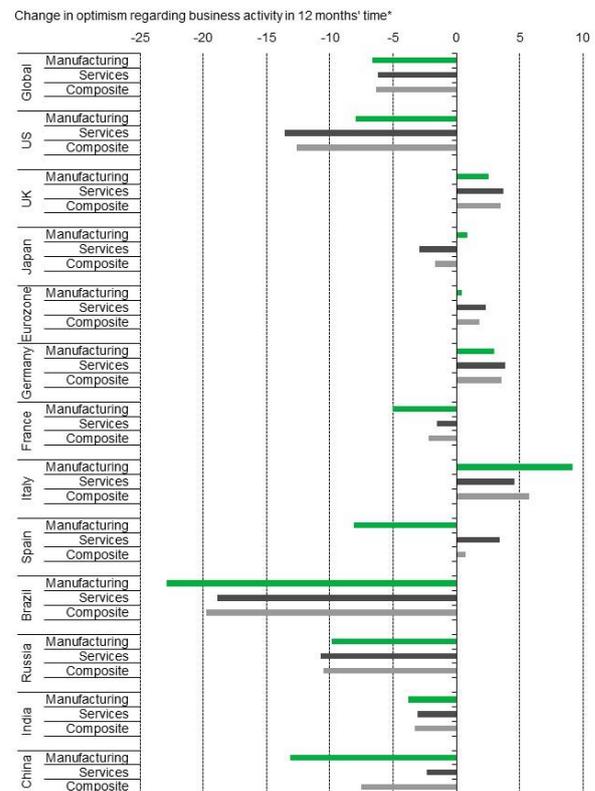
**-Ends-**

## Business optimism in June



\* chart shows net balance of optimists less pessimists in June.

## How business activity expectations have changed since February



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

**For further information, please contact:****IHS Markit**

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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 June 12 and 25.

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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