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## IHS MARKIT GERMANY SERVICES PMI®

INCLUDING IHS MARKIT GERMANY COMPOSITE PMI®

### Business activity growth accelerates to five-month high

#### KEY FINDINGS

January sees faster increases in activity and new work

Employment shows steepest rise since last June

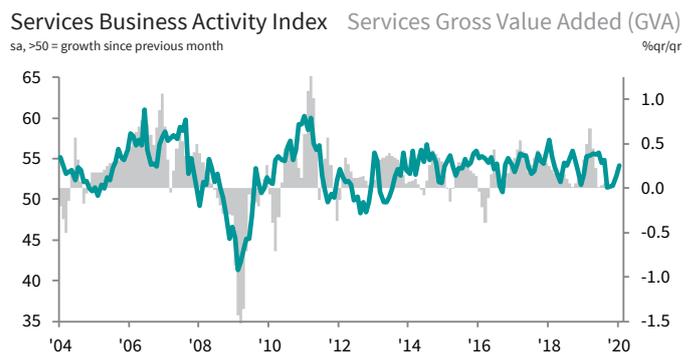
Cost inflation picks up amid strong wage pressures

Germany's service sector made a strong start to 2020, recording faster growth in business activity, inflows of new work and employment, latest PMI® data from IHS Markit showed. Expectations towards output over the next 12 months also improved. Firms in the sector meanwhile faced the steepest rise in input costs for nine months, which in turn contributed to a slight pickup in the rate of output price inflation.

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 54.2 in January, up from December's 52.9. The latest reading was the highest since August last year and marked a further recovery in the pace of growth from last September's three-year low.

Underlying data showed an increase in business activity in five of the six broad services categories monitored by the survey. The only fall in activity was in Transport & Storage, though even here the rate of decline eased.

The improved performance of the service sector in January was underpinned by stronger underlying demand. Data showed inflows of new business rising at the fastest rate for seven months amid reports of new client acquisitions and greater inflows of new work from existing customers. Another factor was an easing of the rate of decline in new export business, which showed the smallest drop in the current 11-months sequence of decline.



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

The pace of job creation across Germany's service sector was at a seven-month high in January, as firms stepped up hiring activity in line with increased demand. This extra staffing capacity was reflected in a further reduction in backlogs of work, which have now fallen in each of the past six months.

The upturn in employment growth in January coincided with an improvement in service providers' confidence towards the business outlook. Rising for the third month in a row (up from a near seven-year low in October), expectations for business activity over the next 12 months reached the highest since April last year. A positive trend in new business, plans for company expansions and increased marketing efforts were all factors that supported firms' optimism.

Elsewhere, latest data showed cost pressures across the services economy picking up to the strongest for nine months in January. Higher wages remained a key factory behind rising operating expenses, according to anecdotal evidence, with increases in the cost of rent, fuel and energy also contributing.

Firmer demand allowed service providers to pass on part of the burden of higher costs to clients. Average prices charged rose at a solid and slightly accelerated rate that was in line with average recorded over the second half of 2019 (and well above the long-run series trend since mid-1997).

## IHS MARKIT GERMANY COMPOSITE PMI®

## January sees slightly firmer output growth amid upturn in new work

### Composite Output Index

sa, >50 = growth since previous month

### Gross Domestic Product (GDP)

%q/qr



Sources: IHS Markit, Eurostat.

January saw the level of business activity across Germany's private sector increase for the second month in a row. Climbing from December's 50.2 to 51.2, the Germany Composite\* Output Index signalled a slightly faster, albeit modest rate of expansion. The result reflected the combination of a stronger increase in service sector business activity and a slower rate of decline in manufacturing production.

Another positive development in January was a return to growth of new business, following a six-month sequence of contraction. This was due in part to an easing drag from external demand, with new orders from abroad falling at a marginal rate that was the slowest in the current 17-month sequence of decline.

Latest data also showed a slight acceleration in the rate of job creation across Germany's private sector in January. That said, owing to further staff cuts in manufacturing, the overall increase in employment was only modest.

Input prices increased at the fastest rate for six months in January. The pickup in the pace of cost inflation mainly reflected a steep and accelerated rise in operating expenses across the service sector. Manufacturers faced another sharp drop in costs and, as such, continued to reduce output charges amid strong competitive pressures. Though ticking up slightly, the rate of inflation of average prices charges for goods and services remained among the weakest over the past three-and-a-half years.

Lastly, latest data showed future output expectations at a 16-month high, reflecting stronger optimism among both manufacturers and service providers.

*\*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:

*"Germany's service sector made a bright start to the new year, which provides some welcome reassurance that the domestic economy has, by and large, remained resilient to the weakness in manufacturing. Business activity rose at the fastest rate for five months in January, and encouragingly the impetus came from a strengthening of underlying demand as new order growth accelerated.*

*"Moreover, it bodes well for domestic demand that service providers stepped up the rate of job creation in January, though overall job gains continued to be limited by the staff cuts across manufacturing."*

## CONTACT

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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.

January 2020 data were collected 13-28 January 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. To learn more go to [ihsmarkit.com/products/pmi.html](https://ihsmarkit.com/products/pmi.html).

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### BME

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