

IHS MARKIT GERMANY SERVICES PMI®

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Business activity growth slows in August

KEY FINDINGS

Business Activity Index slips to 52.5 from July's 55.6

Steady improvement in new business, but employment is little-changed

Output prices show signs of stabilising after recent decline

Data were collected 12-25 August 2020.

Germany's service sector continued its recovery from the historic downturn caused by the coronavirus disease 2019 (COVID-19) pandemic during August, helped by a steady improvement in demand from domestic clients. However, following strong growth in July, the rate of increase in business activity eased, and firms reported only a fractional rise in employment.

The headline seasonally adjusted 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 in growth territory for the second month in a row in August. However, slipping from July's 13-month high of 55.6 to 52.5 (but up from the preliminary 'flash' figure of 50.8), the index signalled a loss of momentum in the sector's recovery.

Underlying data pointed to slower growth in the Hotels & Restaurants and 'Other Services' sub-sectors following particularly steep increases in activity in July. That was accompanied by a renewed, albeit modest, contraction in the dominant Renting & Business Activities category.

Where a rise in activity was recorded in August, surveyed firms commented on the recommencing of projects previously postponed and increasing customer numbers. Inflows of new work showed a further gradual improvement, rising at a moderate rate, but one that was slightly slower than in July. The main impetus continued to come from the domestic market, with data showing a steep and accelerated decrease in new export business, linked to travel restrictions



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

and heightened uncertainty among international clients.

Though increasing, workloads generally remained insufficient to put pressure on capacity, with firms reporting lower levels of outstanding business in August. As such, there was caution shown in terms of staff hiring, with employment rising only fractionally and more slowly than in July. Any recruitment was generally centred on the Hotels & Restaurants and 'Other Services' sectors, where workforce numbers had been cut sharply during the second quarter of the year at the height of the lockdown.

Not helping the situation on the job front was a slight weakening of firms' optimism towards future activity. Though remaining in positive territory, with firms generally expecting a steady return to more normal business conditions, sentiment ticked down for the first time in five months amid lingering uncertainty about the direction the pandemic will take.

Turning to prices, August saw a sixth straight monthly decrease in average charges levied by services firms. However, having slowed for the fourth month running, the rate of decline was only marginal and the weakest in the aforementioned sequence. Firms meanwhile reported the steepest rise in costs since February, linked to higher food, real estate and rental prices.

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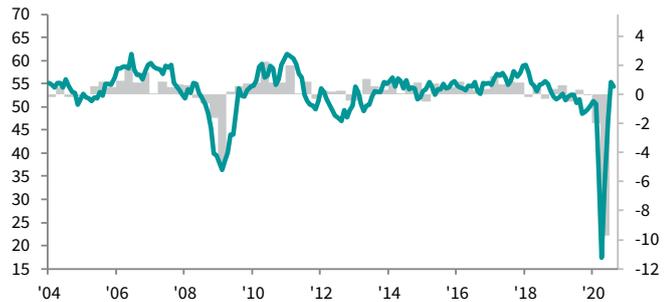
Private sector activity continues to grow, but at a slightly reduced pace

Composite Output Index

sa, >50 = growth since previous month

Gross Domestic Product (GDP)

%q/q



Sources: IHS Markit, Eurostat.

The combined output of Germany's manufacturing and service sector continued to rise during August. Growth was solid but eased slightly from that seen in July, as highlighted by the Composite* Output Index slipping from July's near two-year high of 55.3 to 54.4.

The slowdown owed exclusively to the service sector, with manufacturing production rising at the quickest rate for two-and-a-half years in August.

Inflows of new work grew for the second month in a row, but likewise at a slightly slower rate than in July. Manufacturing recorded the much stronger increase in new business, which was partly helped by an accelerated rise in goods exports. Overall new business from abroad grew at a slightly slower rate, however.

With backlogs of work rising – albeit marginally – for the first time in almost two years in August, the pace of job losses slowed for the fourth month in a row. Nevertheless, employment still fell solidly overall, reflecting another marked round of job cuts across manufacturing.

On the price front, average charges for goods and services fell marginally and at the slowest rate for six months. The reduction in discounting coincided with a first rise in input costs since February.

Lastly, output expectations improved to the strongest since August 2018, buoyed by increased optimism in the manufacturing sector.

**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, Associate Director at IHS Markit said:

"August's services PMI data point to a loss of momentum in the recovery from the record contraction caused by the COVID-19 pandemic. Business activity across the services economy increased more slowly after strong growth in July, with the post-lockdown surge in activity across consumer-facing sectors losing some steam, and those areas less affected by COVID-related restrictions also continuing to struggle for traction.

"Underlying demand looks to be improving, but the data show that the progress in August was gradual and predominantly driven by the domestic market, which itself has been weakened by job losses during the pandemic. However, the picture on the employment front is starting to look a little more encouraging, with some signs of hiring in the service sector accompanied by an easing rate of retrenchment across manufacturing, plus the news that the short-time work scheme across Germany has been extended to the end of next year."

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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.

August data were collected 12-25 August 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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