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IHS MARKIT GERMANY SERVICES PMI®

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Business activity growth eases to six-month low in November

KEY FINDINGS

Slower rises in business activity, new orders and employment

Input price inflation ticks up to highest since March 2011

Business optimism slips to two-year low

Germany's service sector continued to grow during November, albeit at the slowest pace for six months, according to the latest PMI® survey. Services firms created jobs on the back of rising workloads, though slower growth and lower confidence towards the outlook saw the pace of hiring moderate. Notably, cost pressures in the sector reached the highest since March 2011.

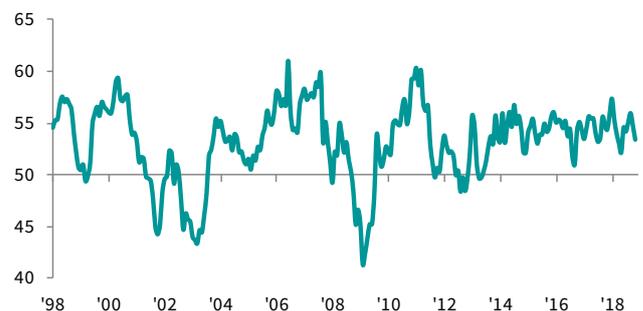
The headline seasonally adjusted final IHS Markit Germany Services PMI Business Activity Index registered 53.3 in November, unchanged from the earlier 'flash' estimate but down from 54.7 in October. Despite having slipped to a six-month low, the index remained well above the 50.0 no-change mark and signalled a solid rate of growth that was in line with the average over the series history (since 1997).

Activity rose across all parts of the services economy except Hotels&Restaurants, where a modest decrease was recorded. Post & Telecommunications, Financial Intermediation and Renting & Business Activities all saw strong growth, with more moderate increases recorded across Other Services (i.e. health, education and other personal services) and Transport & Storage.

The survey highlighted a general rise in demand across the service sector in November, with a rise in inflows of new business recorded for the forty-seventh month in a row. That said, as was the case with business activity, the rate of new order growth was the weakest seen since May. A fall in new business from abroad was recorded for a fifth month in a row, weighing on the overall inflow of new work.

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

With workloads continuing to rise, albeit more slowly than in previous months, services firms were encouraged to take on additional staff during November. The pace of hiring, however, followed the trends in both business activity and new orders by slowing to a six-month low.

Backlogs of work were found to have risen for the ninth month in a row in November, suggestive of sustained pressure on capacity across the sector. That said, the latest increase was the weakest in the aforementioned sequence and only slight overall.

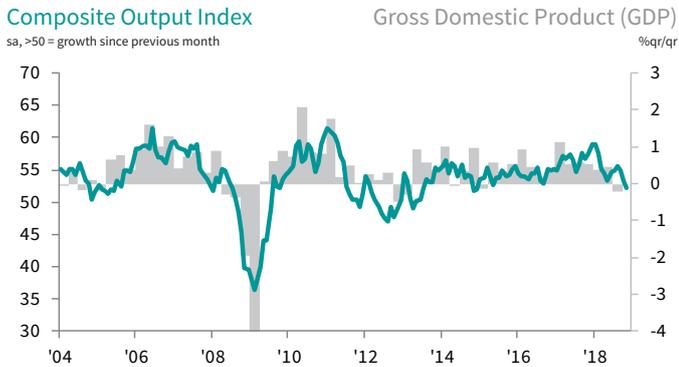
In line with the broad slowdown in growth, business sentiment regarding the year-ahead outlook for activity weakened in November. The net balance of companies reporting optimism was at its lowest for two years, with some also raising concerns around staff shortages and rising costs.

Operating expenses showed the steepest monthly rise since March 2011 during the latest survey period. Higher fuel prices was a key driver, according to anecdotal evidence, with increasing energy and labour costs also highlighted.

Businesses in the service sector sought to protect margins by raising prices charged to customers. Though the rate of inflation cooled to the weakest for six months, November's increase in average selling prices was still strong in the context of historical data.

IHS MARKIT GERMANY COMPOSITE PMI®

German private sector sees broad-based slowdown



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 Germany Manufacturing Output Index and the Germany Services Business Activity Index. The Composite Output Index slipped to a near four-year low of 52.3 in November, down from 53.4 in October.

As well as slower growth in service sector business activity, November also saw only a slight rise in manufacturing output that was the weakest for over five-and-a-half years.

The loss of momentum reflected slowing inflows of new business. New work has risen continuously on a monthly basis since the start of 2015; however, November's increase was the weakest in this sequence and only marginal. The main drag came from external markets, with export orders falling for the third straight month and at the fastest rate since the series began just over four years ago.

Employment continued to rise during November, and at a relatively solid pace by historical standards, though rates of job creation slowed across both manufacturing and services. A fall in backlogs of work showed pressure on capacity beginning to ease.

On the price front, the latest survey data showed a slight moderation in the rate of output charge inflation to an 11-month low. This mainly reflected a slower rise in service sector selling prices.

Business confidence towards the outlook meanwhile remained close to the lowest in almost four years.

COMMENT

Commenting on the PMI data, Phil Smith, Principal Economist at IHS Markit said:

"It was a solid growth performance for the service sector in November but, alongside the slowdown in manufacturing, the softer pace of expansion brought the Composite Output PMI down to a near four-year low.

"GDP is widely expected to recover in the fourth quarter following technical distortions in Q3, though the further slippage of the PMI indicators does raise question marks over the strength of any rebound and how much momentum the economy will carry into the New Year.

"That said, there were many jobs created across both the manufacturing and service sectors in November, which will help fuel domestic consumption in the months ahead. However, with evidence of capacity pressures beginning to ease and firms becoming less optimistic about the outlook, it seems the best days are behind us in terms of employment growth in the current cycle.

"Elsewhere, services firms reported the steepest monthly rise in operating expenses for over seven-and-a-half years in November, reflecting increases in transport, labour and energy costs. With wintry weather around the corner and Rhine water levels remaining low, there's a risk of further upward pressure on costs in some parts despite the recent correction in global oil prices."

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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.

November 2018 data were collected 12-27 November 2018.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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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.

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