

**EMBARGOED UNTIL: 00:01 (UTC) November 10th 2020**

# IHS Markit Germany Business Outlook

## German economic outlook improves on brighter hopes for manufacturing

### Key findings:

- Business confidence in Germany higher than eurozone average
- Manufacturing leads improvement in optimism, but more factory job cuts expected
- Firms remain downbeat on investment, partly reflecting an anticipated squeeze on profits

Data collected October 12-27

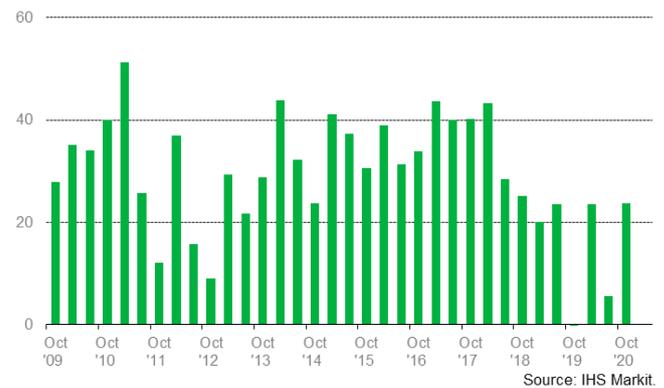
October's Business Outlook survey from IHS Markit showed increased optimism among German companies about growth prospects over the next 12 months. The survey, which is conducted every four months, found that more firms were confident of a rise in activity in the year ahead than was the case back in the summer, with expectations above the eurozone average.

However, firms remained pessimistic in regard to expectations for profitability, due in part to an anticipated lack of pricing power. This in turn continued to weigh on investment plans, both in terms of capital expenditure and research and development (R&D).

The net balance of German businesses expecting an increase in activity improved to +24% in October from +6% in June. This was above the eurozone average (+18%), but signalled weaker optimism than was seen globally (+26%).

The manufacturing sector saw the biggest improvement in confidence, the respective net balance up sharply from -4% to +31%. Here, companies reported hopes of a boost to output from recovering demand and growth in key export markets such as China. That said, firms highlighted an ongoing threat posed by the coronavirus disease 2019 (COVID-19) pandemic to both supply chains and demand, with Brexit and structural changes in the car industry also cited as some of the main challenges ahead.

### Germany business activity expectations



Service sector confidence likewise improved compared with situation in the summer (net balance at +20% from 11% in June), reflecting hopes that an effective vaccine would lead to a recovery in travel and a return to more normal operating conditions. Many firms also saw opportunity in digitalisation. Still, services expectations remained subdued by historical standards, which tallied with the sector's relatively greater exposure to COVID-19 restrictions on activity compared to industry.

### Employment & Investment Plans

In a turnaround from the picture in the summer, October's outlook survey pointed to German employment rising slightly over the next 12 months (net balance: +7%), led by planned job creation in the services economy. Manufacturers signalled their intention to cut workforce numbers further, though a rise in the net balance from -38% in June to -6% suggested relatively modest factory job losses in the year ahead.

One area where there remained broad-based pessimism was plans for capital expenditure. Manufacturers and service providers alike indicated a decline in future capex, albeit with the respective net balances moving into shallower negative territory. Overall R&D is also expected to decline, but only slightly.

## Inflation Expectations

Businesses foresee strong competitive pressures weighing on their pricing power over the next 12 months, with average charges for goods and services expected to fall slightly. Input costs, on the other hand, are predicted to increase, led by renewed upward pressure on wages. The steepest rises in costs are expected in the service sector, though even here the forecasted rates of inflation are much lower than those seen before pandemic.

## Corporate Earnings

October's survey pointed to contrasting outlooks for profitability across the two monitored sectors. Whereas manufacturers were hopeful of small upturn in profits in the year ahead (net balance: +2%), service providers' expectations remained pessimistic (-6%), reflecting the latter's comparatively higher expectations for costs and weaker optimism towards future activity.

### Comment:

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

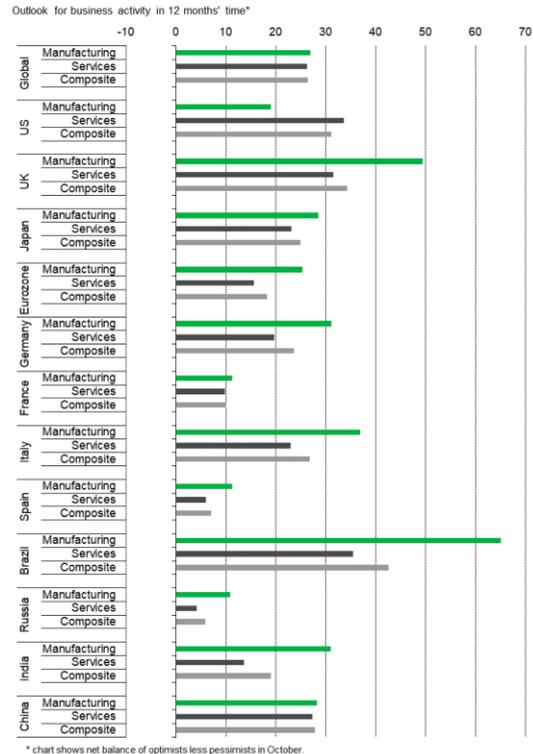
*“October's outlook survey revealed an improvement in German business confidence since the summer, with firms more optimistic about future activity thanks to increased hopes of a COVID-19 vaccine and a positive outlook for trade to markets such as China. The mood has improved notably in the manufacturing sector, where firms have been buoyed by a recovery in demand which they expect to continue over the next 12 months.*

*“Nevertheless, with margins forecast to remain squeezed over the coming 12 months and economic activity yet to return to pre-COVID levels, German businesses continue to report a reluctance to invest in new capital and are showing caution towards hiring.”*

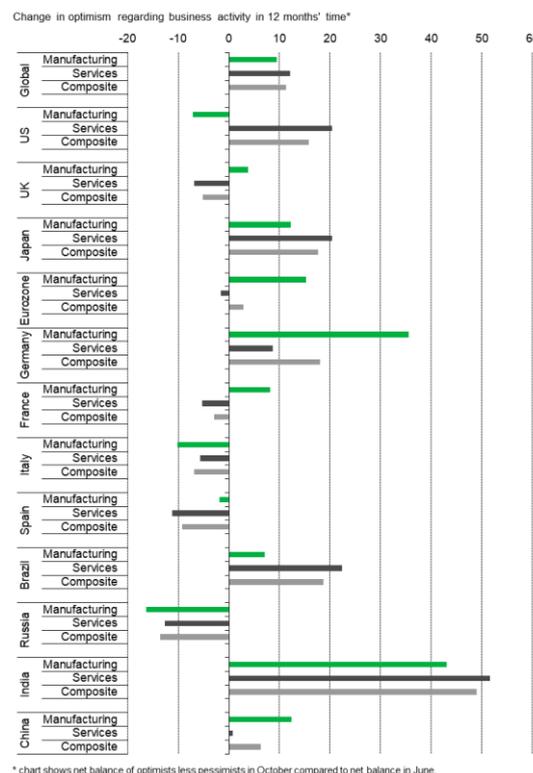
**-Ends-**

Full data available on request from [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com)

## Business optimism in October



## How business activity expectations have changed since June



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

Phil Smith, Associate Director  
Telephone +44 149 146 1009  
Email [phil.smith@ihsmarkit.com](mailto:phil.smith@ihsmarkit.com)

Katherine Smith, Public Relations  
Telephone +1 781 301 9311  
Email [katherine.smith@ihsmarkit.com](mailto:katherine.smith@ihsmarkit.com)

**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 October 09 and 29.

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, 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.

**About IHS Markit ([www.ihsmarkit.com](http://www.ihsmarkit.com))**

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.

*IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates. All other company and product names may be trademarks of their respective owners © 2020 IHS Markit Ltd. All rights reserved.*

**The intellectual property rights to the Business Outlook survey provided herein are owned by or licensed to IHS Markit. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without IHS Markit's prior consent. IHS Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall IHS Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Purchasing Managers' Index™ and PMI® are either registered trademarks of Markit Economics Limited or licensed to Markit Economics Limited. IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates.**

*If you prefer not to receive news releases from IHS Markit, please email [pollyanna.delima@ihsmarkit.com](mailto:pollyanna.delima@ihsmarkit.com). To read our privacy policy, [click here](#).*