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# IHS Markit Germany Services PMI®

Including IHS Markit Germany Composite PMI®

## Recovery in services activity loses momentum in September

### Key findings

Business activity rises at slowest rate for four months

Rates of growth in new business and employment also ease

Near-record increase in average prices charged by services firms

Data were collected 13-27 September 2021.

German services firms reported a further recovery in business activity in September, albeit with the rate of growth slowing notably from those seen in July and August. Similar trends were observed for new business and employment, while firms' growth expectations moderated to the lowest for five months.

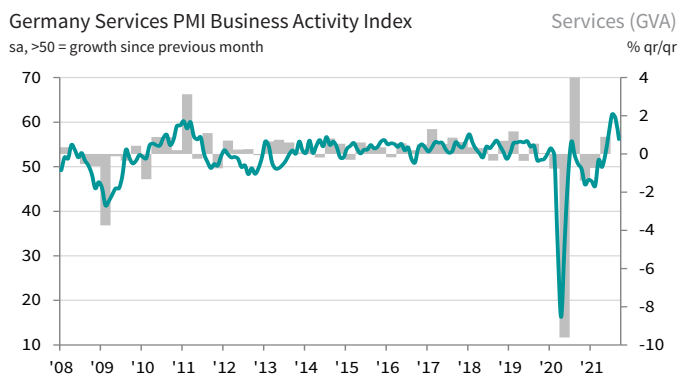
At the same time, the rate of inflation in average prices charged by services firms ticked up to near-record high, driven by a combination of recovering demand and sharp cost pressures.

The headline seasonally adjusted IHS Markit Germany Services PMI® Business Activity Index registered 56.2 in September. Though still firmly above the 50.0 no-change mark and signalling a strong rate of growth by historical standards, the latest reading was down markedly from 60.8 in August and the lowest overall since May.

Underlying data pointed to a loss of momentum in most sub-sectors, although it was Transport & Storage that provided the main drag on activity, linked in part to a slowdown in manufacturing.

The rate of growth in new business at German services firms likewise eased for a second straight month at the end of the third quarter, retreating further from July's recent peak to the slowest since May. The upturns in demand in consumer-facing services remained strong but did show signs of peaking, while data elsewhere showed more muted trends in new business.

The survey pointed to only a modest increase in new work from abroad, the weakest in the current four-month sequence of growth. Anecdotal evidence indicated that the pandemic



Sources: IHS Markit, Federal Statistics Office.

continued to impede travel activity and international demand more generally.

September saw a solid rise in backlogs of work across the service sector. Reports from surveyed businesses highlighted instances of insufficient staffing capacity to meet demand, coupled with constraints posed by material shortages. However, as was the general theme in September, the rate of growth eased to a four-month low.

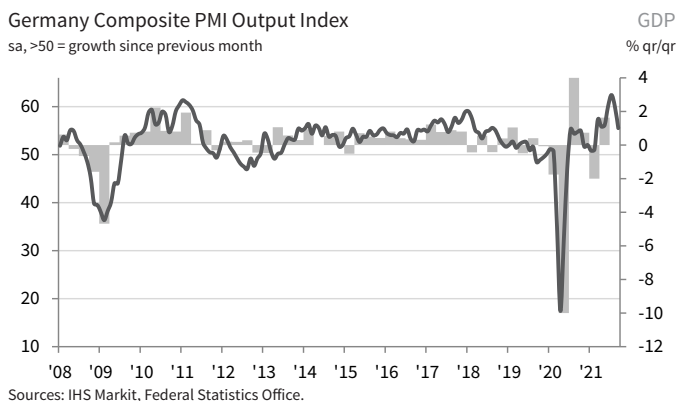
German services firms remained in hiring mode at the end of the third quarter as they looked to expand capacity, thereby extending the current sequence of net jobs growth in the sector to 15 months. However, though remaining firmly above the long-run series average, the rate of job creation softened further from July's all-time high to the weakest since May amid reports from some companies of difficulty finding staff.

The slowdown in the pace of hiring also coincided with a waning of firms' optimism towards growth prospects in the year ahead. Positive sentiment stemming from hopes of an end to the pandemic was partly offset by concerns about supply bottlenecks and rising prices. As a result, expectations slipped to the lowest since April.

The extent to which output prices rose in September was just shy of June's record high. Most firms that hiked their charges commented on the influence of sharp cost pressures. The rate of input price inflation ticked down slightly since August but was still the third-fastest in the series history. According to surveyed firms, the main drivers were increases in the cost of energy, fuel and materials, as well as higher wage bills.

## IHS Markit Germany Composite PMI®

### Private sector growth slows in September



At 55.5 in September, the seasonally adjusted Germany Composite PMI Output Index fell from 60.0 in August and therefore signalled a slower speed of recovery across the private sector economy. Though still signalling a strong rate of growth by historical standards, the latest reading was the lowest since February.

The composite index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index\*.

Both manufacturing and services showed a further loss of momentum at the end of the third quarter.

The upturn in private sector employment also eased in September, again owing to slower rates of growth in both monitored sectors. Still, the pace of hiring remained elevated by historical standards, in line with firms (particularly manufacturers) recording rising backlogs of work.

On the price front, latest data showed a near-record rise in average charged for goods and services. Output price inflation remained notably higher in manufacturing than in services, reflecting much steeper cost pressures at the former.

Firms' growth expectations moderated for the third month running in September, falling further from a record high in June to the lowest in 2021 so far.

\*Composite indices are weighted averages of comparable manufacturing and services indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index.

### Comment

Phil Smith, Economics Associate Director at IHS Markit, which compiles the survey:

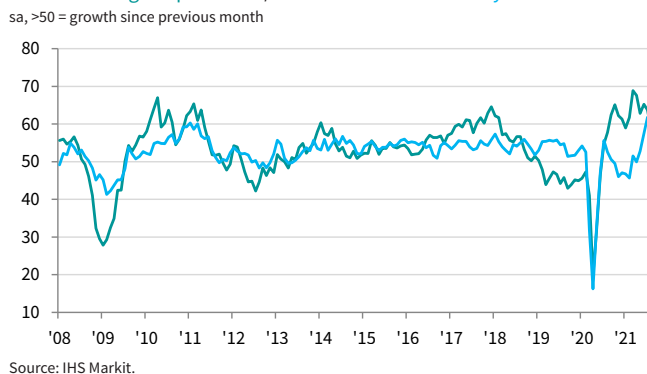
"Services activity grew strongly in the third quarter, but the pace of recovery is slowing and we're set for a more moderate period of economic growth in the final months of the year. Our current forecasts are for a 3.0% quarter-on-quarter rise in GDP in Q3, followed by a 1.2% gain in Q4.

"The loss of momentum is partly natural as activity gets closer to pre-pandemic levels, but the drag on growth from material shortages is also becoming more noticeable, impacting services firms directly and also via a slowdown in manufacturing.

"With cost pressures remaining stubbornly high and demand still picking up, the rate of services output price inflation continues to run at close to the quickest in the series history stretching back almost two decades.

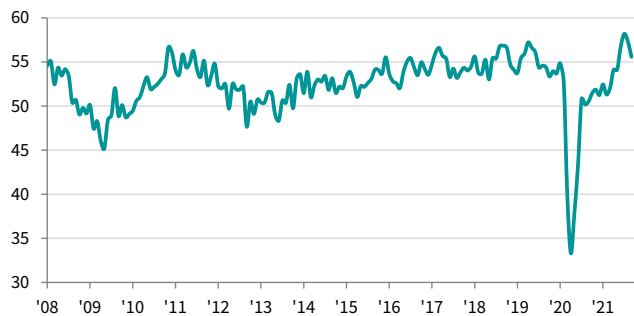
"Supply bottlenecks are no longer just a manufacturing problem, and the threat of a continued spillover to other parts of the economy, coupled with inflationary pressures, has dampened service providers' growth expectations somewhat."

### Manufacturing Output Index / Services Business Activity Index



Germany Services PMI Employment Index

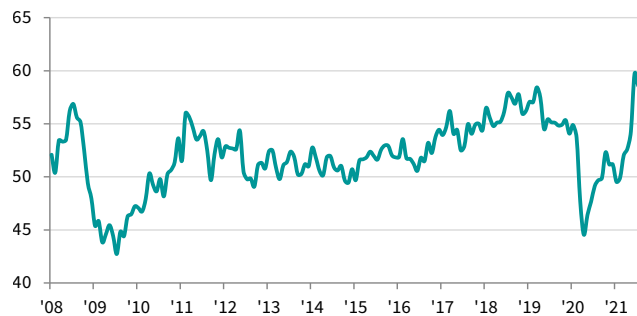
sa, >50 = growth since previous month



Source: IHS Markit.

Germany Services PMI Prices Charged Index

sa, >50 = inflation since previous month



Source: IHS Markit.

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Survey 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.

For further information on the PMI survey methodology, please contact [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com).

Survey dates and history

Data were collected 13-27 September 2021.

Survey data were first collected June 1997.

Flash vs. final data

Flash services data were calculated from 87% of final responses. Flash composite data were calculated from 92% of final responses.

Since January 2006 the average difference between final and flash Services Business Activity Index values is -0.1 (0.6 in absolute terms). Since January 2006 the average difference between final and flash Composite Output Index values is 0.0 (0.4 in absolute terms).

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BME is the German Association for Materials Management, Purchasing and Logistics, founded in 1954. It provides services for around 9000 individual and corporate members, including small and medium-sized businesses as well as Germany's top 200 companies. The BME promotes a dialogue between business and academia, both on the demand and the supply side, by providing the necessary networks for communication and knowledge exchange. The association is open to all company types from any sector (industry, trade, banking/insurance, public sector, service providers, etc.).

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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.

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