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IHS MARKIT GERMANY SERVICES PMI®

INCLUDING IHS MARKIT GERMANY COMPOSITE PMI®

Business activity growth ticks higher but remains modest

KEY FINDINGS

Services activity growth remains among weakest over past six-and-a-half years

Backlogs used to support activity amid sluggish demand

Employment shows solid gain as confidence improves

Germany's service sector remained stuck in a slow growth phase in November, according to the latest PMI® data from IHS Markit. As in the previous two months, business activity rose only modestly as firms relied on backlogs of work to support growth. A solid rate of job creation was nevertheless maintained, with firms signalling renewed optimism towards the outlook for activity.

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 51.7 in November, up slightly from 51.6 in October (and above the preliminary flash estimate of 51.3). Though the highest in three months, the latest reading compared with an average of 54.2 since the current upturn in business activity began in June 2013.

Five of the six monitored services categories recorded business activity growth, led by strong increases in the Hotels & Restaurants, Financial Intermediation and Post & Telecommunications sectors. The only decrease in activity was in Transport & Storage.

November saw overall inflows of new work across the services economy decrease for the third month running. Evidence from the survey linked this to client uncertainty and a further drop in demand from abroad. Nevertheless, the latest decline in new business was the weakest in the current sequence and only marginal.

Services Business Activity Index Services Gross Value Added (GVA)
sa, >50 = growth since previous month %q/qr



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

The current soft patch in demand, alongside generally subdued economic forecasts, continued to weigh on firms' expectations towards activity in the year ahead. That said, business confidence did show a modest recovery in November, with sentiment back in positive territory after being negative for the first time in almost seven years in October.

With inflows of new work falling further, albeit only marginally, much of the increase in business activity in November owed to work on order book backlogs. Outstanding business across the service sector fell markedly and for the fourth month in a row.

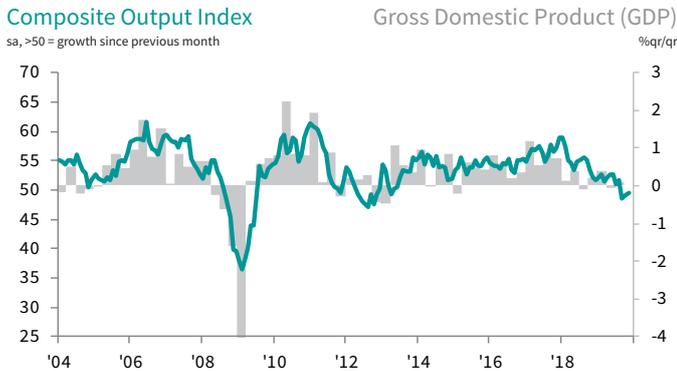
Despite decreasing volumes of work-in-hand, service providers continued to recruit additional staff during November. The rate of job creation picked up slightly since October and was solid by historical standards, but still well below the highs seen earlier in the year.

Rising demand for staff, coupled with skill shortages, was reflected in widespread reports from the survey panel of upward wage pressures. This was in turn the main factor behind a sharp rise in overall operating costs during the month, with the rate of increase continuing to run well above the long-run average.

Firms offset high costs by raising their charges, as has been the case in every month since February 2015. The rate of output price inflation ticked up and was above the average over the aforementioned sequence.

IHS MARKIT GERMANY COMPOSITE PMI®

Composite PMI remains in contraction territory



Sources: IHS Markit, Eurostat.

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.

The Germany Composite Output Index ticked up for the second month running in November to 49.4, from 48.9 in October. Nevertheless, the latest reading was still one of the lowest over the past seven years. The result reflected marginally faster service sector activity growth and a slower – though still solid – decrease in manufacturing production.

Inflows of new business fell for the fifth month running in November. That said, rates of decline eased across both monitored sectors. This was also the case for new export business, which showed the smallest decline for ten months.

November saw a return to growth in employment, following the first decrease in overall workforce numbers for six years in October. The rebound was muted, however, with job creation in the service sector only just offsetting further (albeit slower) manufacturing staff cuts.

Price pressures meanwhile remained subdued. Output charges rose modestly during the month, while input cost inflation eased to a 43-month low. Trends at the sector level varied, with falls in input and output prices across manufacturing contrasting with a wage-driven rise in costs and charges in the services economy.

Lastly, data showed a broad-based improvement in expectations for output in a year's time. Renewed optimism among manufacturers and services firms alike saw the Future Output Index climb out of negative territory for the first time in four months.

COMMENT

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

"On the one hand, the service sector continues to grow and is yet to be dragged into contraction by the sustained downturn in manufacturing, but on the other hand, the increases we've seen over the past three months are some of the weakest over the past six-and-a-half years and leave the overall economic growth picture looking flat at best.

"After retail sales fell in October, there was better news for the health of consumer spending heading into the all-important festive period in the form of another solid jobs gain across the service sector, which is reflected in a slightly improved picture for the labour market as a whole in November.

"Services price pressures continue to run relatively high, which the survey indicates is being largely underpinned by increasing wages – representing another boon for consumer spending."

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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 2019 data were collected 12-26 November 2019.

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. To learn more go to [ihsmarkit.com/products/pmi.html](https://www.ihsmarkit.com/products/pmi.html).

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