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IHS Markit Germany Business Outlook

Vaccine rollout helps lift German business confidence

Key findings:

- Firms in Germany confident of increases in output and employment over next 12 months as lockdown restrictions are eased
- Business investment expected to rise, driven by manufacturing
- Threats to outlook include extended lockdowns, client insolvencies and supply issues

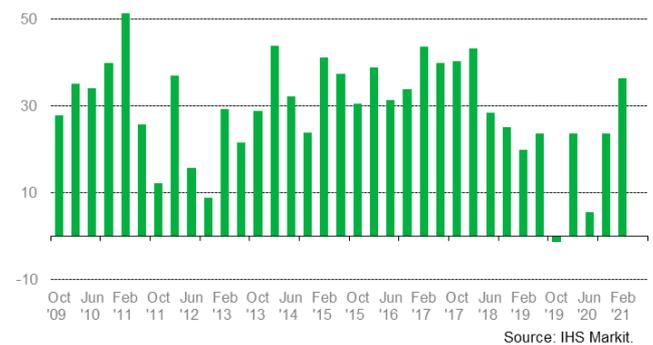
Data collected February 11-23

February's Business Outlook survey from IHS Markit showed a marked increase in the number of German firms optimistic about their prospects for the year ahead, with the start of the vaccine rollout having helped bolster hopes of an end to virus-related restrictions and a subsequent upturn in market demand. However, the survey pointed to potential pressure on profit margins from sharply rising costs, while services firms remained cautious about future business investment.

The net balance of German firms expecting an increase in business activity over the next 12 months climbed from +24% last October to +36% in February, the highest for three years. It signalled a degree of optimism that was in line with the eurozone average.

Sentiment improved across both manufacturing (net balance at +46% up from +31%) and services (+31% up from +20%), reflecting broad expectations of a fall in coronavirus disease 2019 (COVID-19) cases as vaccines are rolled out, and the subsequent lifting of restrictions on customer-facing sectors and travel. Goods producers remained comparatively more upbeat, buoyed by hopes of increasing sales across Europe, Asia and the US. That said, manufacturers did raise concerns about the potential for continued supply-side disruption and further strong cost inflation in the months ahead.

Germany business activity expectations



In the service sector, many surveyed firms identified digitisation as a key growth opportunity. At the same time, however, expectations were curbed somewhat by the risk of continued restrictions on activity in the event of delays in vaccinations and/or new variants, which would in turn increase the risk of client insolvencies.

Employment & Investment Plans

The outlook for private sector employment was much-improved in February. At +21%, the respective net balance was at its highest since October 2018. This was partly due to manufacturing expectations turning positive for the first time in two years (+15%), although hiring intentions also picked up in services (+25%). Confidence in Germany was the second-highest among the 12 countries for which comparable data are available (behind Ireland).

Hopes of an upturn in market demand also led to renewed optimism towards future capital expenditure in February. At +8%, the respective net balance masked varying degrees of confidence in manufacturing (+17%) and services (+3%). Meanwhile, data pointed to cautious optimism towards research and development spending across both monitored sectors, with expectations still below their pre-pandemic levels.

Inflation Expectations

With employment forecast to rise in the year ahead, German businesses revised up their expectations for wage pressures (net balance at +42% from +33%). Meanwhile, the net balance of firms anticipating an increase in non-staff costs hit a record high (since October 2009) of +40%. Manufacturers (+54%) were more confident on this front than services firms (+32%), which partly reflected the former's greater exposure to supply chain bottlenecks and rising commodity prices.

Expectations for output prices turned positive for the first time since the start of the pandemic. However, charges (net balance: +21%) were predicted to rise more slowly than costs, leading to pressure on margins.

Corporate Earnings

While the net balance of firms expecting a rise in profits recovered further from last June's record low, at +5% it was only just inside positive territory and below the historical series average. Profits forecasts were subdued across both monitored sectors.

Comment:

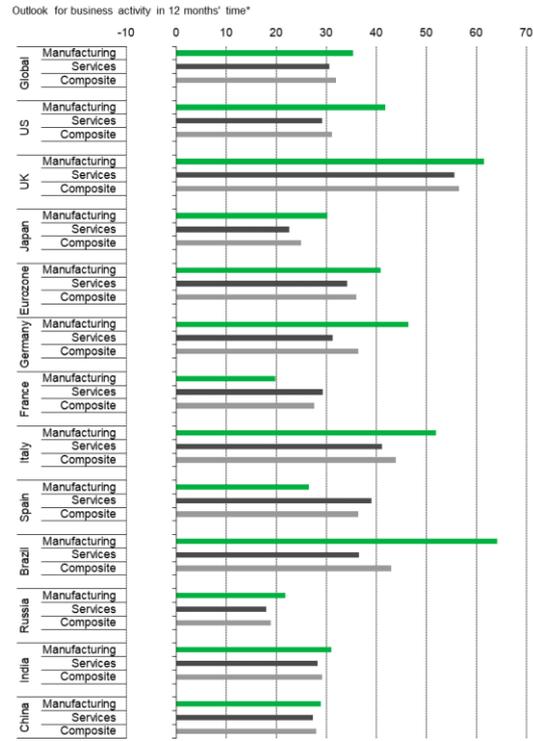
Commenting on the Germany Business Outlook survey data, **Phil Smith**, Associate Director at IHS Markit, said:

“The mood among German businesses has vastly improved since the last outlook survey in October, with the vaccine rollout having reinforced hopes that activity and demand will grow in the coming months as restrictions are lifted. However, services firms still don't share the same level of optimism as their manufacturing counterparts, which the survey suggests is partly due to the threat posed by new variants of the virus and the possibility of restrictions being in place in future.”

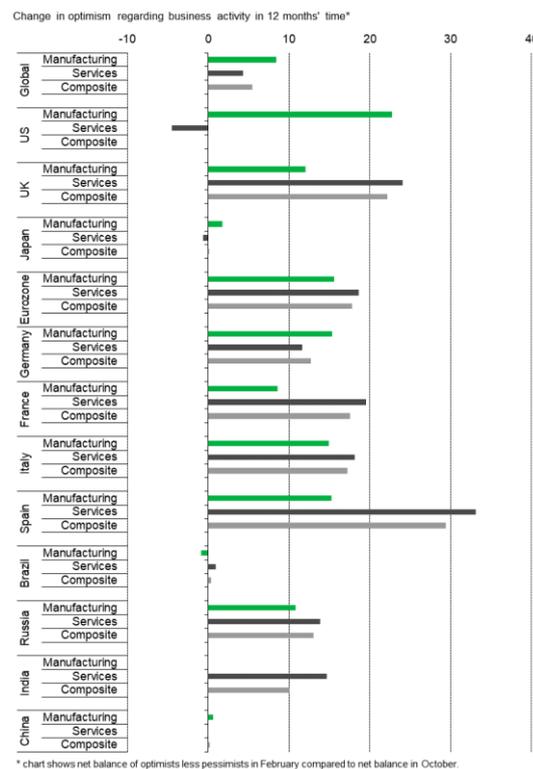
“It's a very different picture from the previous survey for hiring and pricing intentions, too, with manufacturers joining services firms in planning to expand workforce numbers, and firms generally now expecting to raise prices in the next 12 months to offset sharply rising costs.”

“Though the outlook for capital expenditure and R&D has improved, this is one of the areas where firms are least optimistic, reflecting an anticipated squeeze on their profit margins and a degree of uncertainty about when the economy will be fully up and running.”

Business optimism in February



How business activity expectations have changed since October 2020



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

Phil Smith, Economics Associate Director
Telephone +44 149 146 1009
Email phil.smith@ihsmarkit.com

Joanna Vickers, Corporate Communications
Telephone +44 2072 602 234
Email joanna.vickers@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 February 2 and 25.

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.

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