

**EMBARGOED UNTIL: 23:01 (UTC) July 11th 2021**

# IHS Markit Germany Business Outlook

## Strongest jobs outlook on record, but price forecasts also at survey high

### Key findings:

- German businesses expecting strong rebound in employment as activity levels pick up
- Average prices for goods and services forecast to rise steeply in line with acute cost pressures
- Post-pandemic catch-up effects widely anticipated, but supply bottlenecks expected to hamper growth

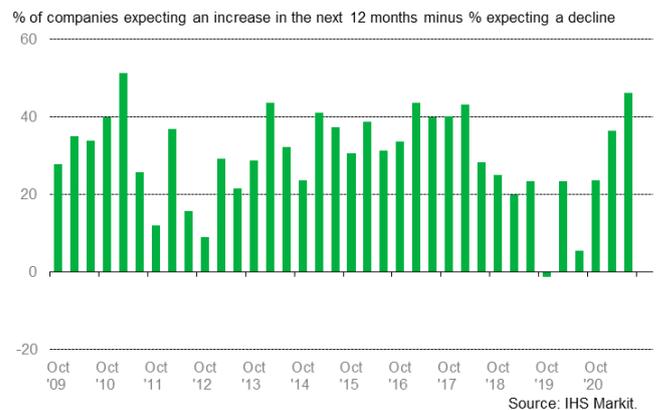
Data collected June 11-25

German businesses reported strong optimism towards their growth prospects in the coming year in June, according to the latest Business Outlook survey from IHS Markit, with the report also showing the highest employment expectations since comparable data first became available in 2009. Less positively, however, supply bottlenecks and difficulty finding qualified staff are widely seen by businesses as potential constraints on the growth outlook, and are in turn expected to drive broad-based rises in prices over the next 12 months.

The net balance of German firms expecting a rise in business activity over the year ahead climbed from +36% in February to +46%, its highest in over a decade. Notably, German manufacturers (+57%) were far more optimistic about that the year-ahead outlook than their services counterparts (+41%), whereas expectations at the eurozone level were evenly balanced by sector.

German manufacturers' optimism is built on hopes of an end to the pandemic and the subsequent release of pent-up demand as client uncertainty wanes, alongside plans for greater investment spending and the development of new products. Growth expectations are stymied somewhat, however, by concerns towards shortages of materials, components and appropriately skilled staff, with these supply-demand imbalances expected to fuel strong price pressures. Service providers share similar worries about potential supply-

### Germany business activity expectations



side constraints, whilst also noting threats to activity from new waves of infections and insolvencies among customers. On the whole, however, services firms reported the strongest degree of optimism for over three years, reflecting widespread hopes of post-pandemic catch-up effects as travel activity returns to more normal levels, as well as growth opportunities in digitalisation.

### Employment & Investment Plans

With activity levels forecast to rise, German businesses reported strong hiring expectations in June. The respective net balance reached a series record of +32%, with manufacturing registering the more positive jobs outlook of the two monitored sectors owing to a greater urgency to expand capacity. Globally, only private sector firms in the UK and Ireland recorded a more positive employment outlook than those in Germany.

German manufacturers' expectations towards capital expenditure (capex) were at a joint-record high (net balance at +31%) and far stronger than those among services firms (+14%). Goods producers were also relatively more optimistic towards future research and development spending (R&D), with a net balance of +20% of manufacturers expecting an increase outstripping a net balance of +10% of services firms.

## Inflation Expectations

Reflecting widespread concerns about material and component shortages, June saw a record number of firms expecting a rise in non-staff costs. A net balance of +83% of manufacturers forecasting an increase compared to +46% of services firms. Staff cost expectations also picked up but stayed below early-2019 levels, owing to still slightly weaker-than-average forecasts among service providers.

The combination of an expected surge in costs alongside improved demand led to a record +43% net balance of firms expecting to raise their output prices in the year ahead. Manufacturers (+71%) were far bolder in their predictions than services firms (+29%), whose expectations were lower than the 2018-2019 highs.

## Corporate Earnings

Firms foresee improvements in profitability in the next 12 months. The net balance rose from February's +5% to +11% in June, but that was still well below the historical highs, with expectations in the manufacturing sector weakened by the threat of steep cost increases.

### Comment:

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

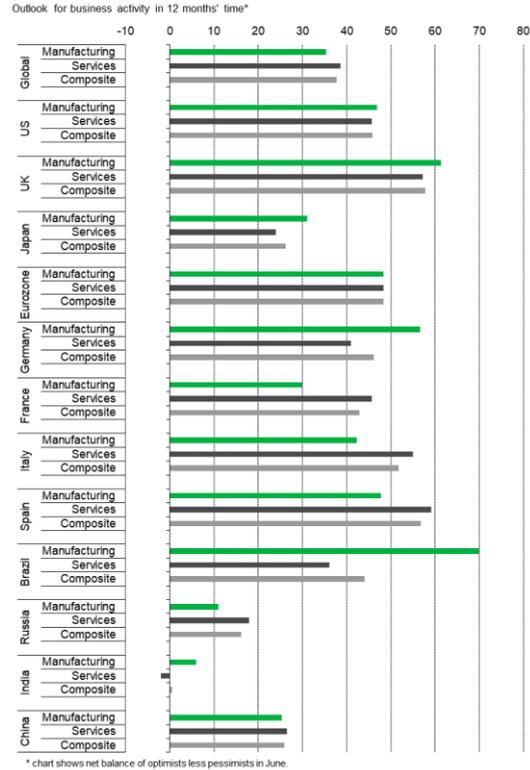
*“German firms are strongly optimistic about their prospects in the year ahead, with the effects of the pandemic on activity expected to be consigned to the past by the time the summer of 2022 rolls around.*

*“Forecasts for activity are the strongest we’ve seen for over a decade, and would be even stronger were it not for concerns about constraints on output from shortages of materials, in particular, but also qualified staff.*

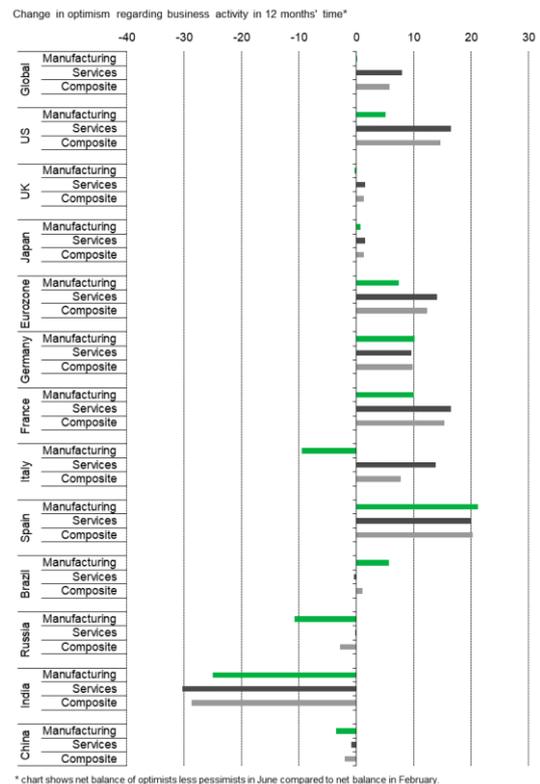
*“Hiring expectations for the year ahead are at a record high, corresponding with hopes of a sustained rebound in activity and plans to expand capacity as pandemic uncertainty wanes.*

*“The survey also suggests that businesses don’t foresee an end to the recent surge in cost pressures anytime soon. The record expectations for output prices are driven by the manufacturing sector, which faces the brunt of the supply bottlenecks, whereas services output price expectations are still somewhat below previous peaks.”*

## Business optimism in June



## How business activity expectations have changed since February 2021



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**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 June 10 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 8,000 firms.

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