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IHS Markit Germany Business Outlook

Intensifying global headwinds drag down growth forecasts to lowest in over six years

Key findings:

- Manufacturers least optimistic since late-2012
- Services to lead growth in output, capex and jobs
- Only marginal rise in overall profits expected

Data collected February 12-25

German businesses' growth expectations are at their lowest in over six years, according to the latest IHS Markit Global Business Outlook survey. The report, which asks around 800 German manufacturing and services firms for their assessment of business conditions in the next 12 months, reveals growing anxieties towards a slowing global economy and the outcome of Brexit, whilst also highlighting lingering concerns about the car industry and the potential escalation of trade wars.

Although the number of firms expecting a rise in business activity over the next 12 months is greater than those predicting a fall, at +20%, the net balance is the lowest seen since late-2012. It is also below both the eurozone (+25%) and global (+24%) averages.

The reduction in confidence from the previous outlook survey last October, when the net balance was +25%, continues a downward trend seen since mid-2018. Behind this has been a steady slump in manufacturers' expectations, which are now the lowest in almost six-and-a-half years. In fact, since the survey started in 2006, confidence among goods producers has been weaker only twice, in early-2009 at the height of the global financial crisis and in late-2012 during the ensuing eurozone debt crisis.

Optimism in the service sector has also moderated, to the lowest in over four years. However, at +27%, the net balance of service providers expecting a rise in business activity is broadly in line with the historical series average and considerably higher than that of

Germany business activity expectations



manufacturers (+6%). In addition to many of the same concerns highlighted by goods producers, services firms foresee a shortage of skilled staff as a key threat to growth.

Employment & Investment Plans

Hiring intentions among Germany's service providers remain strongly positive, with a net balance of +25% planning to increase employment. This is only slightly below February 2018's record-high of +29%. Jobs growth is set to be centred on the service economy, with a net balance of only +6% of manufacturers expecting an increase in staff numbers – the lowest in over four years.

Overall, Germany has the most positive outlook for employment of all eurozone countries for which comparable data are available, and is behind only Brazil and Japan globally.

Expectations towards investment spending are meanwhile more balanced between the two monitored sectors. Manufacturers and service providers alike intend to increase capital expenditure and push more resources into research and development over the next 12 months.

Inflation Expectations

On the whole, firms' expectations towards future cost pressures are little-changed from the previous survey, remaining high overall. A net balance of +33% of companies foresee a rise in non-staff costs in the year ahead, which is down fractionally from +34% last October but well above the historical trend of +20%. This masks significant changes at the sector level, however, with the manufacturing net balance at its lowest in over two years, whilst the services equivalent is at a record-high. Stronger output price expectations among services firms also contrast with a further drop in goods producers' anticipated pricing power.

Corporate Earnings

The dichotomy between the manufacturing and service sectors also extends to profit expectations. While goods producers on balance see a squeeze on profitability in the next 12 months, service providers are predicting an improvement, and are the most optimistic for a year. The overall net balance is broadly unchanged at +3%.

Comment:

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

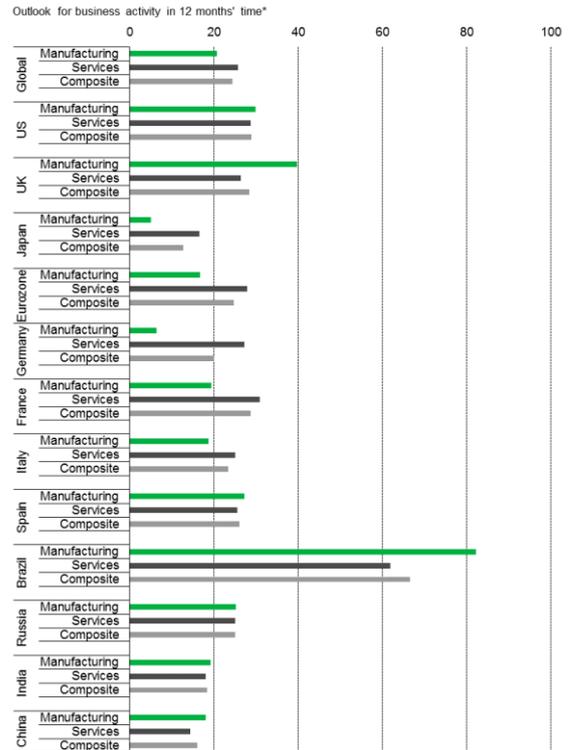
"Many of the threats currently facing German businesses are on an international level, so it's unsurprising that manufacturers are less upbeat about the outlook than their more domestically-focused service sector counterparts. The Brexit outcome is one issue that manufacturers perhaps have greater exposure to, and the survey finds that over two-thirds of goods producers have made some kind of preparations, against just one-third of services firms."

"The fact that service providers see skilled staff shortages as one of the main threats to the outlook reaffirms their positive outlook for the year ahead. Services firms expect a healthy rate of growth during 2019 and have signalled their intention to create jobs whilst also increasing investment spending."

"It's encouraging to see that, despite lower growth forecasts and a potential squeeze on profits, manufacturers still plan to push ahead with upgrades to plant and machinery, which will help lay the groundwork for productivity gains in the sector over coming years."

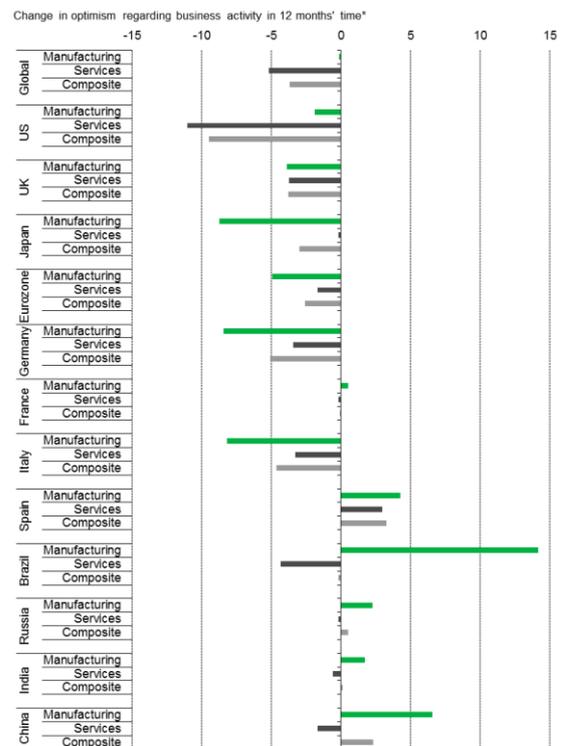
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Business optimism in February



* chart shows net balance of optimists less pessimists in February.

How business activity expectations have changed since October



* chart shows net balance of optimists less pessimists in February compared to net balance in October 2018.

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

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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 February 12 and 27.

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, fax, 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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