

Embargoed until 0955 CEST (0755 UTC) 5 June 2019

IHS MARKIT GERMANY SERVICES PMI®

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Service sector maintains solid rate of business activity growth in May

KEY FINDINGS

Activity growth remains above historical average

Pace of job creation dips from April's near-record high

Notable moderation in confidence towards future activity

May saw the continuation of a solid rate of growth across Germany's service sector, according to the latest PMI® survey, with business activity rising at a pace broadly in line with those seen over each of the previous three months. Employment increased more slowly than in April, as did new business, though the pace job creation was still elevated by historical standards.

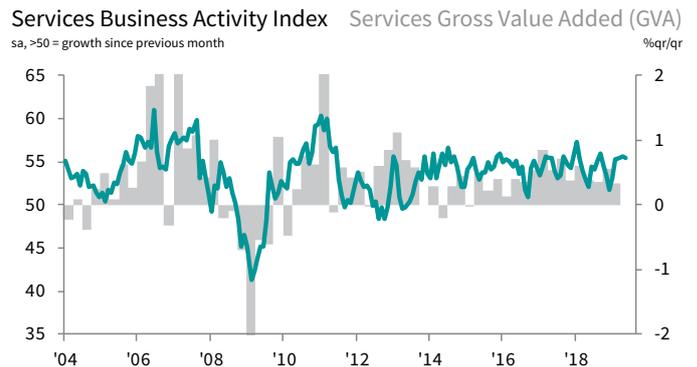
A notable drop in confidence towards future output was recorded, however, and firms raised charges at the slowest rate since December 2017.

The headline seasonally adjusted IHS Markit Germany Services PMI Business Activity Index came in at 55.4 in May. This was down only slightly from April's seven-month high of 55.7 and signalled a rate of expansion that was above the historical series average.

A rise in business activity was recorded across all six sub-sectors monitored by the survey. In the case of Transport & Storage, it was the first increase so far in 2019. The top two performers remained Post & Telecommunications and Hotels & Restaurants.

May saw the rate of new business growth across Germany's service sector ease from a seven-month high in April to the weakest since February. The latest increase was solid nevertheless, as firms reported a general rise in demand across the domestic market. The level of new work received from abroad meanwhile fell for a third straight month.

In a sign of pressure on capacity across the service sector, backlogs of work rose for the fourth month running during



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

May, and at a slightly quicker pace than in the previous survey period. Increased workloads prompted services firms to take on new staff, with employment rising across all monitored sub-sectors. Overall, the pace of job creation eased from April's recent peak but remained among the quickest since data collection began in 1998.

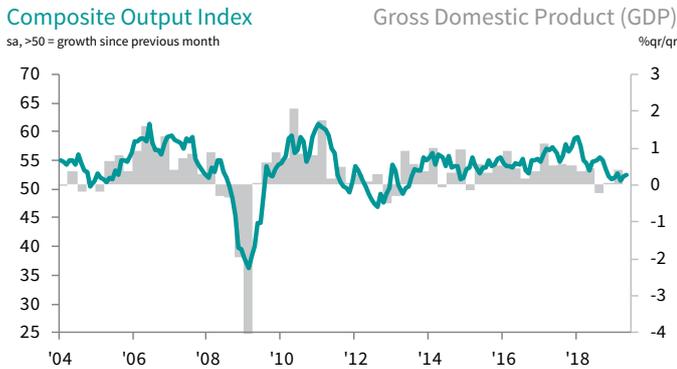
Higher average labour costs remained a feature of the survey in May, underpinning a further marked rise in overall operating expenses across the service sector. Though the rate of cost inflation eased, down to its second-lowest in the past 12 months, it remained much quicker than seen on average over the series history.

May's survey showed firms passing on higher costs to client in the form of increased charges. However, there was a reduced appetite for price rises compared with previous months, with the rate of inflation slowing sharply since April to the weakest in nearly one-and-a-half years.

The drop in output charge inflation in May coincided with a moderation in firms' optimism towards the outlook for activity over the next 12 months. Though expectations generally remained positive, firms reported a reduction in confidence for the third consecutive month to the second-lowest since August 2016, reflecting heightened slowdown concerns.

IHS MARKIT GERMANY COMPOSITE PMI®

Composite PMI continues to point to modest output growth



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 Composite Output Index continued to point to a modest pace of growth across Germany's private sector. At 52.6, the latest reading was up from 52.2 in April and the highest in three months, but still below the long-run series average of 53.4 (since 1998). Behind the slight uptick in the index was a slower decline in manufacturing production.

Less positively, total new business returned to contraction in May, falling for the fourth time in the past five months. This partly reflected a further steep drop in new work received from abroad.

On the employment front, data showed a slowdown in the rate of job creation to a three-year low. That said, the pace of workforce growth was still quicker than the historical series average. Backlogs of work meanwhile fell for the seventh month in a row, albeit at the slowest rate since February.

Price pressures eased in May. Input cost inflation ticked down to its weakest in over two-and-a-half years, weighed on by the first fall in manufacturing purchase prices since mid-2016. This translated into a slower rise in average prices charged for goods and services, the weakest since July 2017.

The Future Output Index remained above the 50.0 threshold in May, pointing to overall optimism towards the year-ahead outlook. Service providers remained more confident than their manufacturing counterparts, although expectations converged since April, with overall sentiment easing to the weakest in five months.

COMMENT

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

"Business activity in the service sector continues to grow almost unabated, indicating that domestic demand conditions remain strong. With the drag from falling manufacturing production lessening in May, the Composite Output Index has ticked up, although it remains in territory historically associated with only modest growth in GDP."

"The German labour market continues to lose momentum. While the service sector employment picture still looks bright, increasing efforts by manufacturers to trim capacity means the surveys together show jobs growth running at its weakest in three years."

"Service providers displayed greater restraint in their price setting in May, with output charge inflation at a 17-month low, which partly reflects a loss of confidence. Services is a key pillar of growth for Germany's economy at present, so it's of some concern to see firms in the sector reporting greater worries about a slowdown."

CONTACT

IHS Markit

Phil Smith
Principal Economist
T: +44-1491-461-009
phil.smith@ihsmarkit.com

Joanna Vickers
Corporate Communications
T: +44-207-260-2234
joanna.vickers@ihsmarkit.com

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.

May 2019 data were collected 13-28 May 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.

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