

Purchasing Managers' Index®
MARKET SENSITIVE INFORMATION
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IHS Markit Flash Germany PMI®

Export-led manufacturing upturn continues to counterbalance services weakness in February

Key findings:

- Flash Germany PMI Composite Output Index⁽¹⁾ at 51.3 (Jan: 50.8). 2-month high.
- Flash Germany Services PMI Activity Index⁽²⁾ at 45.9 (Jan: 46.7). 9-month low.
- Flash Germany Manufacturing Output Index⁽⁴⁾ at 62.2 (Jan: 59.0). 3-month high.
- Flash Germany Manufacturing PMI⁽³⁾ at 60.6 (Jan: 57.1). 36-month high.

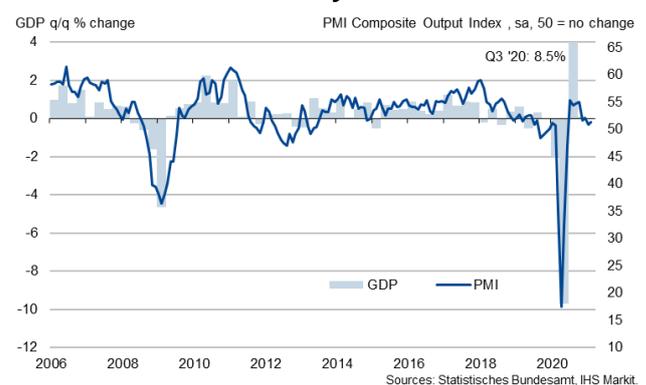
Data collected February 11-18

Latest 'flash' PMI® data from IHS Markit showed a further divergence in the performances of Germany's manufacturing and service sectors in February. While coronavirus disease 2019 (COVID-19) lockdown measures continued to weigh on activity across large parts of the services economy, factories saw strong and accelerated growth due in part to surging export orders.

The positive manufacturing performance came despite a backdrop of increasing supply-side pressures. February saw record reports of delays in the delivery of inputs amid raw material shortages and squeezed transport capacity, as well an associated spike in costs.

The **headline Flash Germany PMI Composite Output Index** registered 51.3 in February. This was up slightly from January's seven-month low of 50.8, though still lower than at any other time since the start of the recovery last July. The slight rise in the headline index was driven by stronger growth in manufacturing output which, having eased to the slowest for five months in January, reaccelerated to the quickest since last November. This contrasted with the fastest decline in services activity since May last year, albeit one still much slower than at

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the depths of the initial COVID-19 shutdowns.

Inflows of new business fell across the service sector for the fifth month in a row in February, and at the quickest rate in this sequence. Surveyed businesses highlighted slow decision-making among clients as well as disruption from forced closures and travel restrictions. Manufacturing order book volumes, on the other hand, remained robust, supported by the strongest growth in factory export orders in over three years.

As was the case for output and new orders, overall **backlogs of work** showed a modest increase in February, with the result masking varied trends at the sector level. The volume of outstanding business at services firms was down for the nineteenth month in a row, while backorders at manufacturers continued to rise steeply.

Elsewhere, latest data showed another modest increase in private sector **employment** in February, the third time in the past four months in which this has been the case. In contrast to activity, the service sector remained the stronger performer on the jobs front, seeing an eighth straight monthly increase in

payroll numbers, albeit at a slower rate. Having fallen in each month throughout the past two years, manufacturing employment came closer to stabilising in February, recording only a marginal decline that was the slowest in the aforementioned period.

Turning to prices, February's survey showed **average charges for goods and services** rising at the quickest rate since August 2019. The main driver was a marked and accelerated increase in manufacturing output prices, with the rate of inflation picking up to the fastest in nearly two-and-a-half years.

Underpinning the rise in factory gate charges in February was a sharp increase in manufacturing input costs, the steepest seen for nearly a decade. Surveyed businesses cited higher prices for raw materials (often steel) and components, as well as upward pressure on transportation costs due to squeezed capacity. Indeed, around 63% of manufacturers recorded slower delivery times in February. Though service sector costs rose relatively mildly, the **overall rate of input price inflation** across the two monitored sectors combined ticked up to a 27-month high.

Lastly, February's survey showed a further steady improvement in firms' **expectations** towards activity in 12 months' time. Buoyed by slightly stronger confidence in both monitored sectors (with sentiment remaining more positive in manufacturing), the overall degree of optimism reached the highest since December 2017.

Comment

Commenting on the flash PMI data, **Phil Smith**, Associate Director at IHS Markit said:

"February's flash PMI results point to ongoing resilience in the German economy midway through the opening quarter, despite the country remaining under strict lockdown measures. Ongoing weakness in services, where large parts of the sector remain either closed or disrupted by virus containment measures, continues to be counterbalanced by strong, export-driven growth across manufacturing.

"It was encouraging to see manufacturing regain momentum in February after a slight setback in growth at the start of the year. Furthermore, the strong performance comes amid a backdrop of increasing supply-side pressures, with February's survey showing record reports of delivery delays and sharply rising input prices. Manufacturers seem to be weathering the storm so far, but there is the potential for some near-term disruption should the situation worsen and firms find themselves short of raw materials and components.

"Looking further down the line, businesses are growing in confidence about the outlook for activity in the year ahead, with the vaccine roll-out hoped to bring an end to restrictions later in the year and help release pent-up demand.

"Related to the supply-side issues observed in manufacturing, we've seen further signs of inflationary pressures emerging. Notwithstanding the lack of pricing power across the services economy, average output prices rose to the greatest extent for 18 months, with scope for a further acceleration in inflation as restrictions on the service sector are lifted in the coming months."

-Ends-

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Note to Editors:

Final February data are published on 1 March for manufacturing and 3 March for services and composite indicators.

The Germany PMI (Purchasing Managers' Index) is produced by IHS Markit and is based on original survey data collected from a representative panel of around 800 companies based in the German manufacturing and service sectors. The flash estimate is based on around 85% of total PMI survey responses each month and is designed to provide an accurate advance indication of the final PMI data.

The average differences between the flash and final PMI index values (final minus flash) since comparisons were first available in January 2006 are as follows (differences in absolute terms provide the better indication of true variation while average differences provide a better indication of any bias):

Index	Average difference	Average difference in absolute terms
Germany Composite Output Index ¹	0.0	0.4
Germany Manufacturing PMI ³	0.0	0.3
Germany Services Business Activity Index ²	-0.1	0.6

The *Purchasing Managers' Index*[®] (PMI[®]) survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries (including the European Central Bank) use the data to help make interest rate decisions. PMI[®] surveys are the first indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

IHS Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from IHS Markit. Please contact economics@ihsmarkit.com.

Notes

1. The Composite Output PMI is a weighted average of the Manufacturing Output Index and the Services Business Activity Index.
2. The Services Business Activity Index is the direct equivalent of the Manufacturing Output Index, based on the survey question "Is the level of business activity at your company higher, the same or lower than one month ago?"
3. The Manufacturing PMI is a composite index based on a weighted combination of the following five survey variables (weights shown in brackets): new orders (0.3); output (0.25); employment (0.2); suppliers' delivery times (0.15); stocks of materials purchased (0.1). The delivery times index is inverted.
4. The Manufacturing Output Index is based on the survey question "Is the level of production/output at your company higher, the same or lower than one month ago?"

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