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IHS MARKIT GERMANY SERVICES PMI®

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Business activity growth recovers to five-month high in February

KEY FINDINGS

Business Activity Index climbs further from December's 27-month low

New orders, employment and business confidence also improve

Inflationary pressures remain elevated

Germany's service sector grew at a faster rate in February, seeing stronger expansions in business activity, new work and employment, according to the latest PMI® survey. The upturn in performance coincided with greater optimism towards the outlook. Inflationary pressures in the sector meanwhile remained elevated, with sustained strong cost increases fuelling another round of price hikes.

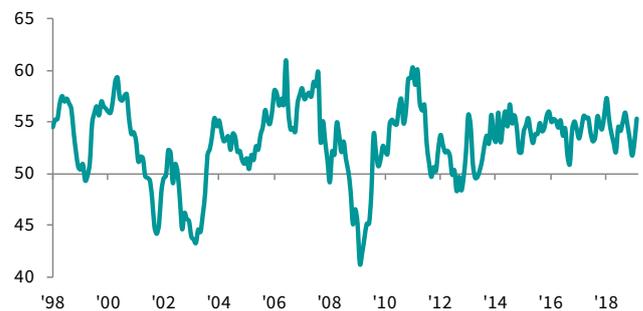
February saw the headline seasonally adjusted IHS Markit Germany Services PMI Business Activity Index rise to 55.3, up from 53.0 in January, its second-highest reading in the past year. The increase in the index represented a further recovery from the 27-month low registered at the end of 2018.

At the sub-sector level, Post & Telecommunications, Renting & Business Activities and Financial Intermediation each continued to see strong growth, whilst a renewed increase in activity across Hotels & Restaurants was also recorded. However, Transport & Storage and 'Other' Services – which includes health, education and recreational activities – both remained in contraction.

February's survey indicated a pick-up in underlying demand across the services economy, with the rate of new business growth accelerating for the first time in five months. That said, up from a 43-month low in January, the pace of expansion remained only moderate overall and weaker than seen throughout much of 2018. Notably, the level of new work received from non-domestic based clients increased for the first time in 12 months, albeit only marginally.

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

The improved inflow of new business in February was reflected in a return to growth in backlogs of work. In turn, the added pressure on resources led service providers to up the rate of job creation, which rebounded from an eight-month low in January to the quickest since October last year.

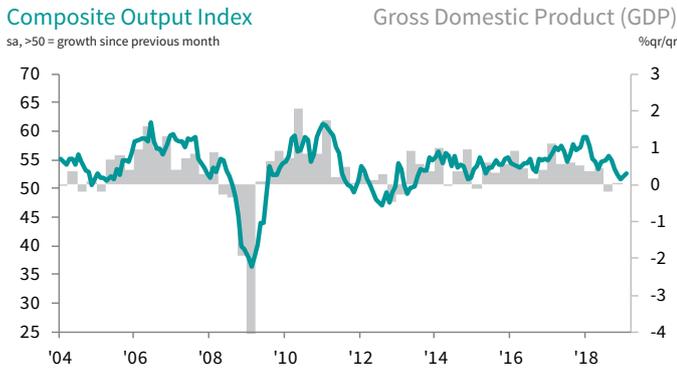
Another factor supporting stronger employment growth in February was an improvement in service providers' optimism towards the year-ahead outlook for activity – to the highest since last April. Close to one-third of surveyed businesses reported positive growth forecasts for the next 12 months, linked to the introduction of new products and services, planned investments and expectations of generally stronger underlying demand.

Elsewhere, latest data showed a further steep rise in average prices charged across Germany's service sector. The rate of inflation was unchanged since January and remained close to last July's survey-record high.

Higher output charges mainly reflected the pass-through of increasing operating expenses. Cost pressures remained strong in February, although the rate of input price inflation did ease compared to January, when it reached the highest since March 2011. Higher labour costs were widely reported.

IHS MARKIT GERMANY COMPOSITE PMI®

Stronger services growth offsets manufacturing slowdown



Sources: IHS Markit, Eurostat.

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. A stronger rise in service sector business activity in February lifted the Composite Output Index to a four-month high of 52.8, from January's 52.1. This was still one of the lowest readings seen since 2014, however, as a decline in manufacturing output – the first in almost six years – partly counteracted the faster services growth.

Overall inflows of new business decreased for the second straight month in February, with the rate of decline remaining unchanged from the modest pace recorded in the preceding survey period. The decline largely reflected a further steep contraction in goods export orders.

Despite the reduction in incoming new work, which in turn contributed to a further (albeit slower) contraction in backlogs, employment growth accelerated to a strong rate that was the quickest since last October. There were notable increases in staffing number across both monitored sectors.

On the price front, latest data showed a slowdown in both input cost and output charge inflation to the weakest for 19 and 14 months respectively. Although cost burdens rose more quickly than selling prices, the difference between the rates of increase was the narrowest for almost two-and-a-half years.

Finally, business confidence towards the year-ahead outlook for output improved to a five-month high in February, underpinned by stronger optimism among service providers. However, this masked a deterioration in manufacturers' expectations to the lowest in over six years.

COMMENT

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

"February's services PMI data underscore the strength of Germany's domestic market and point to the economy returning to growth in Q1. However, with manufacturing output slipping into decline and exports on a downward trend, the overall picture from the surveys remains one of only modest underlying growth."

"In stark contrast to the broad-based deterioration in the manufacturing PMI indicators, all measures of performance for the services economy improved. Inflows of new business grew at a faster rate than in January, the pace of job creation was at a four-month high and strong by historical standards, while the survey's gauge of business confidence continued to recover from December's recent low and signalled the highest degree of optimism since April last year."

"The dichotomy between the manufacturing and service sectors also extends to prices. While the rate of factory gate price inflation has slipped further from the highs in 2018, service providers continue to hike output charges at a rate rarely seen in almost 22 years of data collection."

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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.

February 2019 data were collected 12-25 February 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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