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## IHS MARKIT GERMANY SERVICES PMI®

INCLUDING IHS MARKIT GERMANY COMPOSITE PMI®

### Business activity rebounds strongly in July

#### KEY FINDINGS

Business Activity Index in growth territory for first time since February

Stronger demand supports slight uptick in employment

Firms report greater optimism towards the outlook

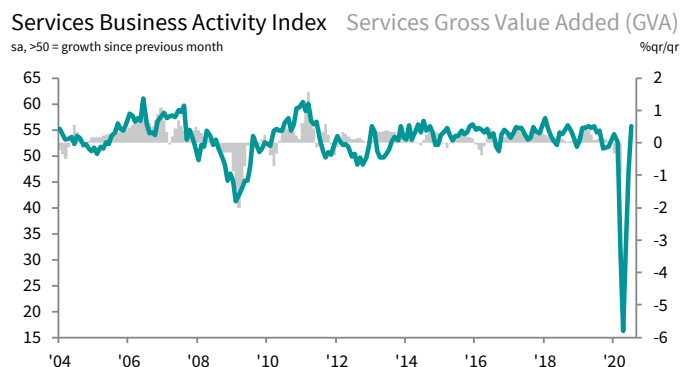
Data were collected 13-28 July 2020.

Latest IHS Markit PMI® data showed a marked rebound in activity across Germany's sector in July, following the downturn induced by the coronavirus disease 2019 (COVID-19) pandemic. Furthermore, the survey indicated a renewed pick-up in hiring as firms reported stronger demand and a rise in optimism towards future activity.

The headline seasonally adjusted Business Activity Index – which is based on responses to a single question asking about changes in the volume of business activity compared with one month previously – registered 55.6 in July, rising sharply from June's 47.3 and recovering further from a record low 16.2 in April. It marked the first time the index has been in growth territory since before the introduction of lockdown measures to curb the spread of COVID-19 in March, and was the highest reading since June 2019.

The strongest rates of growth in July were seen in some of those sectors hit hardest by the initial lockdown, namely Hotels & Restaurants and the consumer-focused 'Other Services' category. For those areas that showed the greatest reliance to the initial downturn, such as Financial Intermediation and Renting & Business Activities, trends remained more subdued.

July data pointed to a pick-up in demand across the service sector, with surveyed businesses highlighting the influence of improved confidence on client numbers and enquiries. The rise in new work ended a sequence of decline that began in March, though it was only modest relative to the scale of the preceding downturn. The main impetus came from the



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

domestic market, with July seeing a further drop in new export business, albeit the smallest since January.

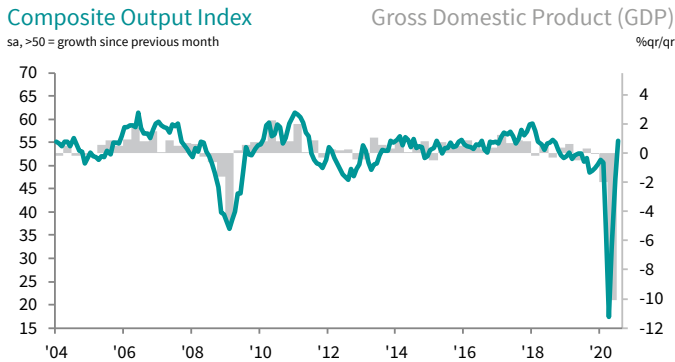
There was a positive development on the job front in July, as service providers reported taking on additional staff for the first time in five months. That said, in a sign of caution among businesses, the increase in workforce numbers was only marginal and hiring was often confined to temporary staff. Backlogs of work across the service sector meanwhile fell at the slowest rate for six months.

Elsewhere, July saw a slower fall in prices charged by services firms. The rate of decline eased for the third month running and was the weakest over the current five-month sequence of discounting. While strong competition for new work continued to weigh on pricing power, firms showed less willingness to reduce charges amid another modest rise in operating expenses, which was in turn linked to increases in the cost of food, IT equipment and wages. Cost pressures generally remained weak by historical standards, however, helped by a lower sales tax rate.

Looking ahead, service providers reported greater optimism towards the outlook for activity over the next 12 months, amid hopes of a further relaxation of COVID-related restrictions and an associated pick-up in demand. Sentiment recovered further from April's record low to a six-month high.

## IHS MARKIT GERMANY COMPOSITE PMI®

## Private sector activity returns to growth in July



Sources: IHS Markit, Eurostat.

Driven by upturns in activity across both the manufacturing and service sectors in July, the Germany Composite\* Output Index moved back into growth territory for the first time since February. At 55.3, up from June's 47.0, the latest reading was the highest since August 2018.

Supporting growth in business activity in July was a pick-up in demand, with inflows of new work rising markedly and to the greatest extent for almost two-and-a-half years. The stronger increase was seen in the manufacturing sector, where firms received an added boost from higher export sales.

Despite increased activity, pressure on capacity generally remained low, as evidenced by a further (albeit slower) decrease in backlogs of work. Accordingly, latest data showed a fifth straight monthly decrease in employment, underpinned by another marked round of job cuts across manufacturing. Thanks to renewed hiring in the service sector, however, the overall decline was weakest in the current sequence of staff cuts.

On the price front, July saw marginal falls in both firms' input costs and output charges, with rates of decline notably softer than those seen back in April and May.

Finally, business confidence towards future output improved to a six-month high, buoyed by stronger optimism among both manufacturers and services firms.

\*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.

### COMMENT

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

*"The PMI data for Germany so far point to a broad-based rebound in activity as the country emerges from an unprecedented downturn, with the service sector joining manufacturing back in growth territory and even expanding at the slightly quicker rate in July. According to the underlying data, the bounce-back across services has so far been led by the reopening of those sectors previously shut down. Therefore, with ongoing limits on capacity in these areas, it's important for a sustained, strong recovery that other parts of the tertiary economy such as finance and professional services start to gain more momentum as well."*

*"Renewed hiring across the service sector in July was a welcome – and somewhat surprising – development, however it went very little way to reversing the sharp decline in employment seen from March to June and was still more than offset by further steep staff cuts in manufacturing."*

*"Following the record 10.1% collapse in economic output in the second quarter, we expect GDP to rebound around 6% in the third quarter, but not get back to pre-crisis levels until 2022. The outlook still remains uncertain, however, with businesses in the service sector indicating that any recovery is dependent on a major 'second wave' being avoided."*

## CONTACT

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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.

July data were collected 13-28 July 2020.

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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.  
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