Growth of business activity across Germany’s service sector slowed sharply in September amid signs of weaker demand, latest PMI® data from IHS Markit showed. Expectations towards the outlook also remained subdued.

Nevertheless, the pace of job creation across the service sector was relatively resilient, with employment continuing to rise at a historically strong pace.

September saw the headline seasonally adjusted IHS Markit Germany Services PMI 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 – sink to 51.4, down from 54.8 in August and its lowest reading for three years.

Broken down by sub-sector, data showed a fall in business activity across Post & Telecommunications, with growth slowing in each of the five other monitored categories. Renting & Business Activities remained the strongest-performing area, followed by Financial Intermediation.

The loss of momentum observed across the service sector in September was largely attributable to a reduction in inflows of business. It was the first such decrease since December 2014 and pointed to signs of weakness in domestic demand. That said, lower international clients also played a major part, with new export business dropping the most in over five years.

With new work declining during the month, firms relied on backlogs of work to support higher levels of activity. Outstanding business fell for the second month in a row, albeit only modestly and at a slower rate than in August.

Expectations among service providers about the outlook for activity remained subdued in September, despite a slight improvement from the previous month’s near five-year low. Anecdotal evidence suggested ongoing concerns among firms about growth prospects for the economy and the uncertain geopolitical landscape.

Firms still continued to create jobs, however. Employment rose in September at a rate well in excess of the long-run series average, albeit below the highs seen earlier in the year. The Renting & Business Activities sub-sector remained the principal driver of workforce growth, with Financial Intermediation also making a notable positive contribution.

Wage pressures, alongside higher fuel prices, drove an increase in firms’ costs in September. However, the overall rate of input price inflation eased for the sixth time in the past eight months to the lowest since March 2018, moving closer towards the series long-run average.

It was a similar story for the rate of output price inflation which, while remaining elevated by historical standards, eased further from March’s record high to the second-weakest seen in the past one-and-a-half years.
Private sector output contracts in September

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.

At 48.5 in September, down from 51.7 in August, the Composite Output Index was below the 50.0 'no-change' threshold for the first time since April 2013. Furthermore, the rate of contraction signalled was the quickest for almost seven years.

With the downturn in manufacturing new orders deepening in September and service providers recording a contraction for the first time since December 2014, the rate of decline in total new business accelerated to the quickest since September 2012. Export sales continued to fall sharply across both monitored sectors.

Hiring across the service sector helped sustain overall employment growth in September, though the net increase in jobs was the smallest seen for almost six years as the pace of staff shedding across manufacturing accelerated. Backlogs meanwhile fell sharply, with factory capacity pressures remaining particularly low.

On the price front, data showed a further slowdown in the rate of inflation in average charges for goods and services to the weakest for just over three years. An accelerated drop in factory gate charges weighed overall price increases. Cost pressures across the private sector were close to the weakest seen since mid-2016.

Having slipped to a near seven-year low in August, expectations about future output edged slightly higher in September, reflecting marginal improvements across both of the monitored sectors. That said, sentiment was still negative overall due to an expected fall in manufacturing production.

COMMENT

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

"The slowdown in the service sector in September was even worse than first feared, with the final results showing the weakest business activity growth for three years. A technical recession now looks to be all but confirmed.

"The drop in new business at services firms is an indication that domestic demand is struggling to offset the loss of new work from abroad, and is a downside risk to the sector’s immediate growth prospects.

"It isn’t all bad news, with the latest data showing overall price pressures continuing to ease and still-solid job creation in the service sector, which should help maintain a degree of resilience in consumer spending. The worry is, though, that staff shedding across manufacturing could soon outweigh the employment growth in the service sector."
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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.

September 2019 data were collected 12-25 September 2019.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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