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IHS MARKIT GERMANY SERVICES PMI®

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Business activity growth ticks up but inflows of new work ease closer to stagnation

KEY FINDINGS

Business activity growth accelerates for first time in four months...

...but inflows of new work rise the least since June 2015

Input cost inflation accelerates to near eight-year high

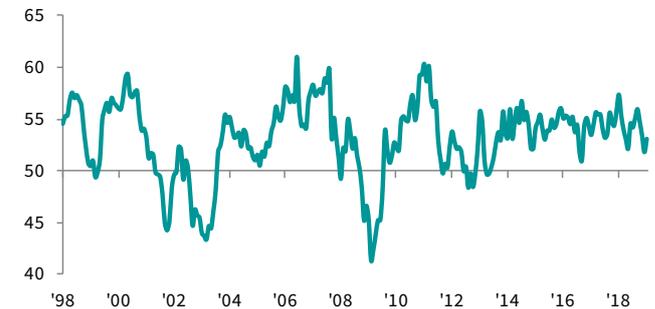
Germany's service sector enjoyed a slightly firmer rate of business activity growth at the start of the year, according to the latest PMI® survey, with business confidence towards the outlook also recovering slightly from the recent low in December. Less positively, rates of new order growth and job creation slowed, whilst firms' operating expenses exhibited the steepest monthly rise in almost eight years.

The headline seasonally adjusted IHS Markit Germany Services PMI Business Activity Index ticked up in January for the first time in four months, signalling a more solid rate of growth than at the end of 2018. However, at 53.0, from 51.8 in December, the latest reading was still the second-lowest in the past eight months and below the average recorded since the current upturn began in mid-2013 (54.2).

At the sub-sector level, there were increases in output across Financial Intermediation, Post & Telecommunications and Renting & Business Activities. Hotels & Restaurants, Transport & Storage and 'Other' Services – which includes health, education and recreational activities – all suffered a contraction, however.

Inflows of new business at service providers eased closer to stagnation in January, rising only marginally and at the slowest rate for over three-and-a-half years. Though domestic demand continued to rise, latest data showed that this was partly offset by an accelerated decline in the amount of new work received from abroad, often linked to heightened uncertainty among international clients.

Services Business Activity Index
sa, >50 = growth since previous month



Source: IHS Markit

With business activity growing more quickly than incoming new work in January, service providers recorded a further decrease in backlogs during the month. It marked the first back-to-back falls since the spring of 2017. Furthermore, the rate at which outstanding business decreased was the most marked since May 2016.

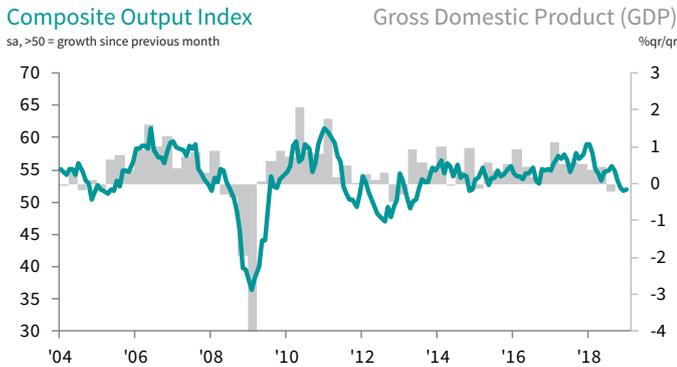
January saw the rate of employment growth across Germany's service sector ease for the fourth straight month to the slowest since last May. That said, job creation was still solid by historic standards, with staffing numbers rising in all monitored sub-sectors except Hotels & Restaurants.

On the price front, January's survey indicated a steep rise in service sector output charges that was the strongest in three months. By sub-sector, the quickest rate of inflation was in Transport & Storage, where there were reports of increased road toll charges leading to higher costs. Wage pressures were also widely mentioned, with services firms' overall operating expenses rising to the greatest extent since March 2011.

Looking ahead, service providers reported slightly stronger optimism towards the outlook for activity over the next 12 months. Confidence was still the second-weakest in over two years, however, reflecting concerns over a slowdown in the economy, Brexit and a lack of suitable candidate availability.

IHS MARKIT GERMANY COMPOSITE PMI®

Composite PMI ticks up thanks to stronger services 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. A solid and accelerated increase in service sector business activity saw the Composite Output PMI recover slightly from December's five-and-a-half year low of 51.6 to 52.1 in January. The rate of growth signalled was still the second-weakest over the past four years, however, as expansion in manufacturing output eased closer to stagnation.

Overall order books contracted in January for the first time since December 2014, as a slight rise in service sector new business failed to offset a steep and accelerated drop in goods orders – the sharpest seen for over six years. A key area of weakness remained new export orders, which fell more quickly at both manufacturers and service providers.

Backlogs of work decreased for a third straight month in January, with similarly solid reductions seen across both monitored sectors. The composite rate of job creation slowed accordingly, easing for the fifth straight month to the weakest since December 2016.

Elsewhere, a slower increase in manufacturers' purchasing costs saw the overall rate of input price inflation pull back to a 17-month low. Average selling prices increased at a slightly faster rate, however, driven by a steep and accelerated rise in services output charges.

Business confidence towards the year-ahead outlook for output remained subdued in January, improving only slightly from December's 50-month low.

COMMENT

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

"The first acceleration in service sector business activity for four months was good news, although the indication that inflows of new business eased closer to stagnation at the start of the year took some of the shine off the latest results. A steep and accelerated fall in the level of new work from abroad provided evidence of the weakening international demand environment affecting not only manufacturing but also services.

"January's services survey showed conditions in Germany's labour market continuing to improve, with employment rising solidly on the month and many firms linking increasing costs to wage growth. The pace of job creation did continue to ease, however, with back-to-back reductions in backlogs of work indicating that pressure has started to come off capacity.

"Despite the firmer increase in service sector business activity counteracting a further slowdown in manufacturing, the Composite PMI recovered only slightly from December's five-and-a-half year low and continued to point to only a modest rate of underlying growth across Germany's private sector at the start of the year."

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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.

January 2019 data were collected 11-28 January 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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