

**EMBARGOED UNTIL: 00:01 (UTC) November 13<sup>th</sup> 2017**

# IHS Markit Germany Business Outlook

## German business optimism remains strong despite global political tensions

### Key findings:

- Forecast for business activity growth remains highly positive, unchanged since June
- Firms' hiring intentions close to record high
- Expectations for output price inflation highest in survey history, but profit forecasts soften

Data collected October 12-26

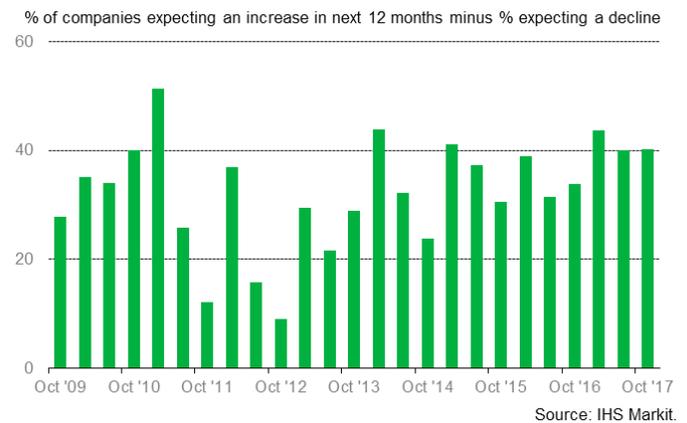
In spite of global political tensions, German firms are strongly optimistic about their prospects for growth in the year ahead, predicting further gains in business activity and employment. However, the outlook for profits is dimmed by forecasts of a sharp rise in costs, particularly in the manufacturing sector.

The latest Business Outlook survey from IHS Markit shows that private sector firms in Germany are highly confident about the chances of business activity rising over the next 12 months, with the degree of optimism unchanged from the previous survey in June. Almost half of companies expect activity to rise, compared with under one-in-ten predicting a reduction. At +40%, the resulting net balance (i.e. those forecasting an increase minus those anticipating a fall) is above the trend seen since the global financial crisis (+32%) and broadly in line with the eurozone average (+41%).

Germany's manufacturers (+46%) are comparatively more upbeat about the outlook for activity than their services counterparts (+37%). However, whereas the latter have grown in confidence since the summer, goods producers are now less optimistic.

The survey highlights a range of factors expected to support growth in the year ahead, including new, higher quality products and services, expansion into export markets (notably Russia) and a potential boost to domestic demand from the quick formation of a new government.

### Germany business activity expectations



Many of the main threats to the outlook revolve around political issues, including Brexit negotiations, the impact of Euroscepticism and tensions between the US and North Korea. A shortage of qualified staff also poses a serious risk to growth prospects, according to the report, as do rising raw material costs.

### Employment & Investment Plans

The outlook for employment is strongly positive, with firms' expectations towards job creation little-changed from a record high in June. Services firms are in fact more upbeat about the prospect of hiring extra staff than four months ago, offsetting lower forecasts for employment growth among goods producers.

As well as indicating that German companies are set to expand staffing capacity in the year ahead, the latest Business Outlook survey has also revealed positive intentions towards capital expenditure. The level of optimism on this front is the third-highest seen since comparable data first became available in late-2009, having previously reached a record level in June.

Furthermore, spending on research and development is expected to rise, with the outlook for R&D in Germany brighter than anywhere else globally.

## Inflation Expectations

The survey meanwhile points to the prospect of a pick-up in inflationary pressures in the near-term, with the net balance of firms expecting to raise output prices over the next 12 months at its highest in the history of the survey. Behind this is an expectation that cost pressures will intensify, driven mainly by higher manufacturing input prices.

## Corporate Earnings

In line with positive forecasts for business activity and revenues, firms generally expect profitability to improve in the year ahead. However, confidence towards profits, particularly among goods producers, has weakened since June, and the outlook is the least optimistic of the eurozone countries covered in the survey.

### Comment:

Commenting on the Germany Business Outlook survey data, **Phil Smith**, Principal Economist at IHS Markit, said:

*“The German economy has enjoyed a solid 2017 so far, and the latest Business Outlook survey provides cause for optimism that we are set to see another robust performance in 2018.”*

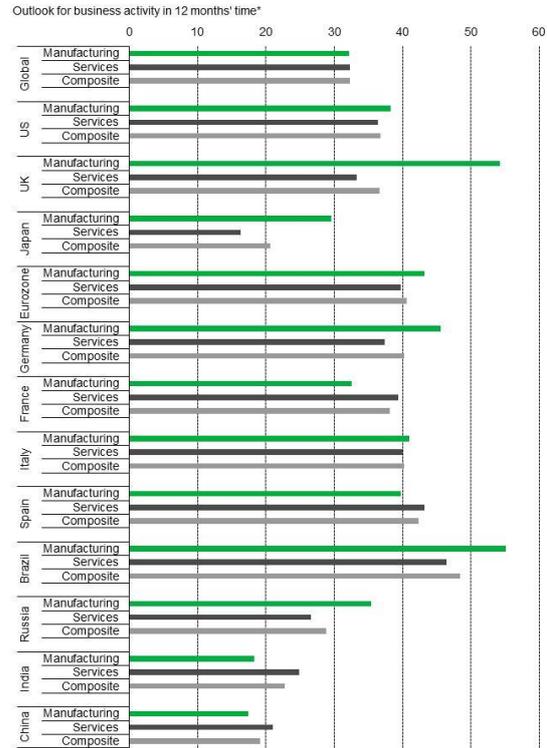
*“Importantly for the sustainability of the current upturn, the survey shows that German businesses plan to remain in expansion mode. Firms have signalled their intentions to raise employment as well as levels of capex and R&D, providing the base for strong domestic growth drivers.”*

*“Export markets are also viewed by many as a key opportunity for expansion, while it is political risks – namely Brexit negotiations, the rise of Euroscepticism and US-North Korea tensions – that are said to pose some of the biggest threats to the outlook.”*

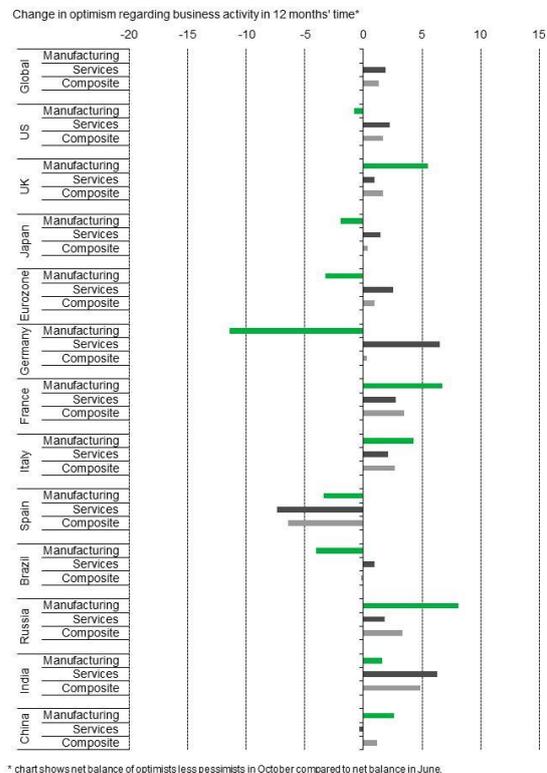
*“Profit forecasts remain positive but have been toned down somewhat, partly due to higher expectations towards cost pressures. This is particularly apparent in the manufacturing sector, where confidence has generally softened from the near-record highs seen in the summer, contrasting with improved optimism among services firms.”*

Full data available on request from [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com)

## Business optimism in October



## How business activity expectations have changed since June



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**Notes to Editors:**

The Global Business Outlook Survey for worldwide manufacturing and services is produced by IHS Markit and is based on a survey of around 12,000 manufacturers and service providers that are asked to give their thoughts on future business conditions. The reports are produced on a tri-annual basis, with data collected in February, June and October. The latest survey was conducted between October 12 and 26.

Interest in the use of economic surveys for predicting turning points in economic cycles is ever increasing and the Business Outlook survey uses an identical methodology across all nations covered. It gives a unique perspective on future business conditions from Global manufacturers and service providers.

The methodology of the Business Outlook survey is identical in all countries that IHS Markit operates. This methodology seeks to ensure harmonization of data, and is designed to allow direct comparisons of business expectations across different countries. This provides a significant advantage for economic surveillance around the globe and for monitoring the evolution of the manufacturing and services economies by governments and the wider business community.

Data collection is undertaken via the completion of questionnaires three times a year at four-month intervals. A combination of phone, fax, website and email are used, with respondents allowed to select which mechanism they prefer to use.

The Business Outlook survey uses net balances to indicate the degree of future optimism or pessimism for each of the survey variables. These net balances vary between -100 and 100, with a value of 0 signalling a neutral outlook for the coming 12 months. Values above 0 indicate optimism amongst companies regarding the outlook for the coming 12 months while values below 0 indicate pessimism. The net balance figure is calculated by deducting the percentage number of survey respondents expecting a deterioration/decrease in a variable over the next 12 months from the percentage number of survey respondents expecting an improvement/increase.

Questionnaires are sent to a representative panel of around 12,000 manufacturing and services companies spread across the global economy in the countries mentioned above. Companies are carefully selected to ensure that the survey panel accurately reflects the true structure of each economy in terms of sectoral contribution to GDP, regional distribution and company size. This panel forms the basis for the survey. The current report is based on responses from around 7,000 firms.

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