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Markit Germany Business Outlook

Business sentiment strongest in three years at start of 2017

Key findings:

- Expectations for business activity best since February 2014
- Employment outlook matches series record high
- Output price inflation expectations hit new peak

Data collected February 10-23

The latest Markit Business Outlook survey has revealed improving sentiment at German private sector companies at the start of 2017. The net balance of firms expecting growth over the next 12 months has risen further to +43%, from +34% in November and the highest since February 2014.

The German figure is in line with the eurozone average, which is the highest in six years. The remaining 'big four' eurozone economies have all registered stronger output expectations in February. Spanish firms are the most optimistic regarding activity levels in 12 months' time (+49%), followed by Italy (+43%) and France (+37%).

Sector data reveal stronger output expectations in both manufacturing and services. The net balance for goods producers has risen to a three-year high of +50%, with the services figure standing at +40%, the highest for a year.

The improved outlook for overall business activity over the next 12 months is reinforced by new business expectations. The respective net balance has risen to a two-year high of +37%. Similarly, sentiment regarding business revenues (+37%) has improved to the highest since June 2015.

Firms have highlighted opportunities underpinning positive sentiment for the 12-month outlook. These include new products, export growth in markets such as the US, Southern Europe, China, the Far East and

Germany business activity expectations



South Asia, and investment related to infrastructure and 'Industry 4.0'. Meanwhile, reported threats to the business outlook centre on political uncertainty, trade insecurity, Brexit and forthcoming European elections. Cost inflation is also mentioned as a threat, as is the stability of the eurozone.

Expectations regarding company profitability have also brightened since the prior outlook survey. The net balance has risen to +16%, from October's two-year low of +11%, its highest since June 2015. Service providers are slightly more optimistic regarding profits than manufacturers.

German companies are planning to increase their capital spending over the next 12 months. The degree of sentiment has improved since October, and is broadly in line with the trend shown over the past three years.

Jobs outlook brightens

Private sector companies in Germany are increasingly optimistic regarding expected recruitment over the next 12 months. The net balance for employment stands at +25%, equalling the series high previously set in February 2015. Sentiment has hit a joint-record high in manufacturing (+28%) and is close to February 2015's

peak in services (+24%). Germany has stronger expectations for employment growth than both France (+17%) and Italy (+14%), but a slightly weaker outlook than Spain (+29%).

Input prices are projected to rise sharply over the coming 12 months. The net balance has increased for the third successive survey to +49%, the highest since February 2011. Manufacturers look set to face greater cost pressures than service providers, on balance.

Output price expectations hit new high

With inflationary pressure on input costs anticipated to intensify over the next 12 months, firms are expecting to increase their own prices. The net balance for output prices has hit a new high of +27%, which is also greater than those registered in France, Italy and Spain.

Comment:

Commenting on the Germany Business Outlook survey data, Trevor Balchin, Senior Economist at IHS Markit, said:

“Companies in Germany are growing increasingly confident at the start of 2017. The overall outlook for business activity is the strongest for three years, as firms are largely eschewing uncertainty stemming from Brexit, European elections and US politics. Moreover, the wider eurozone outlook is also upbeat with France, Italy and Spain all reporting improved business sentiment.

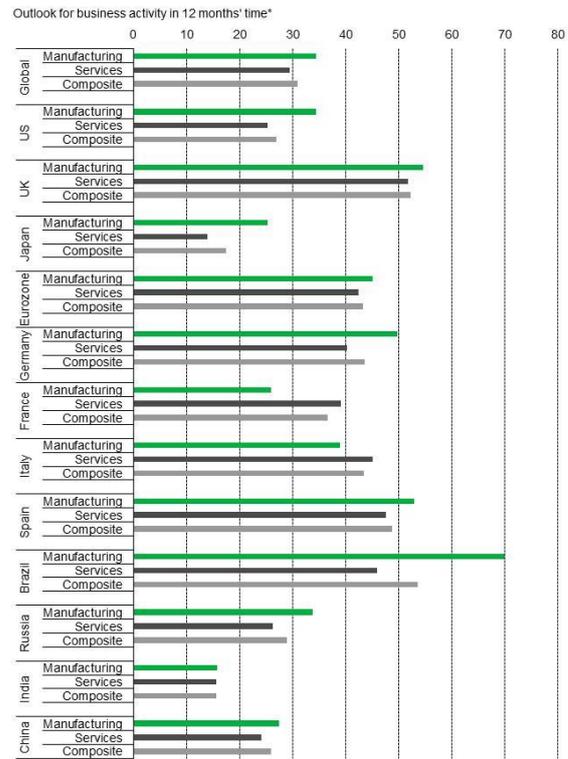
“German firms are looking to take on more staff to meet anticipated workloads, with the outlook for employment equalling the previous survey peak set in early-2015. But with unemployment at a record low of 5.9%, this suggests that companies may struggle to find and hire skilled workers, placing upward pressure on wages.

“Cost pressures are expected to intensify over the next 12 months. The input prices net balance is at a six-year high, and German firms are expecting stronger increases in costs than their counterparts in France, Italy and Spain. Inflation in Germany hit 2.2% in February, above the eurozone average of 2%. That said, ECB monetary policy is likely to remain accommodative in the face of political uncertainty.”

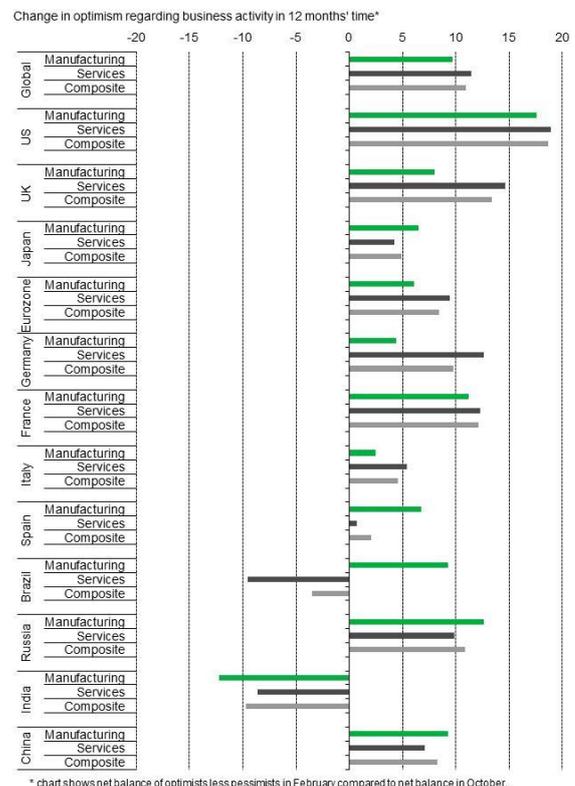
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Full data available on request from economics@ihsmarkit.com

Business optimism in February



How business activity expectations have changed since October



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Notes to Editors:

The Global Business Outlook Survey for worldwide manufacturing and services is produced by 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 February 10-23.

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 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 0.0 signalling a neutral outlook for the coming twelve months. Values above 0.0 indicate optimism amongst companies regarding the outlook for the coming twelve months while values below 0.0 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 twelve 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 6,600 firms.

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