

News Release

Embargoed until 0955 CET (0855 UTC) 4th November 2022

S&P Global Germany Services PMI®

Service sector remains in contraction in October

Key findings

Business activity falls further, albeit at a slightly slower rate

Firms' costs continue to soar

Caution towards hiring, but employment not yet in decline

German services firms endured another difficult month in October, according to latest PMI® survey data from S&P Global, seeing not only a sustained downturn in business activity, but also facing another sharp rise in their input costs. Rates of decline in both business activity and inflows of new work did ease somewhat, however, and companies were slightly less pessimistic about the year-ahead outlook than in September.

The seasonally adjusted headline S&P Global 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 – registered 46.5 in October. This was the fourth consecutive reading below the 50.0 no-change threshold. Although still indicative of a solid rate of contraction, the latest reading nevertheless represented a slight improvement from September's 28-month low of 45.0.

Where a decrease in business activity was recorded, surveyed firms often commented on a weakening of underlying demand. They specified the impact of uncertainty among clients, high inflation, soaring energy costs and rising interest rates. Accordingly, inflows of new work fell for a fifth successive month during October. The rate of decline, although less marked than in September, was still faster than at any other time since February 2021. A further notable – albeit slightly slower – drop in new export business was also registered.

October's survey showed that business conditions were expected to remain challenging over the coming year, with more firms predicting a fall in activity in the next 12 months than those anticipating a rise. Sentiment had fallen sharply in September to its lowest since the initial COVID-19 shock. However, whilst remaining negative, it did at least show a slight rebound at the start of the fourth quarter.

A major concern for businesses was the threat of persistent

S&P Global Germany Services Business Activity Index
sa, >50 = growth since previous month



Source: S&P Global.
Data were collected 12-26 October 2022.

Comment

Phil Smith, Economic Associate Director at S&P Global Market Intelligence, said:

"A contraction of the German economy in the fourth quarter looks inevitable, with October PMI data signalling sustained declines in activity across both the manufacturing and services sectors amid broad-based strain on demand. A toxic mix of high inflation, soaring energy bills, rising interest rates and heightened levels of uncertainty has seen households and businesses rein in their spending."

"On a more positive note, the rate of decline in services activity did at least ease somewhat and firms' expectations were less pessimistic than in September, following the initial shock of the Nord Stream 1 pipeline closure."

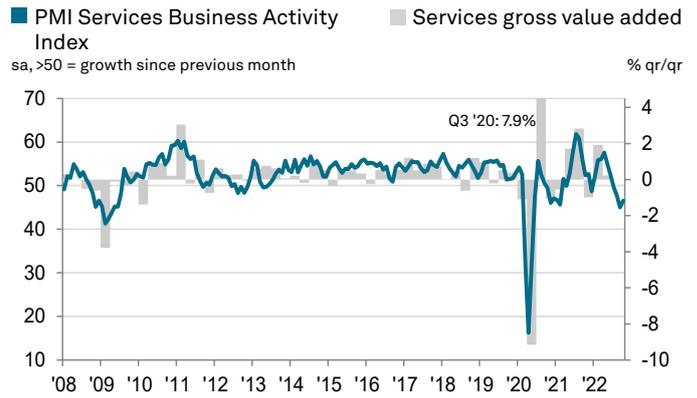
"However, there was no relief for services firms on the cost front, with the rate of input price inflation even accelerating anew amid reports of increased energy bills, growing wage demands and higher financing costs."

"Understandably, given the continued upward pressure on operating expenses and gloomy economic outlook, services firms are showing greater caution when it comes to hiring. Although the survey's measure of employment hasn't yet followed business activity and expectations into contraction territory, October's reading was nevertheless the lowest since September 2020 and showed that fewer and fewer positions are being filled."

strong inflationary pressures, and especially high energy costs. In October, services firms faced a rate of input price inflation that was the quickest for four months and one of the highest on record (since 1997). Alongside high energy costs, many firms noted an increase in wage bills, as well as pressure from rising interest rates.

As many services companies in Germany looked to pass on higher operating expenses to clients, October saw another steep rise in average prices charged across the sector. Unlike input costs, however, fees charged rose at a slightly slower rate than in September amid some reports of a weakening of the market environment.

Despite rapidly falling levels of business activity and soaring costs, services employment continued to show a degree of resilience at the start of the fourth quarter, with the respective seasonally adjusted index still inside growth territory, albeit only just. Hinting at growing caution towards hiring, the rate of job creation slowed for the fourth time in the past five months to its weakest in just over two years. A further, albeit more moderate, fall in backlogs of work in October pointed to some easing of pressure on operating capacity across the German services sector.



S&P Global Germany Composite PMI®

German economy sees sustained broad-based downturn in output in October

The S&P Global Germany Composite PMI Output Index* edged further into sub-50 contraction territory in October, dropping from September's 45.7 to 45.1. This was its lowest level since May 2020.

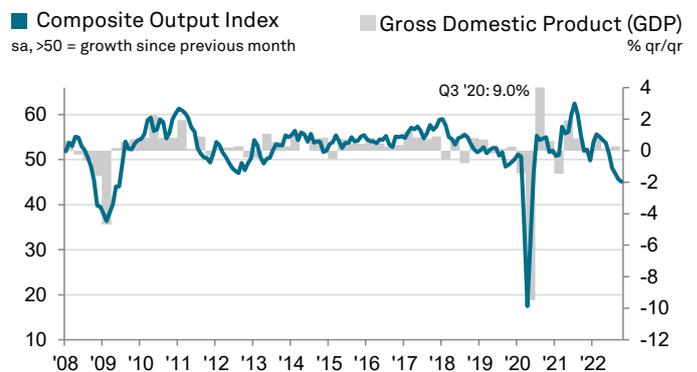
Underlying data pointed to sustained downturns in both manufacturing output and services activity. However, with the latter's decline easing somewhat, the faster overall rate of contraction owed exclusively to a steeper fall in goods production.

The manufacturing sector was also behind accelerated decreases in total new business, new export orders and backlogs of work.

Turning to prices, rates of both input cost and output charge inflation eased only slightly and thereby stayed well above their respective historical averages.

Business expectations remained pessimistic but did at least tick up from September's 28-month low. However, this masked a further slide in manufacturing sentiment.

A further (albeit modest) rise in employment was recorded.



Sources: S&P Global, Federal Statistical Office.

*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.

Germany Services PMI Employment Index

sa, >50 = growth since previous month



Source: S&P Global.

Germany Services PMI Input Prices Index

sa, >50 = inflation since previous month



Source: S&P Global.

Survey methodology

The S&P Global Germany Services PMI® is compiled by S&P Global 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. Data collection began in June 1997.

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.

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

Flash vs. final data

Flash services data were calculated from 82% of final responses. Flash composite data were calculated from 89% of final responses.

Since January 2006 the average difference between final and flash Services Business Activity Index values is -0.1 (0.6 in absolute terms). Since January 2006 the average difference between final and flash Composite Output Index values is 0.0 (0.4 in absolute terms).

About PMI

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. ihsmarkit.com/products/pmi.html.

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The BME is the German Association for Supply Chain Management, Procurement and Logistics. Founded in 1954 it provides services for around 9750 individual and corporate members, including small and medium-sized businesses as well as Germany's top 200 companies. The BME liaises between businesses and academia, both on the demand and the supply side, by providing the necessary networks for communication and knowledge exchange. The association is open to all company types from any sector (industry, trade, banking/insurance, public sector, service providers, etc.).

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