

Embargoed until 0955 CET (0855 UTC) 4 January 2019

## IHS MARKIT GERMANY SERVICES PMI®

INCLUDING IHS MARKIT GERMANY COMPOSITE PMI®

### Service sector growth cools as business activity shows weakest rise for over two years

#### KEY FINDINGS

Business activity growth at 27-month low

New orders, employment and business expectations gauges also soften

Input cost inflation pulls back to five-month low

Business activity growth in Germany's service sector slowed to the weakest in over two years in December, according to the latest PMI® survey, in a further sign of the eurozone's largest economy losing momentum. Alongside softer growth of inflows of new business, the latest services data also showed a moderation in the rate of job creation, as well as a further weakening of firms' expectations towards the outlook.

Meanwhile, input cost inflation in the service sector pulled back from the seven-and-a-half year high seen in November amid signs of the recent upward pressure on fuel prices easing.

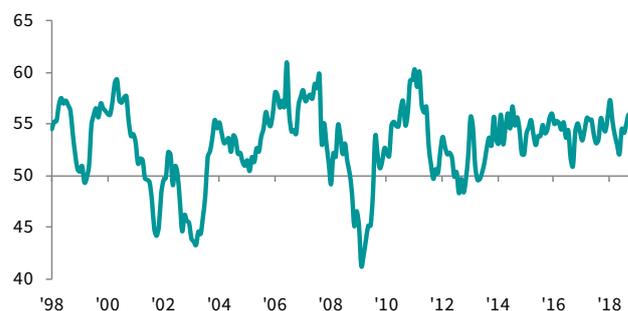
December's headline seasonally adjusted IHS Markit Germany Services PMI Business Activity Index came in at a 27-month low of 51.8, down from 53.3 in November (and below the earlier 'flash' estimate of 52.5), to signal a third successive month of slower growth in the sector.

By sub-sector, the latest data showed robust underlying growth of business activity across Financial Intermediation, Post & Telecommunications and Hotels & Restaurants. However, output fell in both 'Other' Services and Transport & Storage, whilst the dominant Renting & Business Activities sub-sector saw a slower rate of expansion.

Reflecting demand from the domestic market, the amount of new business received by German service providers increased in December. That said, the pace of growth softened to the weakest in seven months. One of the factors behind this was a further fall in the level of new export business.

Services Business Activity Index

sa, >50 = growth since previous month



Source: IHS Markit

December saw a decrease in the level of outstanding business at German service providers, the first such fall for ten months. With capacity pressures easing, the rate of employment growth slowed for the third month running, down further from a near 11-year high in September, to show the smallest rise in staffing numbers since May.

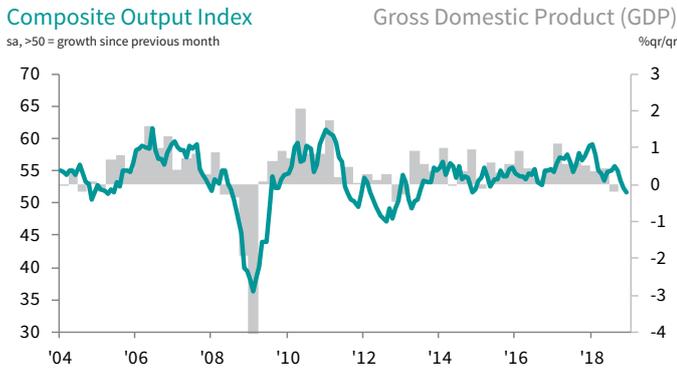
The softer rise in employment was also consistent with a weakening of business confidence regarding the outlook for activity. December saw the degree of optimism among services firms drop to the lowest in over three years as concerns grew in relation to a slowdown in the economy, geopolitical uncertainties and volatility in financial markets.

Meanwhile, firms recorded higher average input prices in December, linked in large part to rising labour costs. There were also reports of higher fuel prices; however, the number of mentions of an increase fell on recent months. As such, the overall rate of input price inflation cooled to a five-month low, down from a seven-and-a-half year peak in November.

Output price inflation remained elevated by historical standards in December as a considerable number of firms sought to pass on higher costs. The rate of increase accelerated slightly since November, though it was still the second-lowest in the past six months.

## IHS MARKIT GERMANY COMPOSITE PMI®

# Composite growth slips to five-and-a-half year low



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. December saw the Composite Output Index fall for the fourth month running to 51.6, down from 52.3 in November and its lowest reading since June 2013.

The latest slowdown was led by the service sector, as the rate of manufacturing output growth strengthened for the first time in five months, albeit picking up only slightly and staying below that of services business activity.

Inflows of new orders eased closed to stagnation in December as trends weakened across both monitored sectors. Manufacturers' order books fell for the third month running and at the fastest rate since November 2014, while new business growth at services firms dipped to a seven-month low. Total new exports meanwhile fell at a record pace for the third time in as many months (the series only having begun in September 2014).

Though the overall rate of job creation eased in December, down to its lowest since May, it still pointed to a solid gain in employment by historical standards. However, there were signs of capacity pressures dissipating as backlogs fell at the fastest rate for four years.

On the price front, cost inflationary pressures eased to their weakest in 16 months. Average prices charged for goods and services, on the other hand, rose at a slightly quicker pace, up from November's 11-month low.

With confidence among manufacturers remaining subdued and optimism easing in the service sector, overall expectations were the lowest since October 2014.

## COMMENT

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

*"In Germany, when the manufacturing sector sneezes, there's a good chance the rest of the economy will catch a cold, and that seems to be what's happened in the service sector in the final quarter of 2018."*

*"The PMI showed service sector business activity growth slowing throughout Q4, down to its lowest in over two years in December, with the month's final data coming in slightly weaker than the flash estimates to suggest that the slowdown continued right up to the end of the year."*

*"Alongside the lingering uncertainties towards Brexit and trade wars, worries about a general slowdown in the economy have helped undermine business confidence across the service sector, with expectations towards the outlook sliding to their lowest for over three years at the close of play in 2018."*

*"The recent sharp rate of output price inflation in the service sector, which reached a survey-record high last July and then very nearly again in October, was probably another factor behind the slowdown in the fourth quarter."*

*"Although the pace of job creation eased in December as capacity pressures showed signs of abating, many businesses still took on additional staff – across manufacturing and services alike. This should provide support to domestic demand in the near-term and counterbalance some of the headwinds that are dampening economic growth."*

## CONTACT

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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.

December 2018 data were collected 5-18 December 2018.

For further information on the PMI survey methodology, please contact [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com).

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### 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. To learn more go to [ihsmarkit.com/products/pmi.html](http://ihsmarkit.com/products/pmi.html).

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