

News Release

Embargoed until 0955 CEST (0755 UTC) 5th September 2022

S&P Global Germany Services PMI®

Services activity continues to falter under pressure from sharply rising prices and economic uncertainty

Key findings

Activity falls for second month running in August

Employment growth at 18-month low

Rates of inflation ease further from April's record highs

Germany's services firms saw activity levels fall for the second month running and at a faster rate in August, as a continued squeeze on client budgets and economic uncertainty dampened demand across the sector. Although firms continued to take on new staff to address capacity constraints, employment growth lost momentum and was the weakest for a year-and-a-half.

At the same time, service providers continued to face strong cost pressures from higher energy bills and rising wages. The overall rate of input price inflation did however retreat further from April's record high, which, combined with signs of wavering demand, led to a slower rise in prices charged for services. Firms' expectations improved from July's 26-month low but remained historically low.

The seasonally adjusted headline S&P Global Germany Services PMI® registered 47.7 in August. This was the second successive reading below the 50.0 no-change threshold, following a figure of 49.7 in July. The result pointed to an acceleration in the rate of contraction, to the quickest since February 2021.

The decline in activity in August came off the back of a third straight monthly fall in inflows of new business at service providers, highlighting a sustained weakening of demand across the sector. High prices, tightening financial conditions and an uncertain economic outlook each played a part, according to surveyed firms. Lower inflows of new work from abroad were also a factor, having fallen for the fifth time in the past six months. However, unlike the trend in total new business, the rate of decline in sales to non-domestic based clients eased and was only modest overall.

Despite reduced inflows of new business, backlogs of work at German service providers continued to rise during August, reflecting a combination of staff shortages and disrupted supply chains. Outstanding business has now increased for nine months in a row, although the latest rise was the

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



Source: S&P Global.
Data were collected 12-25 August 2022.

Comment

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

"After providing important support to the economy during the opening half of the year, business activity across Germany's service sector has started to falter during the third quarter as domestic demand comes under pressure from sky-high inflation and wavering confidence.

"August's PMI showed the downturn in services activity gather pace, which, alongside continued weakness in manufacturing, increases the likelihood of an overall contraction in the economy in the third quarter.

"Efforts by services firms to plug staffing gaps meant that employment rose again during August, but the rate of job creation slowed to its lowest in a year-and-a-half as weaker demand suppressed firms' appetite for recruitment.

"Although business confidence picked up in August, it remains historically subdued overall due to the current high level of economic uncertainty, not least around the energy situation.

"Further slowdowns in the rates of increase in both input costs and output charges suggest that underlying price pressures may have passed their peak due in part to falling demand, though the renewed surge in wholesale gas prices in recent weeks brings fresh upside risks to inflation."

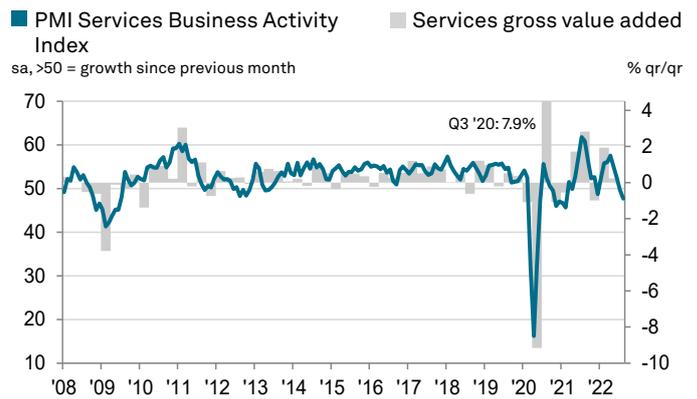
weakest in this sequence and only modest overall.

Service providers added to their workforce numbers during August as they looked to bolster staffing capacity, thereby maintaining a period of continuous employment growth stretching back to July 2020. However, the rate of job creation eased to a modest pace that was the weakest since February 2021.

Rising wages remained a feature of the survey, with businesses widely citing it as a factor behind higher operating expenses, alongside increased energy bills and elevated inflation generally. The rate of input price remained well above its historical average, although it did ease further from April's record high.

In line with the trend in costs and highlighting a growing resistance to higher prices from customers, average charges set by service providers rose at the slowest rate for six months in August. That said, the rate of inflation was still elevated and higher than at any time in the series history prior to March.

Lastly, August's survey showed renewed optimism among German service providers towards the outlook, with expectations having turned pessimistic for the first time in more than two years in July. Business confidence was still historically subdued, however, as surveyed firms continued to voice concerns about the future cost and supply of energy and demand conditions over the next 12 months.



S&P Global Germany Composite PMI®

Downturn in private sector economy deepens in August

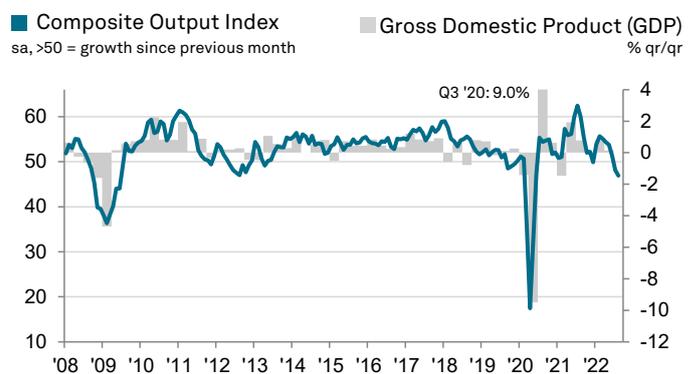
The S&P Global Germany Composite PMI Output Index* moved further into sub-50 contraction territory in August, dropping from July's 48.1 to a 27-month low of 46.9.

At the sector level, persistent weakness in manufacturing output was compounded by an accelerated decline in service sector activity.

Demand across the private sector remained under pressure midway through the third quarter, with inflows of new work falling at a solid rate that was little-changed from the previous survey period. This in part reflected a deepening decline in new export business.

Expectations improved slightly compared to July, but they were still the second-lowest in the past 27 months. As such, employment growth eased across both monitored sectors and was the weakest overall since March 2021.

Rates of both input cost and output price inflation remained elevated in August, although they continued their recent slowdowns to 11- and six-month lows respectively.



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 86% 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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Contact

Phil Smith
Economics Associate Director
S&P Global Market Intelligence
T: +44-1491-461-009
phil.smith@spglobal.com

Sabrina Mayeen
Corporate Communications
S&P Global Market Intelligence
T: +44-7967-447-030
sabrina.mayeen@spglobal.com

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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.).

Bundesverband Materialwirtschaft, Einkauf und Logistik e.V. (BME)

Frankfurter Str. 27

65760 Eschborn

GERMANY

Contact: Frank Rösch, Head of Press and Communications

E-mail: frank.roesch@bme.de Internet: www.bme.de.