

# News Release

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## S&P Global Germany Services PMI®

### German service sector starts the new year with increased optimism

#### Key findings

Activity rises for first time in seven months, albeit marginally

Increased optimism towards outlook supports job creation

Demand remains under pressure, not least from rising prices

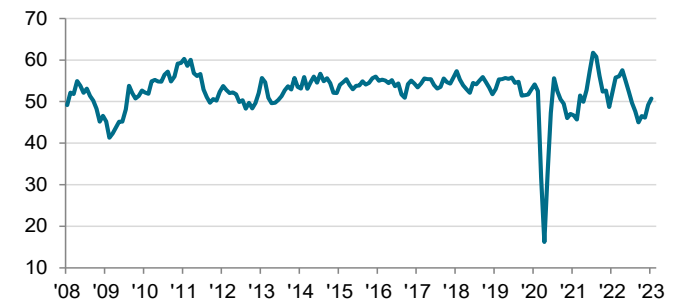
January's PMI® survey data from S&P Global showed a slight upturn in business activity across Germany's service sector, alongside increased optimism among companies towards the outlook and a pick-up in employment growth. Demand conditions nevertheless remained challenging, amid tighter financial conditions and a further squeeze on disposable incomes from rapid price increases. The decline in new business did at least ease, however, whilst the rates of both input cost and output price inflation retreated slightly further from their record highs in 2022.

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 – came in at 50.7 in January, up from December's 49.2. It marked the first time in seven months that the headline index has registered above the 50.0 threshold that separates growth from contraction. The latest reading was indicative of only a marginal rate of growth, however.

Higher business activity in January was in some cases linked to catch-up effects, with firms making further inroads into their backlogs of work during the month. Underlying demand meanwhile remained fragile. Inflows of new business fell in January, extending the decline that began in June last year. That said, the rate of contraction slowed notably since December, and was the slowest for seven months. Lower demand from non-domestic based customers remained a feature of the survey data.

Turning to employment, January saw a slight acceleration in the rate of job creation across Germany's service sector to the quickest since last July. It signalled a sustained recovery in firms' willingness to hire staff from last October's low. Where an increase in workforce numbers was recorded, there were mentions of planned expansions and projections of higher activity in the months ahead.

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



Source: S&P Global.  
Data were collected 12-26 January 2023.

#### Comment

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

*"A slight rise in services activity in January indicates that the German economy has started the year on a more stable footing and reduces the chances of a technical recession (i.e. consecutive quarterly falls in output), after GDP contracted in the three months to December.*

*"Recession or no recession, demand remains under pressure from high prices and tightening financial conditions. A further decrease in service sector new business indicated that January's upturn in activity was largely supported by catch-up effects as firms worked through backlogs, and that a pick-up in demand is needed for sustained growth. Businesses' optimism towards growth prospects has increased, though expectations remain lower than the pre-pandemic average.*

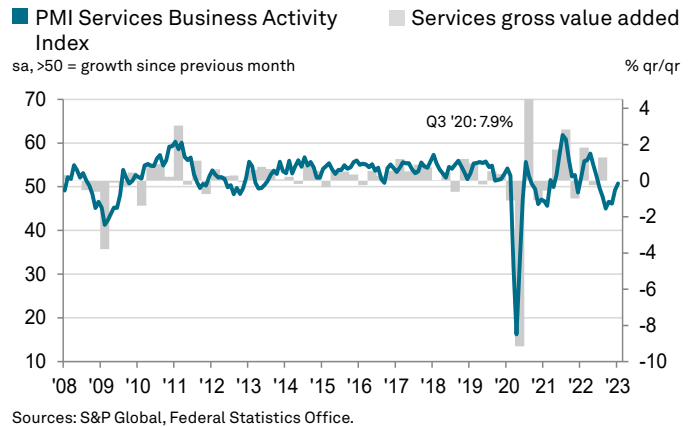
*"A solid and accelerated rise in service sector employment in January underscores the continued resilience of the German labour market and reassuringly shows limited spillover from the recent slowdown in workplace activity.*

*"However, firms' willingness to continue hiring staff is giving power to employees when it comes to wage demands, which the survey shows is helping drive a continued sharp rise in service sector business costs. Services output price inflation is likewise showing a degree of stickiness, signalling a risk that core inflation could stay higher for longer."*

Indeed, January's survey showed services firms becoming increasingly optimistic towards the year-ahead outlook for activity. Expectations rose sharply and for the fourth straight month, leaving them at their highest since February 2022. That said, whilst firms were less concerned about the cost and supply of energy, as well as the economic outlook generally, sentiment remained far weaker than seen immediately prior to Russia's invasion of Ukraine and also still below the pre-pandemic average.

Growing wage demands meanwhile contributed to an ongoing sharp rise in businesses' operating costs in January. Alongside higher staff pay, firms also noted the influence of elevated energy prices. According to underlying data, Hotels & Restaurants was the sector hit hardest. Measured overall, however, the rate of input cost inflation retreated further from the record highs seen last year to the lowest since September 2021.

Similar to input prices, output charges continued to rise sharply by historical standards during January, as many businesses looked to protect margins by passing on higher costs to customers. The rate of output price inflation fell only fractionally since December, taking it to its lowest for five months but leaving it higher than at any time in the series history prior to March 2022.



## S&P Global Germany Composite PMI®

### Private sector business activity on a more stable footing in January

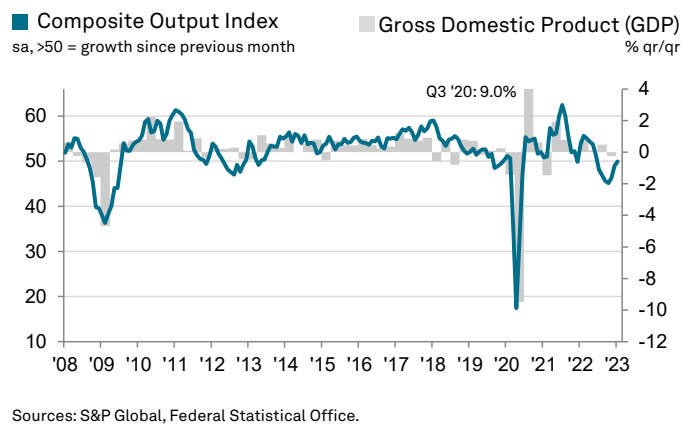
Pressure on private sector business activity showed further signs of easing in January. The S&P Global Germany Composite PMI Output Index\* rose for the third straight month and registered just shy of the 50.0 neutral level, at 49.9. It followed a reading of 49.0 in December.

At the sector level, marginal growth in services activity was offset by a continued shallow downturn in manufacturing output.

Demand conditions nevertheless remained challenging, with inflows of new work falling across both monitored sectors, albeit at slower rates.

On the price front, a notable slowdown in cost inflation contrasted with a slightly quicker rise in average prices charged.

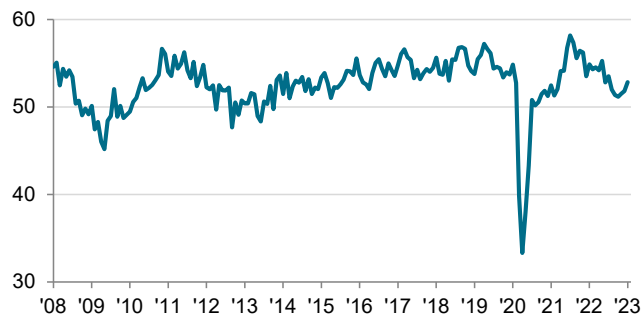
Business confidence meanwhile perked up, with expectations at their highest since the Russian invasion of Ukraine. This in turn supported a further rise in private sector employment, with the rate of job creation even picking up slightly to a five-month high.



\*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

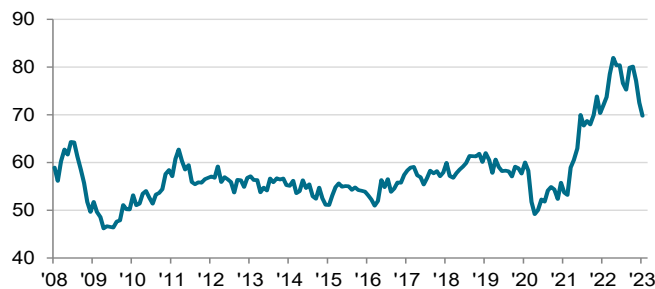
sa, >50 = growth since previous month



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](mailto:economics@ihsmarkit.com).

Flash vs. final data

Flash services data were calculated from 87% of final responses. Flash composite data were calculated from 91% 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](https://ihsmarkit.com/products/pmi.html).

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About BME

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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