

News Release

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S&P Global Germany Services PMI®

Services activity down slightly in July as sector grapples with waning confidence and high inflation

Key findings

Marginal fall in activity ends six-month sequence of growth

Firms' expectations turn negative as demand weakens

Price gauges remain elevated but slip further from recent highs

A sequence of growth in Germany's service sector stretching back to January came to an end in July as business activity fell slightly during the month, reflecting a combination of waning client confidence and a squeeze on both household and company finances, latest PMI® data showed. Concerns about high inflation and rising interest rates were meanwhile compounded by the prospect of a gas shortage, leading service providers' expectations to turn negative for the first time since the first wave of COVID-19 over two years ago.

Amid the soaring price of energy and rising wage bills, firms in the service sector faced another sharp increase in overall operating expenses, which they often passed on to clients via higher prices charged. However, although remaining elevated by historical standards, rates of both input cost and output price inflation retreated further in July from their recent highs.

Having signalled growth throughout the first half of the year as activity rebounded in line with the gradual lifting of pandemic restrictions, the seasonally adjusted headline S&P Global Germany Services PMI® dipped back into sub-50 contraction territory in July. At 49.7, down from June's 52.4, the latest reading was close to the 50.0 no-change mark and thereby indicative of only a marginal decline in activity.

July's survey showed increasing signs of fragility in demand for services, with inflows of new business across the sector falling for the second month running and at the quickest rate since February 2021. Anecdotal evidence suggested that uncertainty and high inflation had dissuaded potential clients from spending. The decline in new business from abroad also gathered pace at the start of the third quarter.

Service providers' expectations for activity in the year ahead deteriorated notably in July, amid growing concerns about a potential energy crisis as a result of cuts in the gas supply from Russia. For the first time in over two years, more services firms were expecting a fall in activity in the next 12

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



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

Comment

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

"Germany's service sector enjoyed a strong recovery over the first half of the year as pandemic-related constraints on activity faded, but that momentum has now been entirely lost due to strong headwinds from soaring energy and food prices and a sharp drop in confidence across the economy.

"After economic growth in Germany stalled in the second quarter, the PMI data are already pointing to a weak print in Q3, with both services and manufacturing activity in contraction in July and the survey's forward-looking indicators flashing warning signs for the months ahead.

"Service providers' expectations for future activity turned negative for the first time in over two years in July, reflecting signs of already-weakened demand as well as growing concerns about a potential gas shortage in the country.

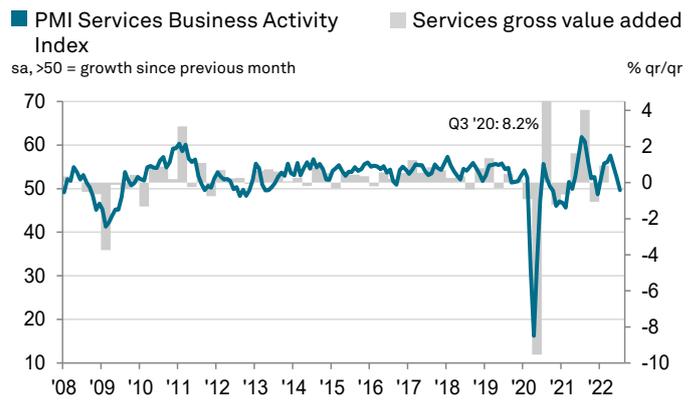
"Although rising energy and wage bills continued to drive up businesses' costs, leading to higher prices charged for services, the effects of waning demand were seen in a third straight monthly fall in the rate of output price inflation."

months than those anticipating a rise.

Despite a weakening of demand and a worsening economic outlook, the labour market continued to show resilience in July. Businesses reported taking on additional staff as they looked to expand capacity, with the pace of job creation even ticking up slightly from a 15-month low in June. Indeed, a combination of staff shortages and supply delays led to a further increase in outstanding business (i.e. new work received but not yet completed) at German services firms in July. The rate at which backlogs accumulated did, however, slow to the weakest for seven months.

Cost pressures across the German service sector remained strong at the start of the third quarter, with surveyed firms noting the influence of higher energy bills and rising wages. That said, the rate of increase in overall operating expenses ticked down for the second time in the past three months to its lowest since February.

It was a similar picture for output price inflation, which retreated further from its recent record high but remained quicker than any point in the series history (since 1997) prior to March.



Sources: S&P Global, Federal Statistics Office.

S&P Global Germany Composite PMI®

Private sector activity contracts in July

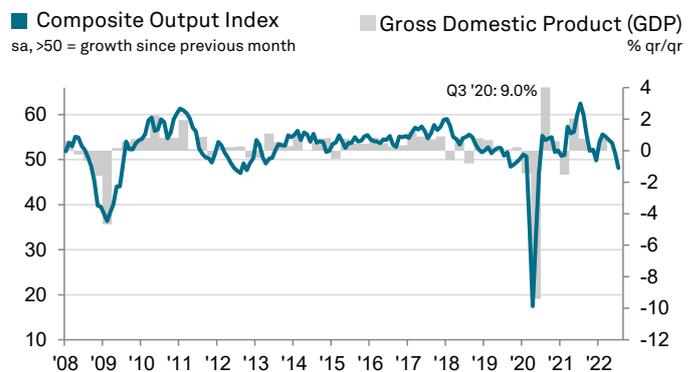
Germany's private sector slipped into contraction in July, as signalled by the S&P Global Germany Composite PMI Output Index* dropping from June's 51.3 to 48.1 – the first sub-50 reading since last December.

A slight fall in service sector business activity at the start of the third quarter coincided with a deepening downturn in manufacturing production.

There was a broad-based deterioration in demand, with both monitored sectors recording lower inflows of new work in July. Manufacturing saw the sharper declines in both total new business and export orders.

Output expectations likewise worsened universally, with goods producers reporting a particularly downbeat assessment of future activity. Both sectors nevertheless saw further jobs growth.

Turning to prices, average charges for goods and services rose sharply, but at the slowest rate for five months. This partly reflected a moderation in costs pressures across both sectors.



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 85% of final responses. Flash composite data were calculated from 90% 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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