

News Release

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S&P Global Germany Services PMI®

Services activity falls further in November as soaring inflation and uncertainty dampen demand

Key findings

Business activity declines for fifth straight month

Rates of input cost and output price inflation remain elevated

Expectations improve slightly but remain pessimistic

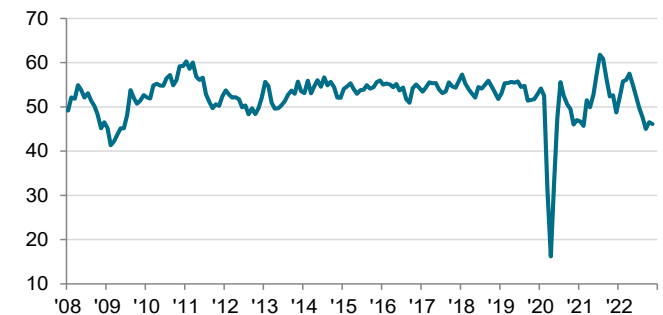
The decline in German service sector business activity extended into November, with soaring prices and heightened market uncertainty continuing to weigh on demand, latest PMI® survey data from S&P Global showed. Rates of both input cost and output charge inflation continued to run at some of the highest levels on record despite ticking down from the previous month. Businesses maintained a negative outlook for activity in the coming year, although expectations did improve for a second consecutive month.

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 46.1 in November. The index has now registered below the 50.0 threshold that separates growth from contraction for five months in a row. Down from October's 46.5, the latest reading signalled a slight acceleration in the rate of decline.

The sustained downturn in business activity coincided with reports from surveyed firms of weaker underlying demand and an associated drop in inflows of new work. In particular, firms highlighted a squeeze on client budgets from high energy cost and inflation generally, alongside a reluctance among customers due to an uncertain economic outlook. The latest decline in overall new business was marked and the second-quickest in the past two-and-a-half years (behind that seen in September). A further decrease in new export business was a contributing factor.

Amid a further loss of new work, German services firms continued to make inroads into their outstanding business (i.e. orders received by not yet completed) during November, the third month in a row in which this has been the case. Furthermore, the rate of depletion was quicker than in October.

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



Source: S&P Global.
Data were collected 11-25 November 2022.

Comment

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

"November saw a sustained downturn in business activity across Germany's service sector, with the combination of high inflation and an uncertain economic outlook causing both households and businesses to rein in spending. As a result, a contraction in GDP in Q4 looks firmly on the cards.

"Business expectations – although still at a depressed level – improved in November with the reduced likelihood of gas shortages this winter, hinting at the prospect of a shallower recession than initially feared. That said, there's still a high level of uncertainty towards the outlook given the extent to which the economy is at the mercy of the weather, with gas rationing still a possibility in the event of an unusually cold winter.

"Price pressures continued to run hot in the service sector in November, with rates of input cost and output charge inflation still much closer to their recent record highs than their long-run trend levels. High energy costs combined with wage demands continue to lead many services businesses to raise prices.

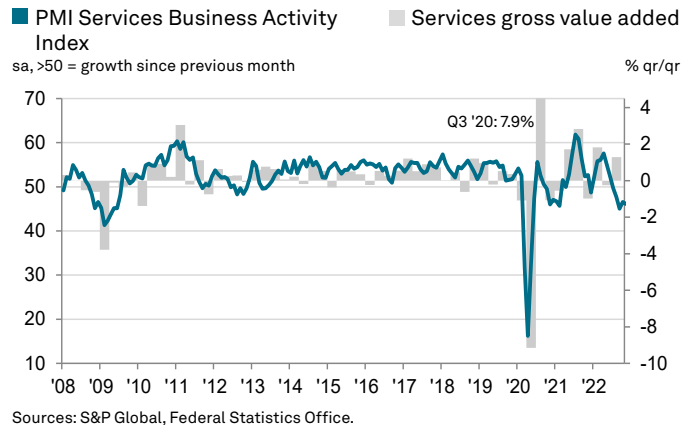
"Given the decline in activity and pressure on businesses from rising costs, it's encouraging to see continued resilience in labour market conditions. The survey's measure of employment remains decoupled from that of business activity and still inside growth territory – albeit indicating only a modest pace of hiring."

An increase in staffing capacity across the service sector in November helped to alleviate capacity pressures and, thereby, contributed to the reduction in backlogs of work. However, whilst picking up to a three-month high, the rate of job creation remained only modest and much slower than seen on average over the first half of the year.

German services firms remained downbeat about the outlook for activity over the next 12 months, citing concerns towards high inflation, risk aversion among clients and a broader economic slowdown. Expectations did, however, pick up for the second month in a row, taking them further from September's 28-month low.

On the price front, November's survey showed sustained strong inflationary pressures across Germany's service sector. Central to this was a continued surge in firms' costs, which was linked in many cases to high energy prices and wage demands. Although the overall rate of input price inflation eased to a three-month low, it remained among the quickest on record (since 1997).

Similarly, November saw a further sharp, albeit slower, rise in average prices charged by services firms as they looked to pass on part of the burden of higher costs to customers. The rate of inflation was at a three-month low but still quicker than any time in the series history prior to March this year.



S&P Global Germany Composite PMI®

German business activity continues to fall, albeit at slower rate

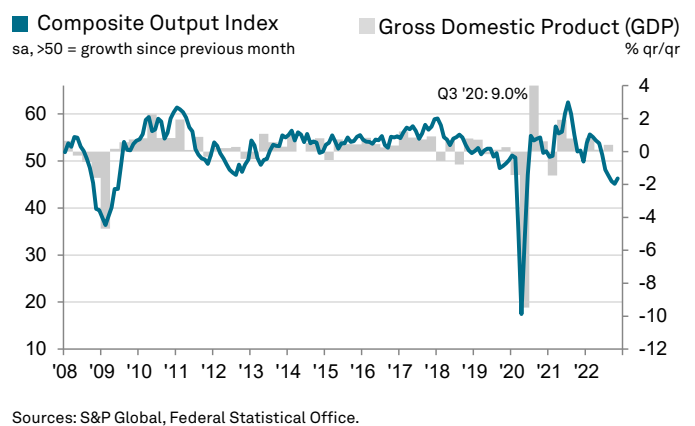
The S&P Global Germany Composite PMI Output Index* registered 46.3 in November, staying below the neutral 50.0 threshold to signal a further fall in business activity across the country's private sector. However, up from October's 45.1, the latest reading indicated a slower rate of contraction.

The result owed exclusively to a weaker reduction in manufacturing output. The decline in factory new orders also eased, although it remained sharp and contributed to a further steep drop in overall new business.

Total employment growth was unchanged from the modest pace seen in October. Additional workforce numbers in turn helped alleviate business capacity pressures, as evidenced by a solid and accelerated decline in outstanding work.

Turning to prices, latest data showed further steep, albeit slower, rises in both input costs and output charges. The increase in input costs was the least marked for a year-and-a-half.

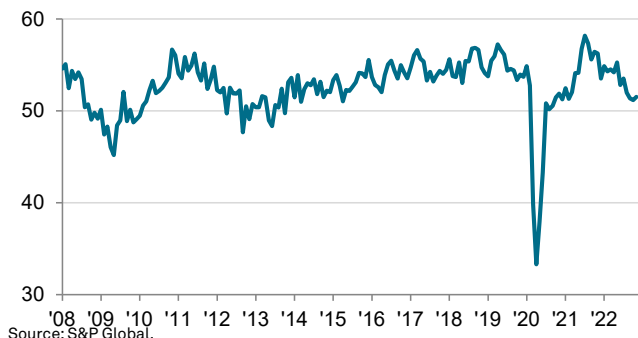
Business expectations remained pessimistic but improved further from September's recent low.



*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.

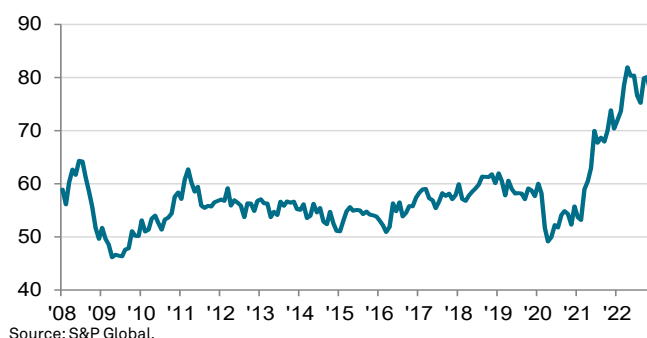
Germany Services PMI Employment Index

sa, >50 = growth since previous month



Germany Services PMI Input Prices Index

sa, >50 = inflation since previous month



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 86% 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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