

News Release

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S&P Global Germany Services PMI®

German service sector ekes out further marginal growth in February

Key findings

2023 begins with back-to-back marginal increases in activity

Expectations nudge higher amid slightly firmer demand

Cost pressures remain elevated, driven by rising wages

Germany's service sector saw marginal growth in business activity in February, marking back-to-back increases after the downturn observed during the second half of 2022, latest PMI® survey data from S&P Global showed. Firms saw demand pick up slightly during the month and were more optimistic about the outlook. Even so, the rate of job creation slowed.

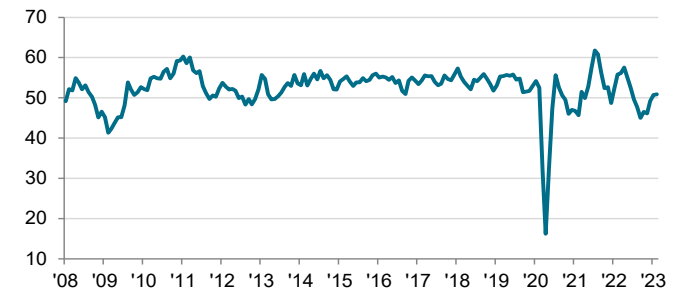
On the price front, latest data showed that the rate of output charge inflation eased to a 12-month low but was still historically elevated. Many businesses continued to pass on higher costs, which increased at a sharp and accelerated rate in February amid widespread reports of rising wage demands.

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 – registered 50.9 in February. This was up slightly from January's 50.7 and the second successive reading above the 50.0 threshold that separates growth from contraction. Where an increase in activity was recorded, this was often linked by surveyed businesses to increased confidence amongst clients and an associated improvement in demand.

Inflows of new work rose across the German service sector in February. The increase was only modest, but it nevertheless ended a sequence of continuous decline stretching back to June last year. Whilst external demand continued to act as a drag, reflecting challenging international market conditions, the decline in new export business eased to the weakest for six months.

The amount of outstanding business at German service providers rose – albeit only marginally – for the first time in six months in February, pointing to some additional pressure on operating capacity. Firms took on additional staff during the month, but the pace at which they did so slowed notably

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



Source: S&P Global.
Data were collected 10-23 February 2023.

Comment

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

"After contracting markedly in the final quarter of last year, the service sector has made an encouraging start to 2023, recording back-to-back marginal increases in activity. It remains to be seen whether this is enough to prevent a second consecutive quarterly fall in GDP – and therefore a technical recession – but it does show that the German economy is now on a more stable footing, which is a better situation than many were expecting not too long ago.

"A degree of confidence has returned to the economy due to the easing of energy-price and recession concerns, which has helped support demand. That said, whilst inflows of new business at services firms rose for the first time in nine months in February, the increase was only marginal, indicating that there's little growth momentum to speak of as yet.

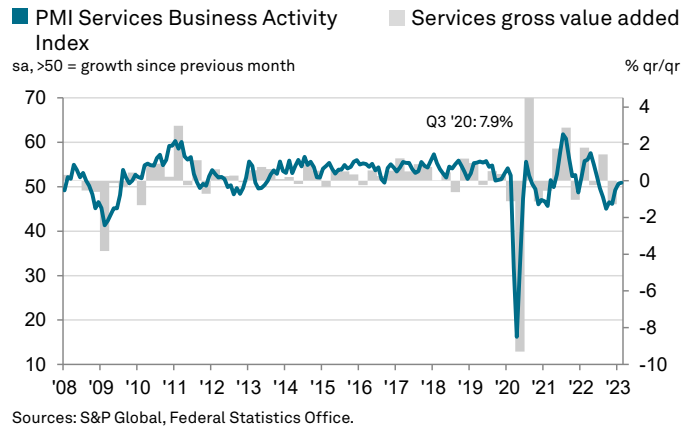
"Inflation continues to run high, with a particular degree of stickiness in the service sector, where costs and selling prices are still rising at some of the quickest rates on record due in part to growing pressure from wage demands. However, there are signs that firms' willingness to expand employment is waning, as underscored by a slowdown in service-sector job creation to a near-two-and-a-half year low in February, which should help contain wage-price spiral pressures somewhat."

from the previous survey period. The rate of employment growth was in fact only marginal and the weakest recorded for almost two-and-a-half years.

Turning to prices, latest data showed a further sharp, albeit slower, rise in average charges set by German services providers in February. The rate of selling price inflation eased for a fifth straight month to the weakest for a year. That said, it remained higher than at any time in the series history prior to last March.

Higher output prices predominantly reflected the pass-through of increased input costs by businesses, as they looked to protect margins. The rate of inflation in input costs was sharp by historical standards and even accelerated from January, when it had dipped to a 16-month low. Wage demands were widely cited as a source of cost pressure by surveyed businesses, alongside elevated energy prices and high inflation generally.

Lastly, February's survey showed a further strengthening of business confidence among German services firms. Expectations continued to recovery from last September's recent nadir to reach the highest level for 12 months, as apprehension about the economic outlook and energy prices eased. Still, year-ahead growth forecasts remained notably weaker compared to those seen prior to Russia's invasion of Ukraine.



S&P Global Germany Composite PMI®

Private sector business activity shows marginal growth in February

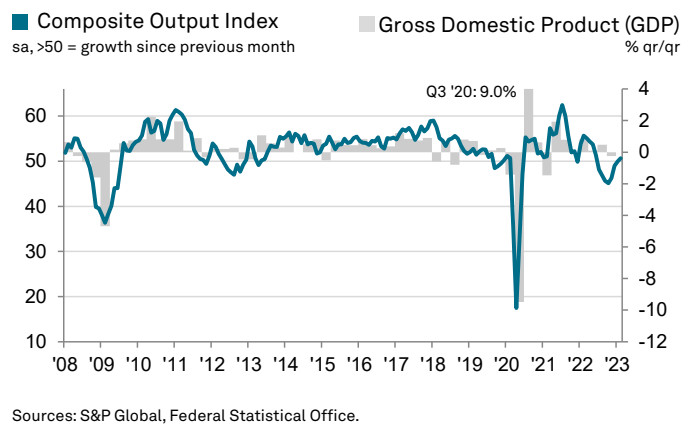
There was a slight increase in business activity across the Germany private sector in February, ending a seven-month sequence of contraction. This was signalled by the S&P Global Germany Composite PMI Output Index* moving above the 50.0 no-change mark, from 49.9 in January to 50.7.

Underlying sector data showed marginal growth in output across both manufacturing and services.

Overall inflows of new business fell once again, however, as a further (albeit slower) fall in manufacturing order books more than offset a slight rise in services new business.

Rates of both input cost and output price inflation meanwhile eased to multi-month lows, although they still remained elevated in a historical context.

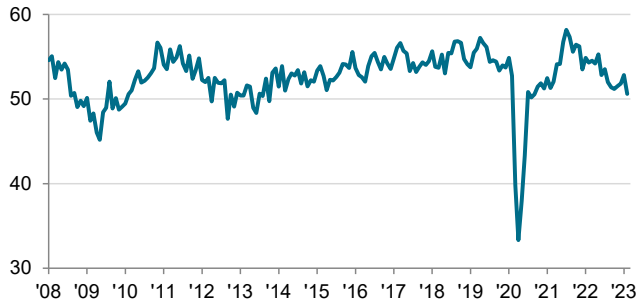
The pace of job creation lost notable momentum in February, slowing to its weakest in two years. This was despite a broad-based improvement in firms' expectations towards activity levels over the coming year.



*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

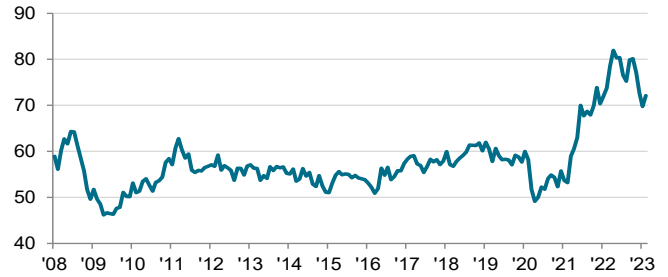
sa, >50 = growth since previous month



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 89% of final responses. Flash composite data were calculated from 93% 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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