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IHS MARKIT GERMANY SERVICES PMI®

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Service sector growth remains subdued amid ongoing weakness in demand

KEY FINDINGS

Business Activity Index at 51.6 in October, from September's three-year low of 51.4

Inflows of new work fall for second straight month

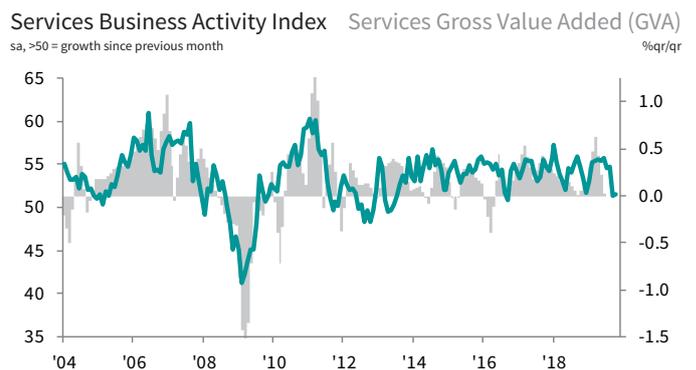
Job creation at 17-month low as expectations turn negative

Germany's service sector saw only modest growth in business activity in October, latest PMI® data from IHS Markit showed, with the performance among the weakest seen over the past six years amid an ongoing slump in demand. The pace of job creation meanwhile eased further from the highs seen earlier in the year as firms' expectations for future activity turned negative for the first time since late-2012.

The headline seasonally adjusted IHS Markit 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 51.6 in October. This was up slightly from September's three-year low of 51.4 (and above the preliminary 'flash' estimate of 51.2), but still one of the weakest readings seen since the current upturn began in mid-2013.

The consumer-focused 'Other Services' sub-sector was the best-performing area for business activity growth, followed closely by Financial Intermediation. The only broad category to see an outright contraction was Transport & Storage.

The modest overall rise in business activity in October belied a second straight monthly decrease in new orders. Panellists attributed the ongoing weakness in demand to a backdrop of uncertainty, which has led clients to exercise greater caution. Data meanwhile pointed to a further marked decrease in new work from abroad during the month.



Note: Services GVA data include retail, which is not included in the PMI.
Sources: IHS Markit, Federal Statistical Office

With inflows of new business remaining in decline, there was an increasing reliance on backlogs of work to support business activity growth. Indeed, the amount of outstanding business across the service sector fell for the third month in a row and at the fastest rate for almost five years.

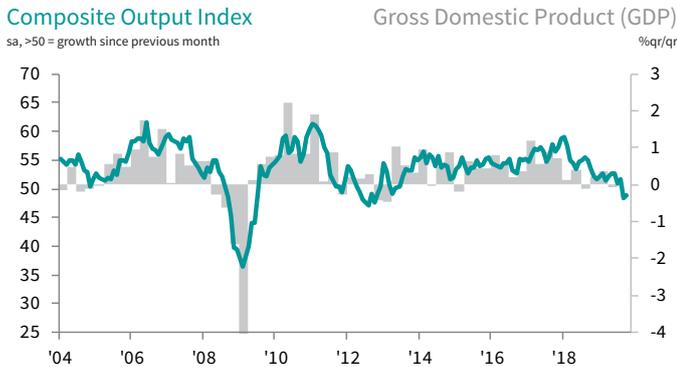
Evidence of easing capacity pressures was reflected in a further slowdown in the rate of job creation across the service sector in October. Though remaining above the historical average (beginning in 1996), the rate of employment growth was the weakest since May 2018 and below the average over the current six-year upturn in services payroll numbers.

Another factor weighing on hiring across the service sector in October was a reduction in firms' expectations towards future activity. For the first time in almost seven years, the number of businesses expecting activity to fall over the next 12 months exceeded those predicting growth. Anecdotal evidence highlighted growing concerns about the economy.

Elsewhere, latest data showed a strengthening of cost pressures across the service sector at the start of the fourth quarter. Input price inflation ticked up to a six-month high and moved further above the long-run average. Principal upward pressure on costs came from wages, fuel and energy prices, according to panel member reports. Service providers raised their charges accordingly, with the pace of inflation little-changed from the solid rate seen in September.

IHS MARKIT GERMANY COMPOSITE PMI®

Employment falls for first time in six years in October



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. The Germany Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index.

The Germany Composite Output Index registered 48.9 in October, up slightly from September's near seven-year low of 48.5 and signalling a modest contraction in activity for the second month in a row. The downturn in output remained centred on the manufacturing sector, where production fell at one of the fastest rates since mid-2009.

Demand for goods and services decreased again in October, with inflows of new business falling for the fifth time in the past six months, albeit more slowly than in September. New export business remained particularly weak.

After a prolonged slowdown in job creation across the private sector, employment finally fell in October. Though only marginal, the decrease in workforce numbers was the first for six years and represented a turnaround from the strong growth seen one year earlier. Job losses were confined to the manufacturing sector.

Backlogs of work fell for the twelfth month in a row in October – and across both monitored sectors – to suggest a general lack of pressure on capacity.

Elsewhere, latest data showed a further cooling of price pressures, with both input costs and output prices rising at the slowest rates since 2016. Above-trend rates of inflation in the service sector contrasted with sharp falls in manufacturing purchase prices and charges.

Pessimism towards future output was recorded at the start of the fourth quarter, with expectations weakening to the second-lowest since November 2012.

COMMENT

Commenting on the PMI data, Phil Smith, Principal Economist at IHS Markit said:

"Germany's service sector continues to grow, but only just and there are an increasing number of signs that the domestic economy is succumbing to the weakness in manufacturing. Lower demand was recorded by services firms for the second month in a row in October and, for the first time in almost seven years, expectations for future activity in the service sector have turned negative."

"Likewise, while firms in the service sector remain in hiring mode, the pace of job creation has more than halved in the space of six months and an accelerated rate of staff shedding across manufacturing means that overall employment is now in decline for the first time in six years."

"Based on these figures, the German economy looks set for another weak performance in the fourth quarter, with a further mild contraction in output not out of the question."

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Methodology

The IHS Markit Germany Services PMI® is compiled by IHS Markit 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.

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.

October 2019 data were collected 11-28 October 2019.

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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. To learn more go to [ihsmarkit.com/products/pmi.html](https://www.ihsmarkit.com/products/pmi.html).

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