

News Release

Embargoed until 2301 UTC 16 July 2023

S&P Global Germany Business Outlook

German businesses expecting weak growth over next 12 months, but also sticky wage pressures

Key findings

Positive outlook for service sector contrasts with pessimism among manufacturers

Output price expectations continue to cool, although they remain above pre-pandemic average

Profits expected to suffer amid persistent high wage pressures

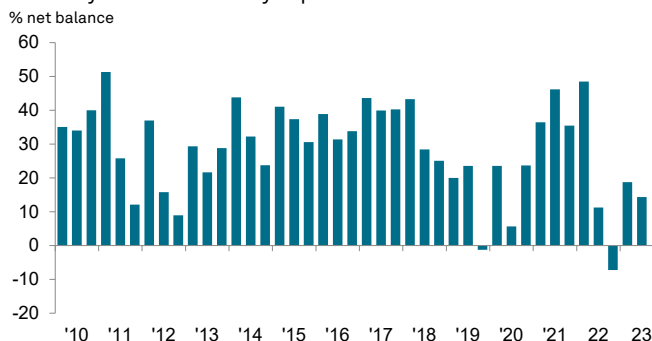
The latest S&P Global Business Outlook survey revealed muted growth expectations for the coming year among German businesses, with the country's manufacturers in particular facing a challenging period as they report plans for price cuts, layoffs and a reduction in investment spending. Price expectations have receded sharply from the record highs a year earlier, albeit they remain elevated in the service sector where costs, including wages, are expected to continue rising sharply.

The net balance of German firms forecasting a rise in business activity in the coming year was just +14% in June. This was down from +19% in the previous Business Outlook survey in February and less than half the historical series average of +29%. It was also the second-lowest among the countries monitored by the Global Business Outlook survey, ahead of only France's +13% and below the eurozone average of +19%.

Furthermore, underlying data showed varying degrees of confidence between the two main sectors of the economy. Germany's services firms were cautiously optimistic about the outlook, recording a net balance of +22% compared to a long-run average of +28%. They reported hopes of resilient demand in the months ahead and saw growth opportunities in digitalisation and the green economy. Cost increases, high inflation and staff shortages were cited as downside risks to the outlook, however.

By contrast, the country's manufacturers were more wary about future activity, as highlighted by a net balance of -1%, which was down from +17% in February and well below its long-run average of +31%. Goods producers cited concerns about competitive disadvantages due to high input costs relative their non-European competitors, alongside headwinds to demand from tighter financial conditions, geopolitical tensions and general customer hesitancy.

Germany Business Activity expectations



Source: S&P Global PMI.
Data were collected 12-27 June 2023.

Comment

Commenting on the Germany Business Outlook survey data, Phil Smith, Economics Associate Director at S&P Global Market Intelligence, said:

"Firms in Germany are expecting sluggish growth at best over the next year, according to the latest Business Outlook survey. Confidence has waned slightly from an already-low level in the opening quarter of the year, reflecting a more sombre mood among manufacturers compared to the situation back in February. Goods producers are anticipating a difficult next 12 months, citing concerns about competitive disadvantages due to high costs, political and economic uncertainty, and tightening financial conditions, and hence have signalled their intention to cut prices, lay off staff and rein in investment spending."

"Selling price expectations continue to retreat from last year's highs, led by a sharp downward trend in manufacturers' forecasts which have tipped into negative territory. Even so, sticky services price expectations are still a risk to core inflation, remaining more than twice as high as their pre-pandemic average and exceeding those in the manufacturing sector by the widest margin on record. Furthermore, wage pressures are expected to remain high in the coming year, which points to the continuation of second-round inflation effects."

Output price expectations ease despite sticky wage pressures

Firms' output price expectations decreased for the third survey in a row, taking them further from June 2022's record high (+52%) to the lowest since February 2021 (+22%). That said, they were still slightly higher than the series pre-pandemic average (October 2009 - February 2020) of +16%. Once again, there were contrasting expectations between manufacturers and service providers. Whilst goods producers forecast a fall in output charges for the first time in almost three years (-5%), services firms anticipated a further steep rise in prices charged, albeit with the respective net balance retreating further from last October's record high of +50% to +35%.

One area where expectations were aligned was staff costs, which were predicted to rise sharply over the coming year by both manufacturers (+77%) and services firms (+69%). At +72%, the overall net balance stayed close to the peak of +77% recorded between June-October 2022 and was the joint-highest (with the UK) among the 12 countries for which comparable data are available.

Non-staff costs were also widely forecast to rise, although the respective net balance receded more noticeably since the previous survey to the lowest since February 2021 (+45%), led by a decline in manufacturers' expectations (+46% to +24%).

Hiring in service sector set to support labour market

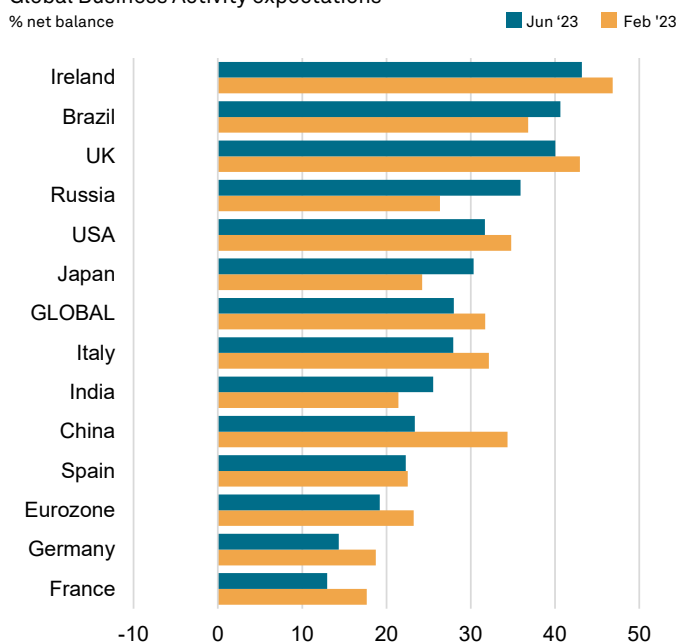
The net balance of firms planning to expand employment remained in positive territory, at +12%. This was down slightly from the previous (February) survey period and just below the series long-run average (both +14%). Whereas goods producers were expecting to trim workforce numbers (-6%), hiring intentions in the services sector were at their highest since early-2022 having recovered further from last October's recent low. The employment outlook for Germany was in line with both the eurozone and global averages.

Investment spending expected to broadly stagnate amid bleak outlook for profits

The outlook for capital expenditure (capex) across the eurozone's largest economy was less positive. A respective net balance of +2%, down from +7% in February, was in fact the lowest globally. Cautious optimism among services firms (+5%) contrasted with pessimism in the manufacturing sector (-6%). Goods producers (+5%) did at least expect to raise spending on research and development (R&D), contributing to a mildly positive overall outlook in this areas (+4%).

A lack of confidence towards investment coincided with a bleak outlook for profitability in the coming 12 months. The respective net balance fell deeper in negative territory, from -12% in February to -15%. Manufacturers were particularly downbeat about future profits (-29%).

Global Business Activity expectations



Source: S&P Global PMI.

Global Business Activity expectations

Change in % net balance, June '23 vs. Feb '23



Source: S&P Global PMI.

Full data available on request from economics@ihsmarkit.com.

Survey methodology

The Global Business Outlook Survey for worldwide manufacturing and services is produced by S&P Global and is based on a survey of around 12,000 manufacturers and service providers that are asked to give their thoughts on future business conditions. The reports are produced on a tri-annual basis, with data collected in February, June and October.

Interest in the use of economic surveys for predicting turning points in economic cycles is ever increasing and the Business Outlook survey uses an identical methodology across all nations covered. It gives a unique perspective on future business conditions from Global manufacturers and service providers.

The methodology of the Business Outlook survey is identical in all countries that S&P Global operates. This methodology seeks to ensure harmonization of data and is designed to allow direct comparisons of business expectations across different countries. This provides a significant advantage for economic surveillance around the globe and for monitoring the evolution of the manufacturing and services economies by governments and the wider business community.

Data collection is undertaken via the completion of questionnaires three times a year at four-month intervals. A combination of phone, website and email are used, with respondents allowed to select which mechanism they prefer to use.

The Business Outlook survey uses net balances to indicate the degree of future optimism or pessimism for each of the survey variables. These net balances vary between -100 and 100, with a value of 0 signalling a neutral outlook for the coming 12 months. Values above 0 indicate optimism amongst companies regarding the outlook for the coming 12 months while values below 0 indicate pessimism. The net balance figure is calculated by deducting the percentage number of survey respondents expecting a deterioration/decrease in a variable over the next twelve months from the percentage number of survey respondents expecting an improvement/increase.

Questionnaires are sent to a representative panel of around 12,000 manufacturing and services companies spread across the global economy*. Companies are carefully selected to ensure that the survey panel accurately reflects the true structure of each economy in terms of sectoral contribution to GDP, regional distribution and company size. This panel forms the basis for the survey. The current report is based on responses from around 8,000 firms.

**The countries with manufacturing and service sector surveys are Brazil, China, France, Germany, India, Italy, Japan, Russia, Spain, the Republic of Ireland, the UK and the USA. Manufacturing data are collected for the Netherlands, Austria, Greece, Poland and the Czech Republic.*

Contact

Phil Smith
Economics Associate Director
T: +44 149 146 1009
E: phil.smith@spglobal.com

Chris Williamson
Chief Business Economist
T: +44-20-7260-2329
M: +44-779-5555-061
E: chris.williamson@spglobal.com

Sabrina Mayeen
Corporate Communications
S&P Global Market Intelligence
T: +44-7967-447-030
sabrina.mayeen@spglobal.com

If you prefer not to receive news releases from S&P Global, please email katherine.smith@spglobal.com. To read our privacy policy, click [here](#).

About S&P Global

S&P Global (NYSE: SPGI) S&P Global provides essential intelligence. We enable governments, businesses and individuals with the right data, expertise and connected technology so that they can make decisions with conviction. From helping our customers assess new investments to guiding them through ESG and energy transition across supply chains, we unlock new opportunities, solve challenges and accelerate progress for the world.

We are widely sought after by many of the world's leading organizations to provide credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help the world's leading organizations plan for tomorrow, today. www.spglobal.com.

Disclaimer

The intellectual property rights to the data provided herein are owned by or licensed to S&P Global and/or its affiliates. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without S&P Global's prior consent. S&P Global shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall S&P Global be liable for any special, incidental, or consequential damages, arising out of the use of the data. Purchasing Managers' Index® and PMI® are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited and/or its affiliates.

This Content was published by S&P Global Market Intelligence and not by S&P Global Ratings, which is a separately managed division of S&P Global. Reproduction of any information, data or material, including ratings ("Content") in any form is prohibited except with the prior written permission of the relevant party. Such party, its affiliates and suppliers ("Content Providers") do not guarantee the accuracy, adequacy, completeness, timeliness or availability of any Content and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such Content. In no event shall Content Providers be liable for any damages, costs, expenses, legal fees, or losses (including lost income or lost profit and opportunity costs) in connection with any use of the Content.