

News Release

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S&P Global Germany Business Outlook

German economy expected to grow only slightly over the next year, weighed down by manufacturing malaise

Key findings

Business activity forecast to rise slowly in service sector; factory output expected to stagnate

Employment predicted to fall as manufacturers address overcapacity

Investment outlook darkens amid heightened business uncertainty

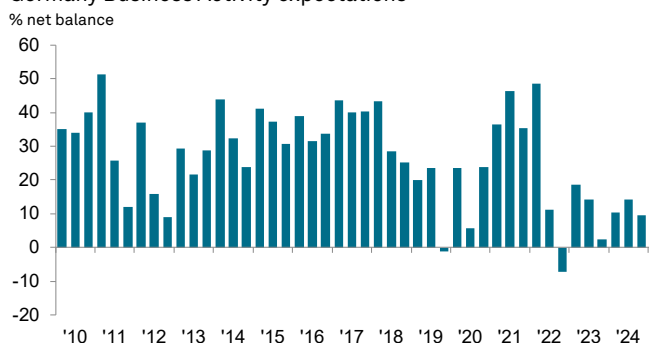
The German economy is expected to grow only slightly in the next 12 months, according to a survey of the country's firms. The latest S&P Global Business Outlook survey – compiled in October – showed that confidence in Germany towards future activity and investment was the lowest among the world's major economies, amid concerns over political uncertainty, high costs, international conflicts and a deteriorating trade position with China. Employment in the eurozone's largest economy was expected to fall due to job cuts in the manufacturing sector.

Data collected in October [10-28] showed that German firms anticipated that output levels would rise slightly over the next 12 months. At +10%, the net balance was down from +14% in June and compared with a long-run average of +27%. It was also the lowest among the 12 major economies for which comparable data are available, below readings of +14% for France, +15% for China and +19% for Japan.

Growth expectations in the German service sector were unchanged from the previous survey (net balance at +15%), continuing to run below the historical series average (+27%). The fall in the headline index since the summer thereby reflected a deterioration in sentiment in the manufacturing sector, where the proportion of firms predicting a decrease in output matched those forecasting a rise.

Political uncertainty, both at home and abroad, weighed on confidence, reports from surveyed firms showed [note that data were collected before both the US Presidential Election result and the break-up of the German Government]. The ongoing wars in Ukraine and the Middle East were also viewed as threats to the growth outlook, alongside competitive disadvantages associated with the high cost of energy and labour. In addition, firms cited risks to exports not only from a rise in global protectionism but also weaker sales to China.

Germany Business Activity expectations



Source: S&P Global PMI.

Data were collected 10-28 October 2024.

Comment

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

"The S&P Global Business Outlook survey is the latest in a growing list of publications showing that the German economy is expected to see little growth next year. The outlook for Germany's manufacturing sector is particularly bleak, reflecting a range of concerns that include potential trade barriers and the health of the car industry."

"The German labour market is already showing signs of being on the ropes, and it seems there are several more hits to come as manufacturers address their overcapacity in 2025. Job creation in the service sector will cushion the blows only somewhat."

"The pattern of underinvestment in Germany looks set to continue, with firms signalling their intention to cut both capital expenditure and R&D spending amid a backdrop of heightened business uncertainty."

"The survey shows the prospect of still-strong wage growth, alongside lower interest rates. However, the uncertainty around the economy, the political situation and ultimately the jobs market could counteract any boost to disposable incomes if consumers favour saving over spending."

Manufacturing lay-offs set to drive down employment

German goods producers once again signalled their intention to reduce workforce numbers over the next 12 months. Moreover, the respective net balance fell notably from -10% in June to -23%, its lowest since the early stages of the COVID pandemic in 2020. Although service providers planned to remain in hiring mode, the employment net balance was the joint-lowest in more than four years, down from +12% in June to +2%. This partly reflected concerns about shortages of suitably skilled staff.

Staff costs expected to rise strongly, with firms' pricing intentions just above the pre-COVID trend

With services firms maintaining a preference for greater staffing capacity, they envisaged strong upward pressure on labour costs over the next 12 months. The respective net balance even ticked up to its highest for a year (to +65%) and moved further above its long-run average (+51%). Most manufacturers also anticipated a rise in average staff costs, linked in part to collective bargaining agreements, although the respective net balance slipped to its lowest since early 2021 (+59% from +61% in June).

In comparison to wages, other costs were expected to increase more slowly. Across the two sectors combined, the weighted net balance of businesses forecasting inflation in non-staff costs was +37%, which was the lowest seen since late 2020.

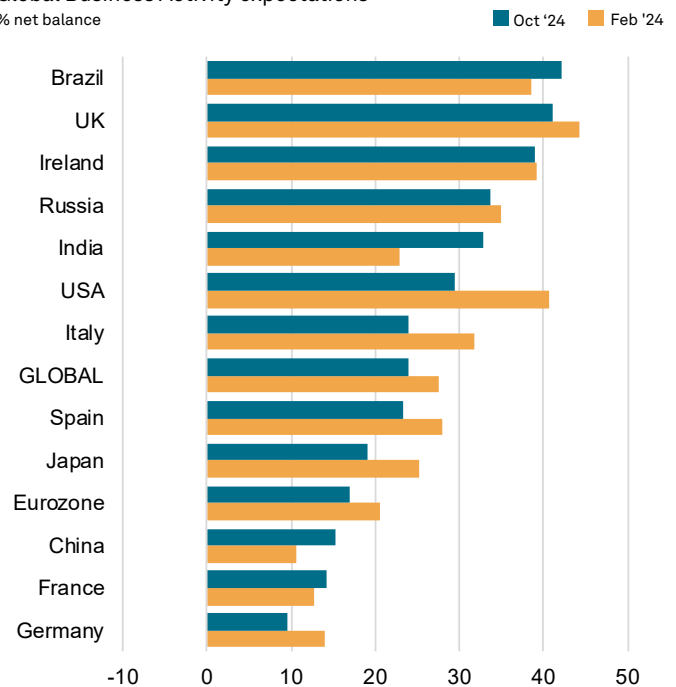
Firms' pricing intentions for the next 12 months were slightly stronger in October than those recorded in June. At +19%, up from +16%, the net balance of companies planning to raise charges was just above the long-run average recorded before the pandemic (+16%). The uptick in output price inflation forecasts was driven by the service sector, with the manufacturing net balance falling from +3% in June to 0%.

Cutbacks to investment signalled as firms flag profit warnings

Amidst a backdrop of business uncertainty, German companies signalled plans to reduce both capital expenditure (capex) and spending on research and development (R&D) in the forthcoming year. The net balance for capex sank deeper into negative territory from -6% in June to -12%. The result was driven by both monitored sectors. The net balance for R&D spending meanwhile slipped from 0% to -5%, with manufacturers and services firms almost equally downbeat about the outlook in this area.

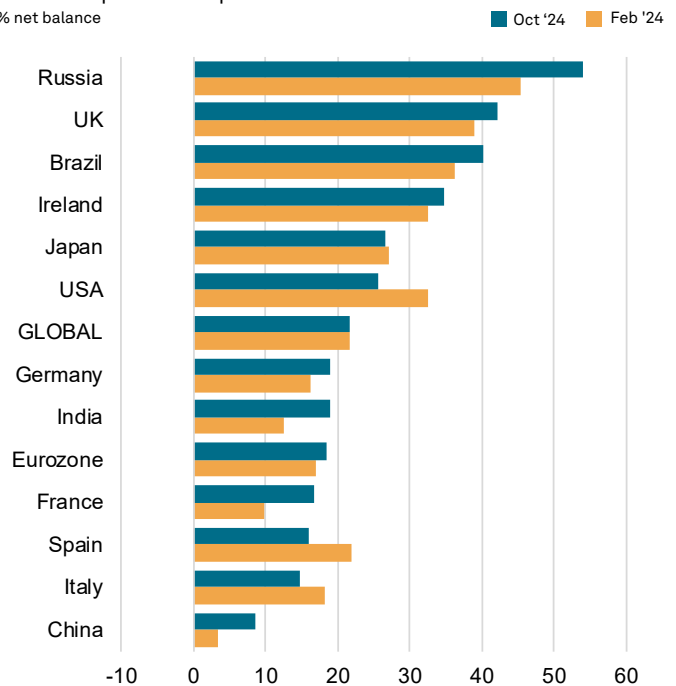
The expected cutbacks to investment tallied with profit warnings from businesses. Manufacturers were particularly pessimistic about the outlook for profits over the next 12 months, and even more so than in June (net balance at -27% from -23%). Services firms, on the other hand, were less downbeat than they were mid-way through the year (-7%, up from -11%).

Global Business Activity expectations
% net balance



Source: S&P Global PMI.

Global Output Price expectations
% net balance



Source: S&P Global PMI.

Full data available on request from economics@spglobal.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.*

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