

FINGERS CROSSED FOR THE SERVICE PROVIDERS

Up until now, the service sector has proven to be a pacesetter for the entire economy. However, the new coronavirus is threatening to slow down its pace.

The economy has been advancing at two speeds for several quarters. Industry and manufacturing have been moving at a slow pace. Since mid-2018, their course has been hampered by the trade conflict, a declining demand for cars, weakening capital goods orders and Brexit. The service sector, which was progressing briskly, has been a quite different story.

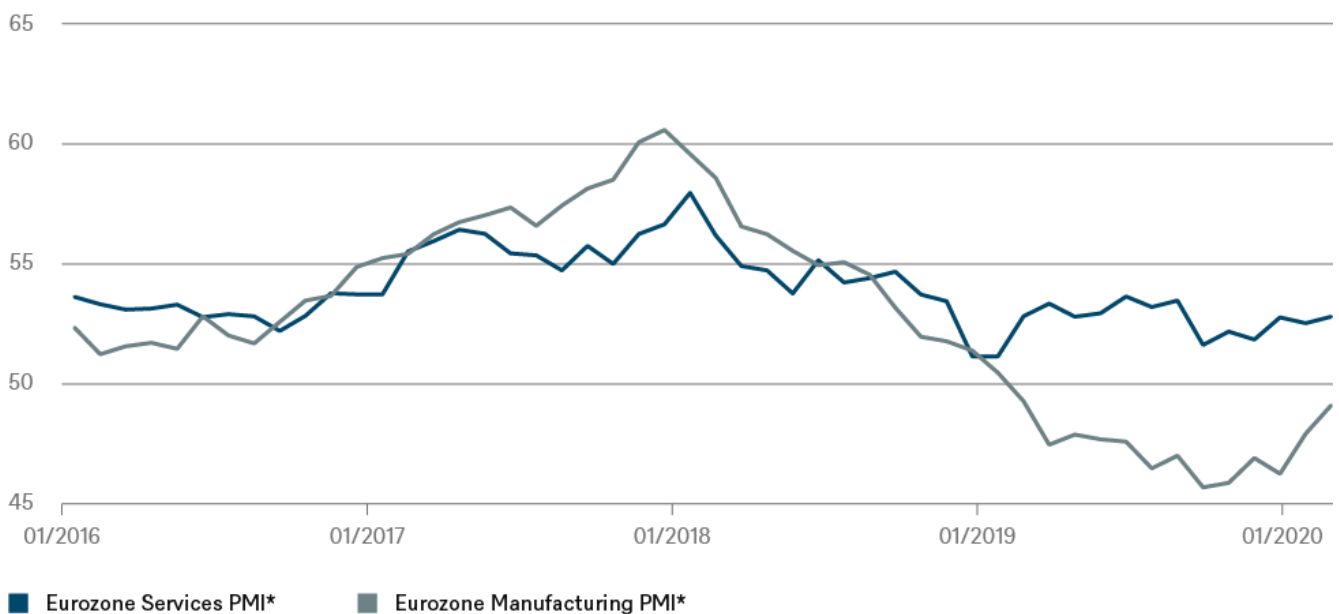
The two different tempos are also reflected in the sentiment indicators. Take, for example the purchasing manager indices (PMIs), as our "Chart of the Week" shows. The strength of services prevented many economies from slipping into recession, including Germany, where the industrial sector has an above-average weight.

An improvement in sentiment in the industrial sector has been evident for several months. An increasing demand for cars and the ceasefire in trade between the United States and China have certainly helped. There was therefore a slightly faster kick at the turn of the year.

But instead of the industrial sector emulating the higher speed of the service providers, there is now fear that exactly the opposite might happen, with service providers slowing down. The coronavirus turns out to have thrown quicksand into the gears of the global economy. Many service providers have been severely afflicted. Airlines, tourism, gastronomy, cultural and sports organizers are only the most obvious victims.

The economic data published so far already showed the first signs of a slowdown in the Far East. The first week of March is likely to be particularly revealing for the rest of the world. The business-confidence surveys that will be published then, should give a better sense of the extent to which the service providers are initially pacing the global economy. In any case, industry is not expected to maintain the momentum of its recent acceleration.

index points



Sources: Refinitiv, DWS Investment GmbH as of 2/26/20
*Purchasing Managers Index

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GLOSSARY

Brexit is a combination of the words "Britain" and "Exit" and describes the exit of the United Kingdom of the European Union.

The **Purchasing Managers Index (PMI)** is an indicator of the economic health of the manufacturing sector in a specific country or region.

A **recession** is, technically, when an economy contracts for two successive quarters but is often used in a looser way to indicate declining output.

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