

Purchasing Managers' Index[®]
MARKET SENSITIVE INFORMATION
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IHS Markit Flash Germany PMI[®]

German business activity growth remains subdued in January

Key findings:

- Flash Germany PMI Composite Output Index⁽¹⁾ at 52.1 (51.6 in Dec). 2-month high.
- Flash Germany Services PMI Activity Index⁽²⁾ at 53.1 (51.8 in Dec). 2-month high.
- Flash Germany Manufacturing PMI⁽³⁾ at 49.9 (51.5 in Dec). 50-month low.
- Flash Germany Manufacturing Output Index⁽⁴⁾ at 50.2 (51.5 in Dec). 69-month low.

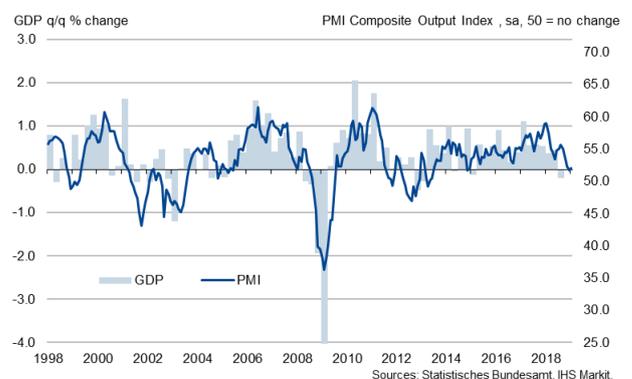
Data collected January 11-23

Business activity growth across Germany's private sector recovered slightly in January, though was still among the weakest seen over the past four years, according to the latest PMI[®] data from IHS Markit. Meanwhile, the survey's measures of new orders and job creation worsened, with inflows of new business shown to have declined for the first time in over four years and employment growth easing to the slowest since December 2016.

On the price front, latest data showed a further softening of underlying cost pressures, with input price inflation pulling back to a 17-month low.

Having slumped to a 66-month low of 51.6 in December, the **IHS Markit Flash Germany Composite Output Index** recovered slightly in January to register a reading of 52.1. Nevertheless, the implied rate of growth was still the second-slowest since December 2014. The modest uptick in the index at the start of the year was led by a solid and accelerated expansion in service sector business activity. Manufacturing output, on the other hand, barely rose, with the rate of growth being the slowest recorded since the current sequence of expansion began more than five-and-a-half years ago.

IHS Markit Germany Flash PMI



Notably, January's survey data showed a decrease in overall **inflows of new business** – the first such decline since December 2014. This mainly reflected a deepening downturn in manufacturing order books, which contracted for the fourth successive month and at the quickest rate for over six years. Continued weakness across the autos industry, lower demand in overseas markets (particularly China) and heightened uncertainty were all highlighted as factors. **New export orders** fell at an accelerated rate across both monitored sectors during the month. In the case of services, this partially offset increased domestic market demand and resulted in the slowest overall rise in new business in the sector since June 2015.

The slowdown in inflows of new work in January was reflected in a further decrease in **outstanding business**, the third in as many months. The rate at which backlogs were depleted was unchanged from the solid pace recorded in the previous survey period.

With pressure on business capacity continuing to soften, January saw a further slowdown in the rate of job creation to the weakest seen for over two

years. That said, the pace of **employment** growth was still comfortably above its long-run average (since 1998) as both service providers and manufacturers added to their payroll numbers during the month.

Business confidence towards the year-ahead outlook for activity remained relatively subdued in January. Though improving slightly since December, driven by stronger expectations among services firms, the degree of optimism was still the second-lowest seen over the past four years.

The rate of **input cost inflation** across Germany's private sector eased to its weakest for almost one-and-a-half years in January. Though service providers reported a steeper rise in operating expenses during the month, linked in part to increased toll charges and wage pressures, this was more than offset by a slowdown in manufacturing purchase price inflation to a 27-month low. Here, there were reports of lower oil and steel prices weighing on overall cost increases.

Average prices charges for goods and services meanwhile increased at a marked rate that was the quickest since last October. Rates of inflation were broadly similar across both monitored sectors.

Finally, January saw the **IHS Markit Flash Germany Manufacturing PMI** slip below the 50.0 'no-change' mark to 49.9, indicating the first (albeit only fractional) deterioration in overall business conditions in the sector since November 2014. The slippage since December (51.5) reflected not only weaker trends in output and new orders but a considerable moderation in supply chain pressures. The increase in input lead times in January was the least marked since July 2016.

Comment

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

"The Germany PMI broke its recent run of successive falls in January thanks to a stronger increase in service sector business activity, but the growth performance signalled by the index was still one of the worst over the past four years."

"Worryingly for the outlook, the recent soft patch in demand continued into the New Year. Firms are also showing greater caution towards hiring with job creation at a 25-month low, though in a historic context these are still healthy employment figures."

"Manufacturing fell into contraction in January as the sector's order book situation continued to worsen, showing the steepest decline in incoming new work since 2012. Weakness in the auto industry was once again widely reported, as was a slowdown in demand from China."

"Manufacturers saw some respite in the form of weaker cost pressures, as the rate of input price inflation in the sector cooled to a 27-month low, partly due to the recent correction in oil prices. Service providers, meanwhile, highlighted the impact of wage pressures which contributed to steeper increases in both their overall costs and selling prices."

-Ends-

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Note to Editors:

Final January data are published on 1 February for manufacturing and 5 February for services and composite indicators.

The Germany PMI (Purchasing Managers' Index) is produced by IHS Markit and is based on original survey data collected from a representative panel of around 800 companies based in the German manufacturing and service sectors. The flash estimate is based on around 85% of total PMI survey responses each month and is designed to provide an accurate advance indication of the final PMI data.

The average differences between the flash and final *PMI* index values (final minus flash) since comparisons were first available in January 2006 are as follows (differences in absolute terms provide the better indication of true variation while average differences provide a better indication of any bias):

Index	Average difference	Average difference in absolute terms
Germany Composite Output Index ¹	0.0	0.4
Germany Manufacturing <i>PMI</i> ³	0.0	0.3
Germany Services Business Activity Index ²	-0.1	0.6

The *Purchasing Managers' Index*[®] (*PMI*[®]) survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries (including the European Central Bank) use the data to help make interest rate decisions. *PMI*[®] surveys are the first indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

IHS Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from IHS Markit. Please contact economics@ihsmarkit.com.

Notes

1. The Composite Output *PMI* is a weighted average of the Manufacturing Output Index and the Services Business Activity Index.
2. The Services Business Activity Index is the direct equivalent of the Manufacturing Output Index, based on the survey question "Is the level of business activity at your company higher, the same or lower than one month ago?"
3. The Manufacturing *PMI* is a composite index based on a weighted combination of the following five survey variables (weights shown in brackets): new orders (0.3); output (0.25); employment (0.2); suppliers' delivery times (0.15); stocks of materials purchased (0.1). The delivery times index is inverted.
4. The Manufacturing Output Index is based on the survey question "Is the level of production/output at your company higher, the same or lower than one month ago?"

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