

Purchasing Managers' Index®
MARKET SENSITIVE INFORMATION
EMBARGOED UNTIL 0930 (CEST) / 0730 (UTC) October 24 2018

IHS Markit Flash Germany PMI®

German business activity growth slows to near three-and-a-half year low in October

Key findings:

- Flash Germany PMI Composite Output Index⁽¹⁾ at 52.7 (55.0 in Sep). 41-month low.
- Flash Germany Services PMI Activity Index⁽²⁾ at 53.6 (55.9 in Sep). 5-month low.
- Flash Germany Manufacturing PMI⁽³⁾ at 52.3 (53.7 in Sep). 29-month low.
- Flash Germany Manufacturing Output Index⁽⁴⁾ at 51.0 (53.2 in Sep). 47-month low.

Data collected October 12-23

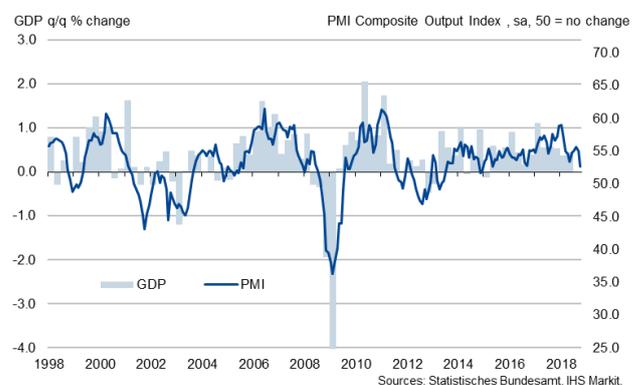
Business activity in the German private sector grew at the slowest rate for almost three-and-a-half years in October, according to the latest PMI® survey data, with both the manufacturing and service sectors showing notable losses of momentum at the start of the fourth quarter.

The pace of job creation at German businesses remained relatively solid. However, the survey's more forward-looking indicators showed some downside risks to future employment growth, with order books barely rising in October and business confidence sinking to its weakest in four years.

October saw the **IHS Markit Flash Germany Composite Output Index** slip from 55.0 in September to 52.7, its lowest reading since May 2015. The drop in the index, to a level below its long-run average (53.4), reflected weaker increases in both services business activity and manufacturing output. In the case of the former, growth eased to a five-month low (although was still solid overall), while goods production expanded at a marginal rate that was the weakest in almost four years.

The slowdown in business activity growth in

IHS Markit Germany Flash PMI



October was partly attributable to a weaker trend in **new orders**, which displayed the smallest monthly rise since June 2015. New order growth in the service sector slowed sharply since September to the weakest since May. Manufacturing order books, meanwhile, fell into contraction for the first time in almost four years, with a number of panellists commenting on fewer orders from clients in the car industry. Demand from abroad also softened, which was reflected in a second straight monthly decrease in manufacturers' **new export orders**.

Concerns towards trade wars, the threat of tariffs, Brexit uncertainty and wider geopolitical worries all weighed on **business confidence** at the start of the fourth quarter. Expectations among firms towards the outlook for activity over the next 12 months were the lowest for four years. Sentiment waned in the service sector to a three-year low (although remained positive overall), while manufacturers reported overall pessimism towards the outlook for the first time in four years.

Backlogs of work – the amount of orders received but not yet completed – were meanwhile broadly unchanged in October. This followed growth in

outstanding business in each of the previous 28 months. As was the case in September, a modest rise in service sector backlogs contrasted with a reduction in the amount of work-in-hand at manufacturers.

October's flash survey results indicated another solid round of job creation across Germany's private sector, to continue the trend of rising **employment** seen since late-2013. The rate of workforce growth pulled back further from August's recent peak, although it remained elevated in the context of the survey's long-run history. Both service providers and manufacturers made notable contributions to the overall increase in private sector employment, though in the case of the goods-producing sector the rate of job creation was at its lowest in over one-and-a-half years.

On the price front, latest data indicated the continuation of strong inflationary pressures across the German private sector. **Input costs** faced by businesses rose sharply during the month, with the survey's anecdotal evidence emphasising the impact of higher oil prices on the cost of fuel and transport in general. The increase in input prices reported by services firms was in fact the steepest seen in over seven-and-a-half years.

Accordingly, efforts made by businesses to protect profit margins led to a further sharp increase in average **prices charged** for goods and services in October. However, there was a divergence in rates of inflation at the sector level. Prices charged by services by services firms showed the steepest monthly rise since the survey began in mid-1997, while the increase in factory gate charges was the least marked since August 2017.

Finally, the **IHS Markit Flash Germany Manufacturing PMI** sank to a 29-month of 52.3 in October, from 53.7 in September. As well as output, new orders and employment, the survey's measures of stocks of purchases – which showed a renewed decline in inventories – and supplier delivery times also had a downward effect on the headline index in October.

Comment

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

“October's flash PMI results made for unpleasant reading, with data showing slowdowns in rates of growth across all the main measures of business performance: output, new orders and employment. The rise in overall business activity was the weakest in almost three-and-a-half years, reflecting not only a further easing of manufacturing production growth, but also a slowdown in the previously steadfast service sector.

“Growth in the manufacturing sector has been slowing for some time now, so it isn't surprising to see that weakness spilling over into services given the interconnectivity between the two.

“Notably, manufacturing order books fell into contraction at the start of the final quarter following almost four years of uninterrupted growth. The survey's anecdotal evidence highlighted the car industry as an area of weakness, while also indicating a further pullback in orders from abroad.

“There was also a squeeze on demand from higher selling prices during the month, with the increase in service sector charges the steepest seen in over two decades of data collection.

“German businesses have lowered their expectations for activity in line with slower growth and a worsening global backdrop, with manufacturers in particular concerned about the outlook for output over the next 12 months.”

-Ends-

For further information, please contact:

IHS Markit

Phil Smith, Principal Economist
Telephone +44-1491-461-009
Email: phil.smith@ihsmarkit.com

Joanna Vickers, Corporate Communications
Telephone +44207 260 2234
Email joanna.vickers@ihsmarkit.com

Note to Editors:

Final October data are published on 2 November for manufacturing and 6 November 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?"

About IHS Markit (www.ihsmarkit.com)

IHS Markit (Nasdaq: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates. All other company and product names may be trademarks of their respective owners © 2018 IHS Markit Ltd. All rights reserved.

If you prefer not to receive news releases from IHS Markit, please email joanna.vickers@ihsmarkit.com. To read our privacy policy, [click here](#).

About PMI

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 <https://ihsmarkit.com/products/pmi.html>.

The intellectual property rights to the Flash Germany *PMI*® provided herein are owned by or licensed to IHS Markit. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without IHS Markit's prior consent. IHS Markit 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 IHS Markit 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. IHS Markit is a registered trademark of IHS Markit Ltd. and/or its affiliates.