

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

German economy continues to underperform in August

Key findings:

- Flash Germany PMI Composite Output Index⁽¹⁾ at 51.4 (Jul: 50.9). 2-month high.
- Flash Germany Services PMI Activity Index⁽²⁾ at 54.4 (Jul: 54.5). 7-month low.
- Flash Germany Manufacturing PMI⁽³⁾ at 43.6 (Jul: 43.2). 2-month high.
- Flash Germany Manufacturing Output Index⁽⁴⁾ at 45.8 (Jul: 44.2). 2-month high.

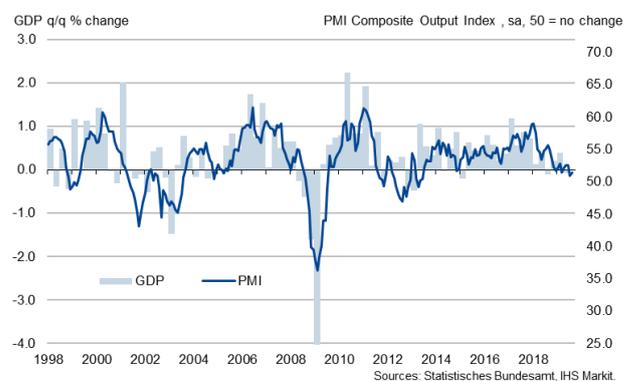
Data collected August 12-21

The German economy continued to underperform in August, latest flash PMI data showed. Growth of service sector business activity was again countered by a marked fall in goods production, while overall job creation slipped to a five-year low. Worryingly for the outlook, total new orders sank deeper into contraction territory and firms' expectations towards future output turned negative for the first time since late 2014.

Elsewhere, PMI data pointed to a further softening of inflationary pressures, driven by further falls in both manufacturing input costs and output charges.

At 51.4 in August, the **IHS Markit Flash Germany Composite Output Index** – which is based on approximately 85% of usual monthly replies – was up slightly from 50.9 in July, but still pointed to one of the weakest performances over the past six years. Robust growth of service sector business activity kept the headline index above the 50.0 no-change mark, although it was a slower (but still marked) decrease in manufacturing output that was behind the slightly improved reading. As such, August also saw the **IHS Markit Flash Germany Manufacturing PMI** tick up from 43.2 in July to 43.6.

IHS Markit Germany Flash PMI



Total inflows of new business fell for the third time in four months in August. Furthermore, with intakes of new work at service providers rising only modestly and at the weakest rate in seven months, and manufacturing order books falling the most since April, the overall rate of decline was the quickest since April 2013. External demand remained particularly weak, with **new orders from abroad** falling across both monitored sectors.

Concerns about demand was one of several factors – alongside heightened uncertainty, weakness in the car industry and geopolitical tensions – behind a decrease in **business confidence** in August. For the first time in almost five years, the number of firms expecting output to fall over the next 12 months exceeded those predicting a rise, with sentiment the most negative overall since November 2012. By sector, the degree of optimism among service providers was the lowest since October 2014, while manufacturing expectations were the weakest since that series began in mid-2012.

August saw **backlogs of work** across Germany's private sector fall for the tenth month in a row. The rate of decline accelerated to the quickest since late-2012, as service providers joined manufacturers in

recording a decline in outstanding business for the first time in seven months.

The broad-based lack of pressure on capacity contributed to a further softening of **employment growth**, which eased to only a modest pace that was the weakest since August 2014. The latest rise in service sector workforce numbers was solid but the least marked since January, while the rate of decline in manufacturing employment accelerated to the quickest since July 2012.

The dichotomy between the manufacturing and service sectors also extended to price trends. While goods producers recorded a further sharp drop in input costs and a subsequent reduction in factory gate charges, sustained strong cost pressures at services firms underpinned another marked rise in output prices across that sector. With the weakness in manufacturing prevailing, **input cost inflation** was at a 38-month low, while **output charges** showed the smallest rise since October 2016.

Comment

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

“Germany remains a two-speed economy, with ongoing growth of services just about compensating for the sustained weakness in manufacturing. Although improving slightly, the survey’s output data haven’t changed enough to dispel the threat of another slight contraction in GDP in the third quarter, especially given the deterioration in the forward-looking indicators.

“The headline services business activity index has come down a touch but remains indicative of a robust pace of output growth in that sector. However, cracks are starting to appear elsewhere in the services data, with inflows of new work barely rising in August and business confidence at its lowest for almost five years. Manufacturing expectations have also taken a turn for the worse, and are now at a record low.

“The sustained weakness in demand continues to filter through to the jobs market. Employment growth has now almost stalled, reflecting falling capacity pressures and lower business confidence generally.”

-Ends-

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Note to Editors:

Final August data are published on 2 September for manufacturing and 4 September 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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