

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

Business activity up strongly in July, but employment continues to fall

Key findings:

- Flash Germany PMI Composite Output Index⁽¹⁾ at 55.5 (June: 47.0). 23-month high.
- Flash Germany Services PMI Activity Index⁽²⁾ at 56.7 (Jun: 47.3). 30-month high.
- Flash Germany Manufacturing Output Index⁽⁴⁾ at 53.2 (Jun: 46.6). 22-month high.
- Flash Germany Manufacturing PMI⁽³⁾ at 50.0 (Jun: 45.2). 19-month high

Data collected July 13-23

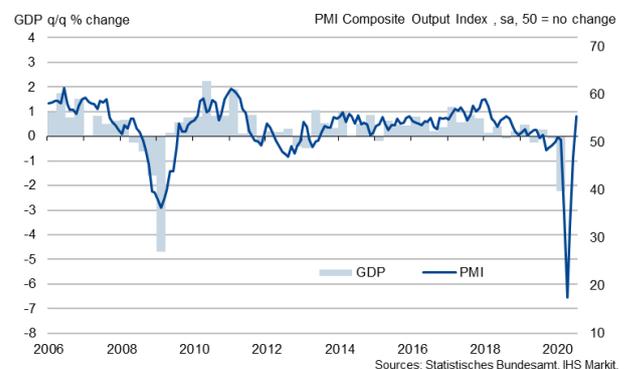
The recovery in the German economy remained on track in July, according to the latest 'flash' PMI® data from IHS Markit. Firms reported strong increases in both output and new orders, with business confidence also continuing to build. Nevertheless, data showed another manufacturing-led decrease in employment.

The **headline Germany Composite Output Index** rose sharply again in July, recovering further from a record low in April at the height of the lockdown measures related to the coronavirus disease 2019 (COVID-19) outbreak. At 55.5, up from June's 47.0, the index was above the 50.0 no-change threshold for the first time since February and was at its highest level overall in almost two years.

Many firms reported operating at higher capacity during the month, with activity supported by improved confidence among clients, increased travel and a general rise in new orders. A breakdown of the data by sector showed increases in activity across both manufacturing and services, with the latter recording the stronger rate of growth.

Like output, overall inflows of **new business** across the German private sector rose solidly in July, following a downturn that began in March. On this

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front, however, the upturn was led by manufacturing, where data showed new orders rising for the first time since September 2018 and at the fastest rate in almost two-and-a-half years. Manufacturers also recorded a solid rise in **export sales**, albeit with the rate of growth being slower than that of total factory orders. Goods producers noted strong demand from China, while the picture for Europe was also generally positive. New export business in the service sector meanwhile fell at the slowest rate since January.

Despite activity picking up, latest data suggested that firms in general still operated below full capacity, with **backlogs of work** falling for the twenty-first month in a row in July. That said, the pace of depletion slowed for the third month running and was only marginal overall, with manufacturers recording a stabilisation in work-in-hand.

Employment was down for the fifth month in a row in July. Though easing to the weakest in this sequence (thanks to a slight pick-up in hiring across the service sector), the overall rate of decline remained marked by historical standards amid further deep cuts to factory workforce numbers. The decline in manufacturing employment was in fact

slightly quicker than in June, as 30% of goods producers reported a drop in staff numbers.

Inflationary pressures meanwhile remained subdued at the start of the third quarter, with July seeing decreases in both firms' **input costs** and **output prices**. That said, the respective rates of decline were only marginal and the weakest for five months.

At the sector level, a slight rise in factory gate prices – the first since May 2019 – was offset by a further (albeit modest) drop in average charges on services. It was a contrasting picture for input costs, however, with service providers reporting higher operating expenses for a second straight month, while manufacturers recorded markedly lower purchase prices.

Turning to **business expectations for activity over the next 12 months**, latest data showed a further improvement in optimism, linked to hopes of a market recovery as COVID-19-related restrictions are potentially eased. Confidence was the joint-highest since September 2018, matching that seen at the very start of the year. By sector, expectations increased across both services and manufacturing, and remained stronger in the former.

Lastly, the **Flash Germany Manufacturing PMI** registered 50.0 in July. Though up from 45.2 in June and the highest since December 2018, this latest reading was well below both the output and new orders sub-components. This owed to steep and accelerated declines in both employment and stocks of purchases. Suppliers' delivery times, which improved marginally for the second month running, imparted little directional influence.

Comment

Commenting on the flash PMI data, **Phil Smith**, Associate Director at IHS Markit said:

“July’s PMI registered firmly in growth territory and well above expectations, in a clear sign that business conditions are improving across Germany as activity and demand recover. Furthermore, for an economy that is steered so much by exports, it was encouraging to see manufacturers reporting a notable upturn in sales abroad.

“However, one of the main concerns remains the labour market, and the ongoing cuts to manufacturing jobs in particular, with July even seeing a slight acceleration in factory job losses. That said, with backlogs among goods producers stabilising and business confidence continuing to improve, there’s some cause for encouragement that the decline in manufacturing employment will start to ease off in the coming months.”

-Ends-

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Note to Editors:

Final July data are published on 3 August for manufacturing and 5 August 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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