

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

Germany PMI drops to eight-month low in March

Key findings:

- Flash Germany PMI Composite Output Index⁽¹⁾ at 55.4 (57.6 in February). 8-month low.
- Flash Germany Services PMI Activity Index⁽²⁾ at 54.2 (55.3 in February). 7-month low.
- Flash Germany Manufacturing PMI⁽³⁾ at 58.4 (60.6 in February). 8-month low.
- Flash Germany Manufacturing Output Index⁽⁴⁾ at 57.5 (61.7 in February). 14-month low.

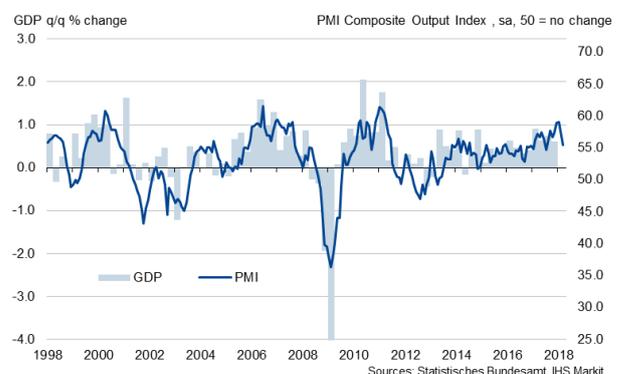
Data collected March 12-21

Latest *PMI[®]* survey data from IHS Markit showed a further slowdown in Germany's private sector, with business activity rising solidly but at the weakest rate for eight months in March. Nevertheless, employment continued to rise amid signs of ongoing capacity constraints, with firms also remaining strongly positive towards growth prospects in the year ahead.

The **IHS Markit Flash Germany Composite Output Index**, which is based on around 85% of usual monthly responses, registered a reading of 55.4 in March, down from 57.6 in February. Although remaining solid overall, growth has now softened in each of the past two months after having reached a near seven-year high in January. Services business activity rose at the slowest pace since last August, while manufacturing output showed the weakest increase in 14 months.

This slower expansion in factor output was reflected in a further correction in the **IHS Markit Flash Germany Manufacturing PMI**, which dipped from 60.6 in February to 58.4 in March, down for the third straight month and its lowest reading since July last year.

IHS Markit Germany Flash PMI



Demand for German goods and services also increased more slowly in March. **New order growth** remained solid overall and above the long-run trend (since January 1998), but eased for the third month running to its lowest since July 2017. The slowdown was largely due to a weakening trend in manufacturing order books, which rose at the slowest rate for nearly one-and-a-half years amid softer growth in **new export orders** (14-month low).

March saw another solid monthly increase in the level of private sector **employment** in Germany. The rate of job creation pulled back further from January's recent peak, but it remained close to the strong average seen during 2017. Firms mainly took on new staff in order to expand capacity, with latest data showing solid and accelerated increase in level of **backlogs of work**. There were a number of reports of difficulty in finding qualified staff, however.

A strongly positive outlook for the year ahead was another factor supporting job creation across the private sector. **Business confidence** remained elevated by historical standards despite having

moderated further from the end of last year. Business optimism eased in both the manufacturing and service sectors, falling back to its lowest for 18 months in the former.

On the price front, March saw a further strong increase in average **prices charged** for goods and services. The rate of inflation softened to a three-month low, but it remained higher than at any other point since April 2011.

Firms raised output prices amid sustained elevated cost pressures. Manufacturers in particular saw **input prices** rise sharply during the month, linked in part to an increase in the cost of raw materials, notably steel and wood products. There were also numerous reports from both goods producers and services firms of salary pressures leading to higher overall costs.

Raw material shortages and capacity bottlenecks in supply chains also helped to drive up manufacturers' purchase prices during the month, according to the survey's anecdotal evidence. Latest data in fact showed the greatest increase in **input lead times** since the series began in April 1996, just surpassing the previous record set in February.

Comment

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

"Growth in Germany's private sector has pulled back sharply since the start of the year, with the pace of expansion in March well below January's near seven-year high.

"However, with the strong expansions seen at the end of last year and in the opening months of 2018 already baked in, official numbers are expected to show robust GDP growth in the opening quarter. Latest IHS Markit forecasts show growth picking up from the somewhat disappointing 0.6% seen in the fourth quarter of 2017.

"Interestingly, the survey's anecdotal evidence also found an unusually high prevalence of staff sickness affecting business activity, to suggest that the extent of the slowdown in March might be partly due to temporary factors.

"It is manufacturing that has lost the most momentum, with growth in goods production slowing particularly sharply to its weakest since the start of 2017. The headline manufacturing PMI, however, is somewhat supported by the suppliers' delivery times component, which has hit a fresh record-low – its third in the past four months.

"Capacity pressures remain a theme, with firms noting not only bottlenecks in supply chains but also a solid and accelerated increase in backlogs of work. This bodes well for strong job creation continuing in the months ahead."

-Ends-

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Note to Editors:

Final March data are published on April 3 for manufacturing and April 5 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 1000 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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