

Purchasing Managers' Index®
MARKET SENSITIVE INFORMATION
EMBARGOED UNTIL 0930 (CEST) / 0730 (UTC) July 24 2017

IHS Markit Flash Germany PMI®

German private sector output growth eases in July

Key findings:

- Flash Germany PMI Composite Output Index⁽¹⁾ at 55.1 (56.4 in June). 6-month low.
- Flash Germany Services PMI Activity Index⁽²⁾ at 53.5 (54.0 in June). 6-month low.
- Flash Germany Manufacturing PMI⁽³⁾ at 58.3 (59.6 in June). 3-month low.
- Flash Germany Manufacturing Output Index⁽⁴⁾ at 58.0 (60.9 in June). 6-month low.

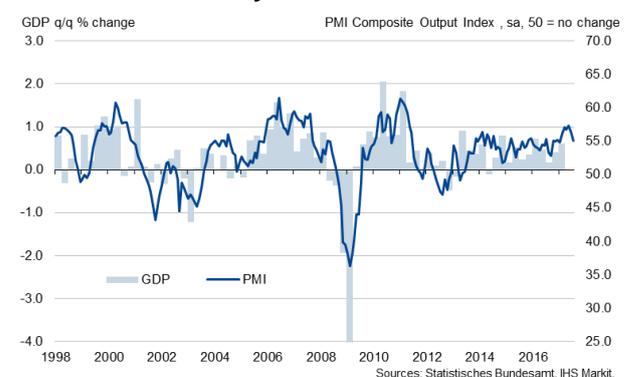
Data collected July 12-21

German private sector output growth slowed for the second month running in July but remained strong overall, according to flash *PMI*® survey data from IHS Markit. The overall rate of expansion was the weakest since January, a trend reflected in both manufacturing output and services business activity. Similarly, new business inflows increased at the softest rate since the start of 2017. That said, job creation quickened during the month and outstanding business continued to grow solidly, reflecting manufacturing backlogs. Moreover, firms remained as optimistic regarding output expectations in July as they had been in June.

The **IHS Markit Flash Germany Composite Output Index** registered 55.1 in July, down from 56.4 in June and indicating the slowest rate of expansion since January. That said, growth remained strong overall and above the long-run series average. Output has risen continuously since May 2013, the second-longest sequence of growth since the series started in January 1998.

Manufacturing output continued to expand at a faster rate than service sector activity. The pace of growth slowed to a six-month low, but was nonetheless sharper than those registered from May 2014 to January 2017. **Services output** also

IHS Markit Germany Flash PMI



increased at the weakest pace since January, and one that was broadly in line with the long-run survey average.

New business received by German private sector firms increased for the thirty-first consecutive month in July. The rate of expansion remained strong but, as with total activity, slowed to the weakest since January. New business at service providers rose at the softest pace since September 2016, while manufacturing new order growth reached a five-month low despite a slightly sharper increase in **new export contracts**. Manufacturers continued to report high demand from markets in both Europe and Asia.

Slower growth of manufacturing output and total new orders resulted in a fall in the **IHS Markit Flash Germany Manufacturing PMI** to a three-month low of 58.3, from June's 74-month high of 59.6. Nevertheless, the headline figure remained among the highest levels registered over the past six years.

Flash survey data on **employment** bucked the trend of slower growth observed in the output and new business indicators. The rate of private sector job creation accelerated slightly from June's six-

month low and remained historically sharp. Manufacturers continued to hire additional workers at a faster rate than their service sector counterparts, although it was the latter that generated the quickening in the overall pace of growth in July.

The volume of **outstanding business** in the German private sector continued to rise in July, despite the weaker increase in new work and faster jobs growth. The rate at which backlogs were accumulated was broadly in line with the trend shown over the first half of 2017. There was a divergence at the sector level, however, with marked growth of manufacturing backlogs contrasting with a slight decline in the service sector. Pressure on manufacturing capacity was underlined by the greatest lengthening in **suppliers' delivery times** since April 2011.

Cost pressures in the German private sector economy strengthened for the first time since March. **Input price** inflation accelerated slightly to the fastest since May, and remained strong in the context of historic survey data. Both manufacturing and services experienced slight increases in the rate of input price inflation during the month, with goods producers continuing to see stronger cost pressures than service providers. A number of manufacturers reported higher steel prices and raw material shortages.

In contrast to input prices, **output charges** levied by private sector firms rose at a slower pace in July. The rate of inflation eased to the weakest since November 2016, but remained strong overall.

The **Future Output Index** was little-changed from June's level, indicating that German firms remained strongly confident regarding expected output volumes in 12 months' time. Sentiment was only slightly down on the five-year series record high posted in May. Firms linked optimism to a strong domestic economy, the upcoming election, high demand for German manufactured goods, new clients and new products.

Comment

Commenting on the flash PMI data, **Trevor Balchin**, Senior Economist at IHS Markit said:

"The flash PMI signalled a further easing in the pace of German economic expansion entering the second half of 2017. Output and new orders both increased at the slowest rates since January, with new business in the service sector rising at the weakest pace in ten months.

"That said, the overall picture is one of strong underlying growth. The easing seen in July follows the strongest quarter in six years, and manufacturing continued to expand at a historically sharp rate. New export order growth in the goods-producing sector accelerated slightly and suppliers remained under substantial pressure.

"The employment data also strengthened in July, underpinned by faster job creation in services. This reflects ongoing positive sentiment generally, with the Future Output Index little-changed from its June level and remaining elevated. IHS Markit's full-year forecasts for GDP growth in both 2017 and 2018 remain at 2.0% in calendar-adjusted terms, the strongest since 2011."

-Ends-

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Note to Editors:

Final July data are published on August 1 for manufacturing and August 3 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	-0.1	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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