

Germany

Spring time heats up recovery in German industry

- **Strong growth momentum starts to crystallise in manufacturing sector...**
- **...supporting upbeat message from PMIs.**
- **Construction sector likely to see surge in activity after Q1 weather disruptions.**

Official data released last week showed a sharp 3.4% uptick in German manufacturing production, alongside a 5.0% increase in new orders over the month during March. This cements a very positive first quarter for the sector and highlights a reacceleration of manufacturing activity from the lows of 2009. However, the big picture emerging from official data in Germany has been slow to take shape this year, not least because official figures for February indicated that the rebound fell flat.

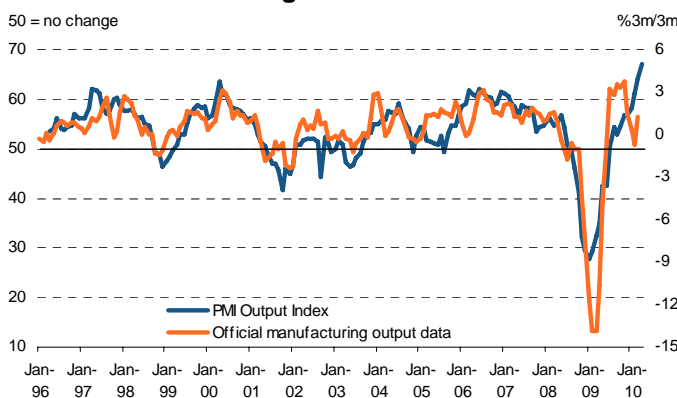
Frayed nerves have been soothed by the message from the Markit/BME Germany Manufacturing PMI, as the survey has provided consistent reassurance that a substantial manufacturing recovery remains on track. Specifically, German PMI data indicated strengthening output, new orders and exports throughout Q1 2010, followed by a record rise in production at the start of Q2.

The April PMI figures were collected prior to the recent bout of market turmoil related to European sovereign debt. We will therefore have to wait until 'flash' PMI data are released on 21st May 2010 for signs of any change to the impressive cyclical upswing currently under way in the real economy.

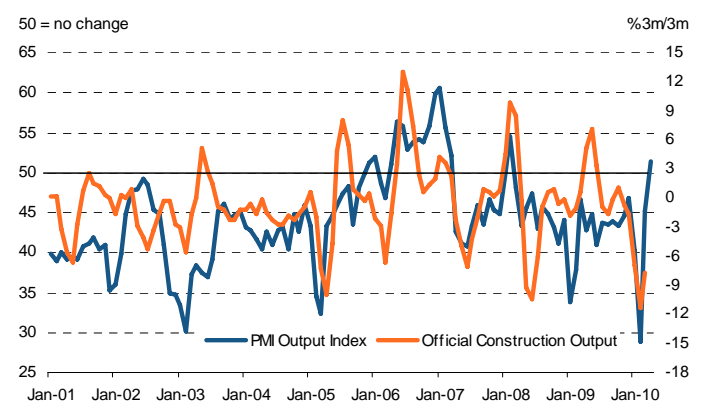
Improving global demand for industrial goods has been instrumental to the resurgent growth across the German manufacturing sector, with investment and intermediate goods producers the main beneficiaries. April PMI data pointed to the second-fastest expansion of new export orders in the survey's fourteen-year history. In another sign that business conditions are recovering in the sector, employment numbers increased for the first time since September 2008.

Hopes that the German economy will see strong growth in the second quarter also rest on an improvement in construction output. The sector was badly hit by disruptions caused by extreme weather in Q1. Despite picking up strongly in March, output on average over the quarter was 7.6% lower than in Q4 2008. A period of catching up on delayed projects is now expected, which will likely boost construction activity in Q2. April PMI data already highlight growth momentum in the sector, and the next set of construction PMI figures (released on 4th June 2010) will provide an insight into the strength of the rebound moving through the second quarter.

German Manufacturing PMI and official data



German Construction PMI and official data



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