

Germany

Manufacturing output set to rebound after fall in November

- **Surprise 0.6% fall in output in November.**
- **PMI data (which predicted the slowdown) suggests growth has since picked up again.**

Slower production growth

Data from the Federal Statistics Office showed German industrial production falling 0.7% in November. Manufacturing output fell 0.6% and construction by 1.1%. As the official data are very volatile month-to-month (for example, the 0.7% drop in industrial production followed a 3.0% rise in October), these declines should be treated with caution. However, even looking at the data for the latest three months compared to the previous three-month period, the quarterly rate of expansion in manufacturing output was just 2.0% in November. This was unchanged from October, but down sharply from a peak of 5.2% in May.

PMI gave advance warning of slowdown

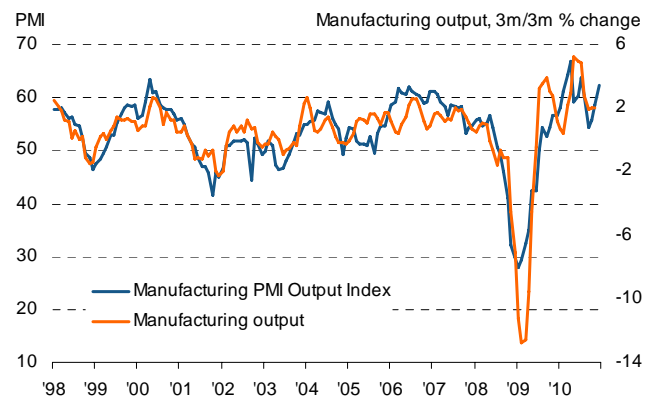
To see how concerned we should be about this easing, business survey data help to clarify the picture. First, this easing in the trend rate of growth was signalled in advance by the Markit/BME Manufacturing PMI. The Output Index from this survey (which measures month-on-month changes in production) hit a record high in April of last year and remained buoyant until August. The index then fell sharply in September, however, in marked contrast to the new record high seen in the equivalent IFO survey index. The divergence between these two surveys in September was in fact the greatest on record. However, the slowing in growth signalled by the PMI was subsequently confirmed by the official data.

Faster growth in December

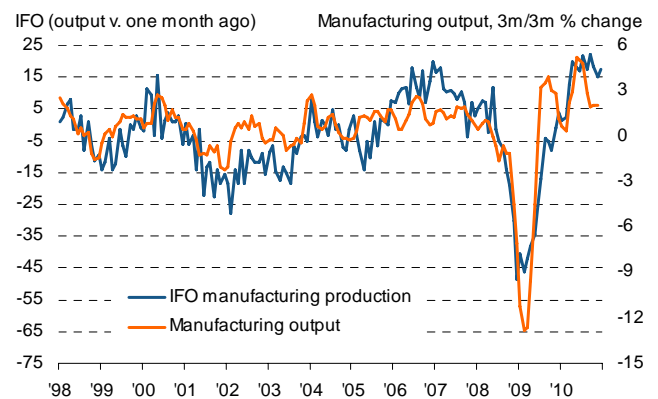
The fact that the PMI accurately predicted the autumn growth slowdown gives us confidence that the recent recovery in this index will soon translate into better news in future official data releases. The survey signalled one of the strongest expansions in output during its near 15-year history in December, albeit down on the highs seen earlier in 2010. We estimate from the PMI that

manufacturing output expanded at a quarterly rate of around 3-4% in December, ensuring the sector continued to make a strong contribution to GDP growth.

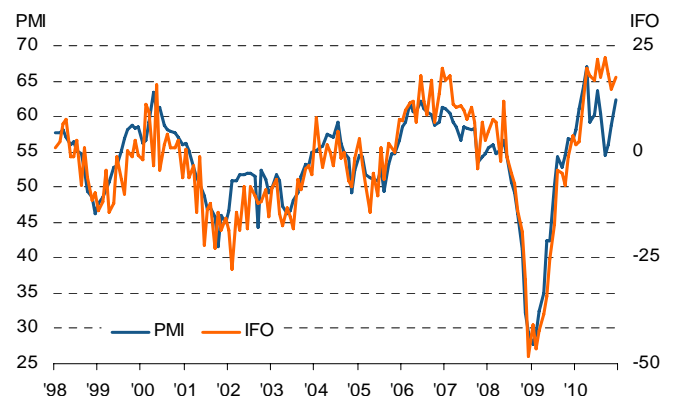
PMI v. official manufacturing output



IFO v. official manufacturing output



PMI and IFO manufacturing output (m/m)



Data sources: Markit, German FSO, IFO.

Chris Williamson

Chief Economist

Markit

Tel: +44 207 260 2329 / +44 779 5555 061

Email: chris.williamson@markit.com

For further information, please visit www.markit.com

The intellectual property rights to this report provided herein is owned by Markit Group Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Markit is a trademark owned by the Markit group.