

# Germany

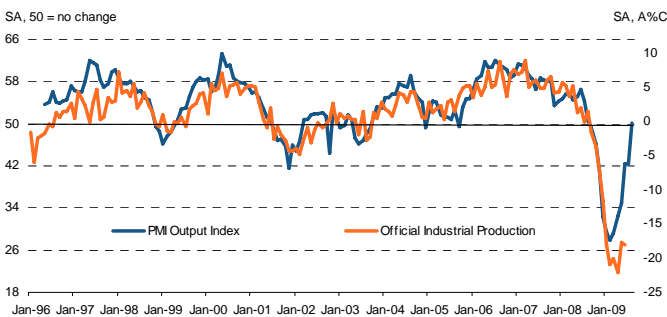
## German manufacturing revival indicated in advance by PMI data

### Key Findings

- **PMI data identified a turning point in new orders ahead of official figures.**
- **Industrial production down 0.1% m/m and 18% y/y in June...**
- **...but PMI indices point to improvements from low base in H2 2009.**

German PMI data provided a clear and early indication that the manufacturing sector downturn reached a post-reunification peak in Q1 2009 and eased substantially during Q2 2009 and into the second half of the year. Official statistics now validate the turning point signposted in advance by the PMIs.

### PMI Manufacturing Output & Y/Y Official IP data



Looking ahead, German manufacturing PMI data suggest that the recovery will continue in the near-term, supported by improved new order levels and inventory rebuilding.

Moreover, Germany is well positioned to benefit from a rebound in worldwide demand for manufactured goods (the Global Manufacturing PMI Output Index hit an 18-month high in July). However, German industrial production remains well below its pre-recession peak, suggesting that capacity utilisation rates are low and meaning any improvements in output will be from a low base.

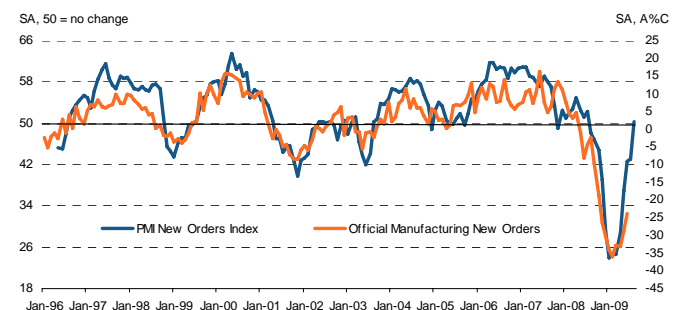
Official data for June signalled a month-on-month fall in industrial production of just 0.1%, marking a consolidation of the record 4.3% m/m gain seen in May. Although output levels at the end of H1 2009 were still 18% lower than one year earlier, this represents a slower rate of reduction than April's record decline.

Looking at output levels on average in Q2, official data point to a clear turning point. Quarter-on-quarter, industrial production was down just 0.8% in Q2, compared with 11.9% in Q1 and 6.6% in Q4 2008.

The turnaround in German industrial output has been supported by improved new order levels following the record falls seen in Q1 2009. Once again, PMI data were well ahead of official statistics in signalling that the worst of the downturn had passed. In line with PMI data released several weeks before, latest official manufacturing new orders figures indicated that the year-on-year rate of contraction slowed again in June, and remained much weaker than the peak in February (36.1%).

PMI data indicate that the improved trend continued in July, with the seasonally adjusted New Orders Index surging to a 13-month high.

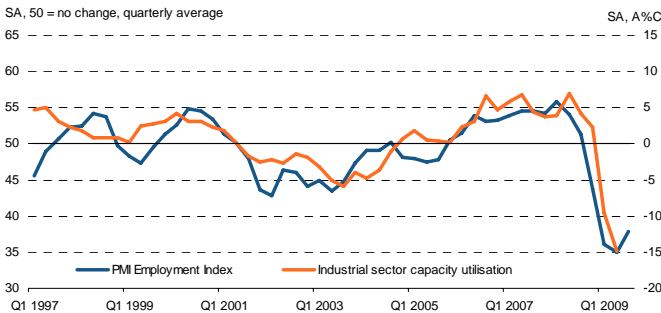
### PMI Manufacturing New Orders & Official data



Although PMI data signpost an encouraging turning point in new orders, this follows the longest and deepest downturn recorded since the survey began. Highlighting that underlying demand remains weak by historical standards, official statistics showed that new orders in June were still 30% lower than the peak seen

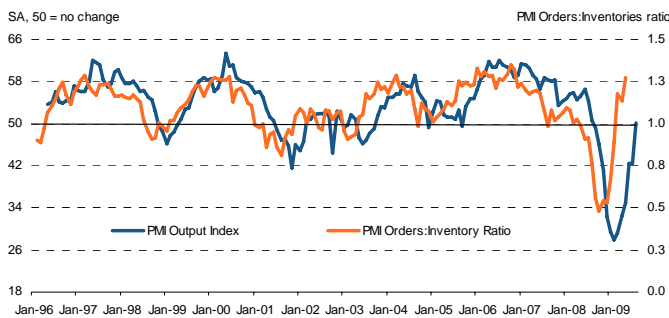
in October 2007. As a result, industrial sector capacity utilisation fell sharply in Q2 to its lowest on record, and adjustments to lower production requirements have led to substantial job shedding in the manufacturing sector.

**PMI Manufacturing Employment & Capacity Utilisation**



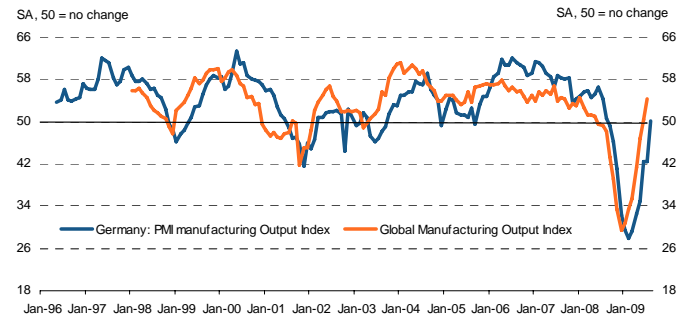
Latest PMI data indicate that there are some grounds for optimism regarding the outlook for production, and therefore employment in the German manufacturing sector. The PMI new orders-to-inventories ratio, which can provide an insight into future output trends, rose to a two-and-a-half year high in July. It has increased sharply from its record low in December 2008, acting as an advance indication of the turning point in production in 2009.

**PMI New Orders-to-Inventories ratio**



As the world's largest exporter and a leading producer of investment goods, Germany will also be well positioned to take advantage of a rebound in global demand for manufactured goods. PMI data provide an early sign of a revival in worldwide manufacturing output, as highlighted in the following chart.

**Global Manufacturing Output Index**



The next indication of whether the turnaround in the German manufacturing sector has continued to strengthen will be on 21<sup>st</sup> August, with the release of the Flash Germany PMIs.

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