

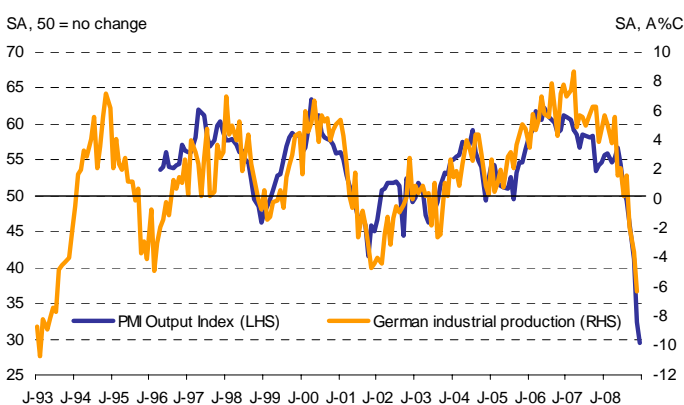
Germany

Industrial performance edges closer to its worst on record in December

- **November PMI foresaw the largest fall in industrial production since 1993...**
- **...and December's PMI indicates a further deepening of the downturn, with output showing one of the sharpest declines for 48 years.**

Adjusted for seasonal and calendar effects, official data released on 9th January signalled a 6.3% year-on-year decline in industrial production in November, which was the steepest fall since 1993. The severe extent of the downturn during November was correctly flagged up several weeks in advance by the German Manufacturing PMI Output Index, which fell to a survey record low and pointed to the weakest industrial performance since the recession fifteen years ago. This is illustrated in chart 1 below (see also our commentary note released on 24th November 2008*).

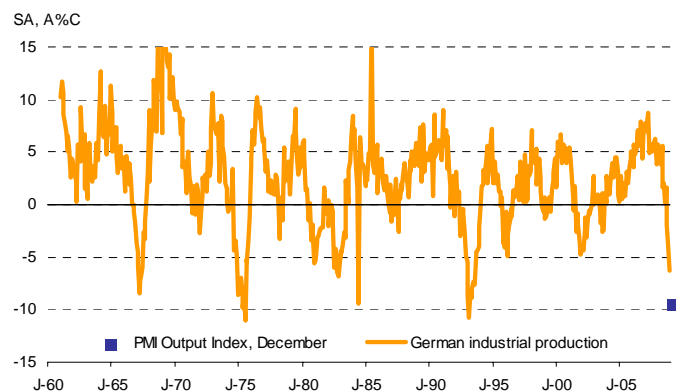
Chart 1: PMI data vs. German IP figures 1993-2008



PMI data for December indicate that the decline in German industrial output continued to gather pace at the end of 2008. Moreover, we can obtain an implied growth rate of official industrial production for any given PMI Output Index reading by performing a simple univariate regression. Using this technique, chart 2 illustrates that the December PMI Output Index

is consistent with a year-on-year reduction of German industrial output of almost 10% at the end of 2008.

Chart 2: German IP growth implied by December PMI



Therefore, December PMI data imply that the performance of the German industrial sector edged closer to its weakest for at least 48 years, with the drop in output almost as severe as the worst month of the 1993 and 1975 downturns. (1984 is excluded from analysis as industrial disputes led to abnormal volatility in production levels). Notwithstanding the frequent revisions and volatility of official data, our simple linear model also suggests that a PMI Output Index reading below 26 would signify the fastest year-on-year drop in industrial production figures on record.

The next snapshot of industrial activity will be provided by the Flash German Manufacturing PMI data on 23rd January, which will give an insight into whether the downturn has reached a new nadir or is showing signs of bottoming out at the start of 2009.

*<http://www.markit.com/information/news/commentary/markit-economics/archives-2008.html#nov08>

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