

Germany

Industrial production suffers record drop in January

Output contracted 7.5% January...

Figures from the Economy Ministry showed industrial production down a record 7.5% on a month ago in January and down 19.2% compared to a year ago, a post-re-unification record fall by a wide margin.

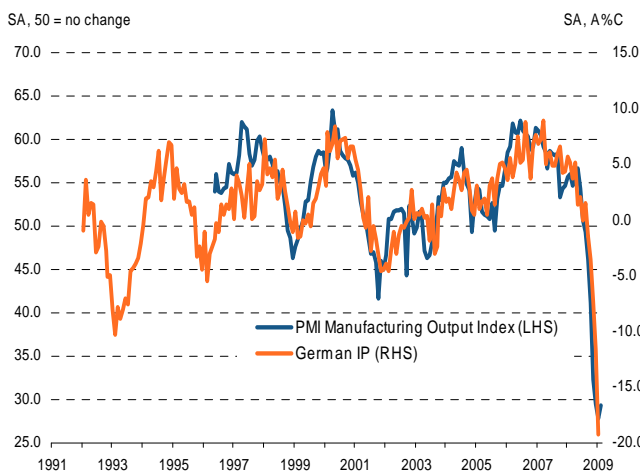
Both PMI and official data continued to highlight particular weakness in the capital and intermediate goods producing sectors.

...and February may see a similar fall.

It is reasonable to assume that the record January fall may be followed by similar steep declines in coming months.

First, given the close relationship between the PMI Output Index and annual changes in industrial production (the two series have a correlation of 0.83), a near-record weakness of the Output Index in February is consistent with a further double-digit rate of contraction in the official output measure.

Chart 1: PMI Manufacturing Output Index versus Industrial Production



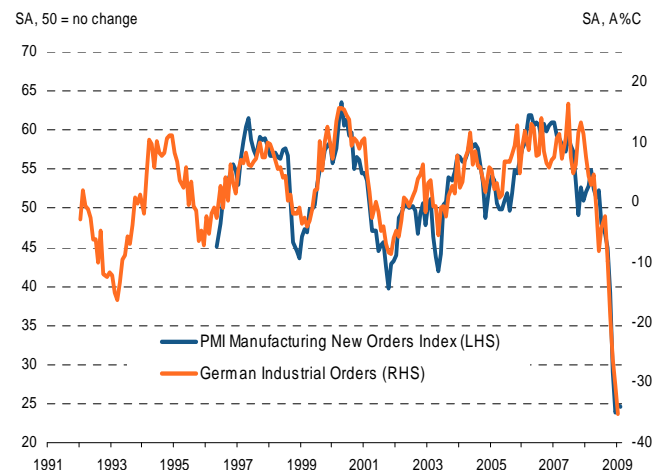
Sources: Markit Economics, Economy Ministry

Second, official data last week confirmed the earlier message from the PMI survey that industrial new orders continued to collapse during January, down 8% on the month. On an annual basis, new orders declined a rate

of over 35%, comfortably a record for the series (which began in January 1991).

A breakdown of the headline industrial orders data revealed the effect of the weak global economy on the export-facing manufacturing sector. Orders from abroad were over 40% lower than the same period one year ago.

Chart 2: PMI Manufacturing New Orders Index versus Industrial Orders



Sources: Markit Economics, Economy Ministry

Some scope for hope is provided by a stabilisation in the PMI survey numbers for new orders and the ratio of new orders to stocks of finished goods during the last two months, but only in the sense that the rate of contraction of orders has not accelerated further on the record fall seen in December. The data clearly remain consistent with further historically steep falls in industrial production in the near-term.

Paul Smith

Senior Economist

Markit

Tel: +44 1491 461 038

Email: paul.smith@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.