

# Germany

## PMI data provided the first signal that Germany had fallen into recession

### Key findings

- **PMI survey correctly anticipated the Q3 downturn in German GDP.**
- **October PMI data suggest considerable weakness ahead.**

### Q3 contraction signposted by PMIs

Germany's gross domestic product (GDP) data for the third quarter, published on 13 November, provides official confirmation that the economy has fallen into recession. Q3 GDP was down by 0.5% compared to the previous quarter, a steeper downturn than the 0.2% fall that the markets were expecting. Latest official data also indicate that GDP in Q3 was only fractionally higher than one year earlier.

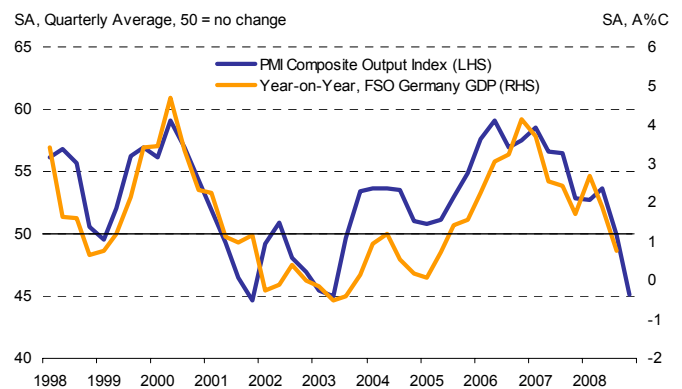
Charts 1 and 2 highlight that the Germany Composite Purchasing Managers' Index (PMI), compiled by Markit Economics, correctly anticipated the contraction of official GDP. The PMI Output Index for the third quarter (a composite index derived from measures of manufacturing, services and construction activity), registered its lowest level since the last recession five years ago. Moreover, these figures were published more than a month before the official data confirmed the latest downturn in activity.

### Downturn led by manufacturing sector

PMI data indicated that the performance of all three broad areas of the private sector economy deteriorated in the third quarter (see chart 3). The manufacturing sector was particularly hard hit in Q3, with the PMI Output Index falling by the largest extent in the survey's history, primarily reflecting a steep contraction of demand in the wake of the worldwide economic slowdown.

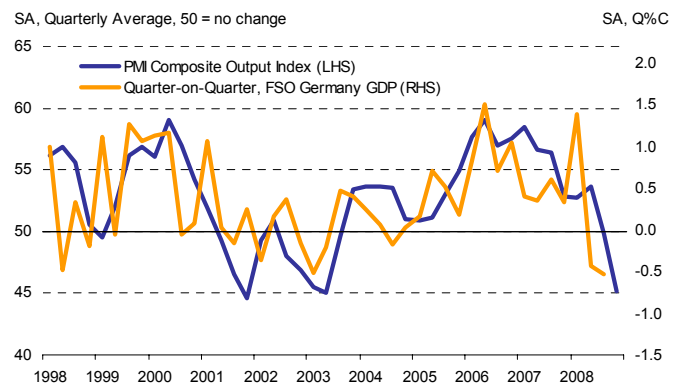
**Chart 1. Germany GDP, year-on-year**

Note: includes PMI figures for Q4, which are October 2008 data only



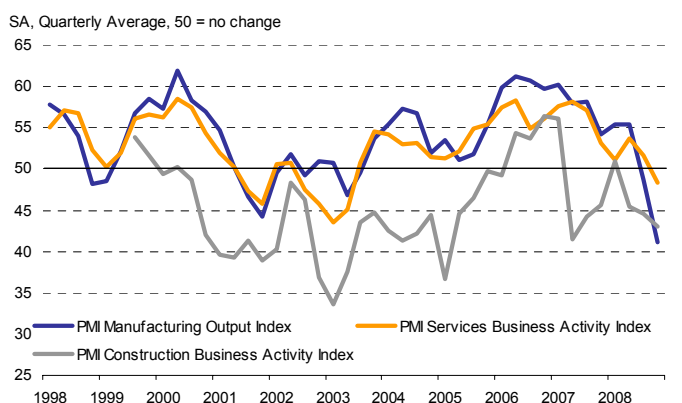
**Chart 2. Germany GDP, quarter-on-quarter**

Note: includes PMI figures for Q4, which are October 2008 data only



**Chart 3. PMI Output Index, by sector**

Note: includes PMI figures for Q4, which are October 2008 data only



Sources: Markit Economics, Reuters EcoWin.

## PMI points to further weakness in Q4

Chart 3 includes PMI data for October 2008, which show that all three sectors have continued to slide moving into the fourth quarter, with manufacturing output falling at a faster rate than services and construction. Moreover, October's contraction of manufacturing production was the steepest in more than a decade of data collection.

With October PMI data pointing to faster falls in manufacturing, services and construction activity than seen on average in Q3, there are signs of considerable weakness ahead for the German economy in the final quarter of 2008. The Composite Output Index dropped to its lowest level for five-and-a-half years in October and is consistent with a 0.7% quarter-on-quarter contraction of GDP. Given the strong correlation between PMI data and official GDP figures, this is an early indication that the recession in Germany will deepen in Q4, in the absence of an unlikely turnaround in November and December.

The next release of PMI data will be the 'flash' figures for November, which are released on the 21<sup>st</sup> November 2008.

To find out how to receive data for the German PMI, please contact [economics@markit.com](mailto:economics@markit.com).

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