

Germany

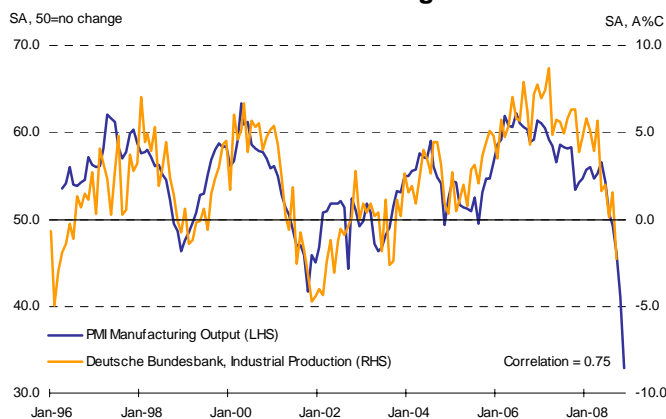
Flash Manufacturing PMI points to fastest downturn since 1993

Key findings

- Flash PMI Output Index fell to survey-record low in November.
- PMI consistent with steepest fall in output since 1993.
- Speed of turnaround in industrial performance fastest for over 20 years.

November's 'flash' German manufacturing PMI data, compiled by Markit, pointed to the fastest contraction of production levels since the survey began in April 1996. The flash PMI Output Index fell sharply to 32.8 in November, from 41.1 in the previous month, indicating a rapid drop in output. This reading was consistent with a severe downturn in official industrial production (IP) figures, which are released around six weeks after equivalent PMI data. The graph below illustrates the strong correlation between the PMI Output Index and official IP data for Germany.

Chart 1: PMI data v.s official IP figures



The chart above highlights the sharp turnaround in the performance of the German manufacturing sector during the past two months, with the PMI Output Index indicating that the release of October's official IP figures (on 8th December) will show a much faster drop in

German industrial production than was recorded at the end of Q3.

In order to put the recent downturn in the German manufacturing sector into a longer-run context, the chart below shows that PMI Output Index against official IP data since 1961.

Chart 2: PMI data v.s official IP figures since 1961

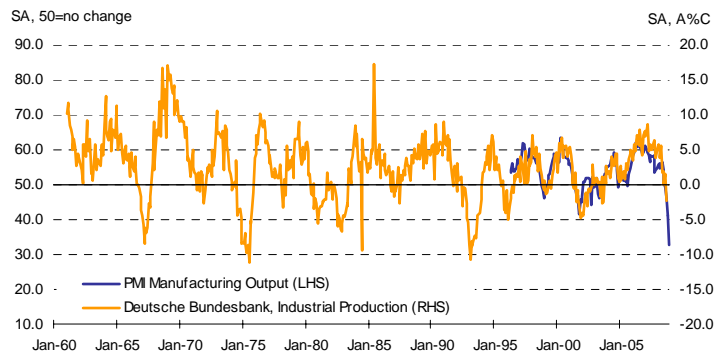
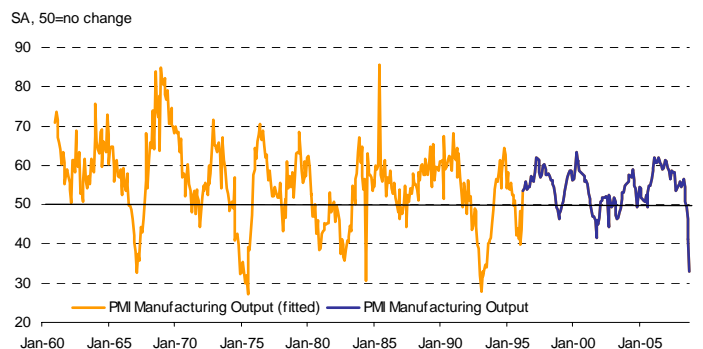


Chart 2 illustrates that the PMI Output Index in November is consistent with the sharpest reduction in industrial production for over fifteen years, when a 10.7% year-on-year decline in February 1993 marked the weakest point of the downturn. By using simple linear regression, we can exploit the strong relationship between the PMI and official IP figures to build a fitted PMI series for the period 1961-1996. The results are illustrated below.

Chart 3: Derived PMI data series, 1961-2008



The fitted PMI data in chart 3 are a useful method of placing the downturn signalled by the PMI Output Index during November in a historical context. The series indicates that industrial production fell in November at a rate only previously exceeded in 1967, 1974-5, 1984 and 1993.

Moreover, chart 3 yields additional information about the nature of the current downturn in industrial production signalled by the PMI Output Index. The chart illustrates that the speed of the turnaround the PMI Output Index in the past six months has been much faster than the recent downturns seen in 1996, 1998, 2001 and 2003. Furthermore, with the PMI Output Index falling by 23.8 points during the past six months, the drop is slightly larger than the 21.0 index points fall indicated by the fitted PMI Output Index at the height of the 1993 downturn.

Together, charts 1-3 highlight that PMI data for October and November 2008 are consistent with a steep downturn in industrial production in Germany, which has yet to be confirmed by the release of official data. Indeed, the PMI is flagging up a year-on-year decline in output that is the fastest since 1993 and a turnaround in

industrial performance that is the most marked for over two decades.

Final PMI data for November will be released on 1st December.

Flash PMI data for December will be released on 16th December.

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