

German GDP

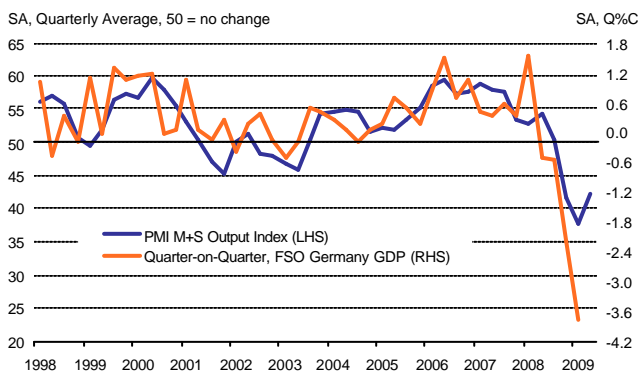
Economic contraction hit new record in Q1 2009, but there are signs that the worst of the recession could be over

- Preliminary GDP figures show record 3.8% q/q decline.
- PMIs indicate that the downturn has eased in the first two months of Q2.

Official data released on 15th May showed that the German economy contracted at a new record rate in Q1 2009. GDP fell 3.8%q/q, following a revised 2.2%q/q drop in Q4 2008. German GDP is now almost 7% lower than its pre-recession peak one year earlier.

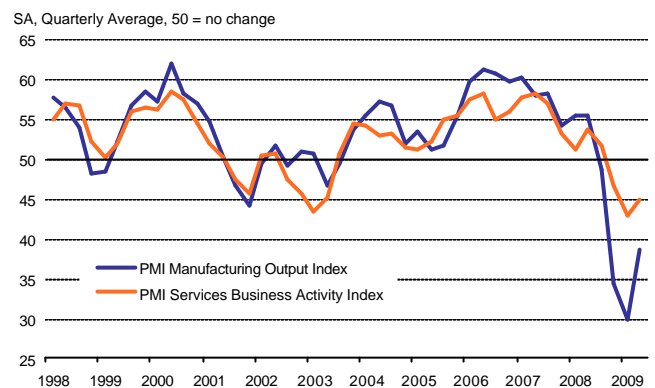
The chart below shows the Markit PMI Germany Composite Output Index against official GDP data. Both series pointed to an unprecedented drop in economic output in Q4 2008 and then a new record decline in Q1 2009. That said, the extent of the collapse in official GDP figures in Q1 exceeded both analyst expectations and that signposted in advance by the PMI.

PMI Germany Composite Output Index & GDP data



Official Q1 GDP figures are undoubtedly grim, but the latest PMI data provide a ray of hope that the peak of the recession has passed. There have now been three months of solid improvement in the composite PMI data, with the manufacturing and services indices both rising from record lows. This is illustrated in the following chart, with figures available up to May.

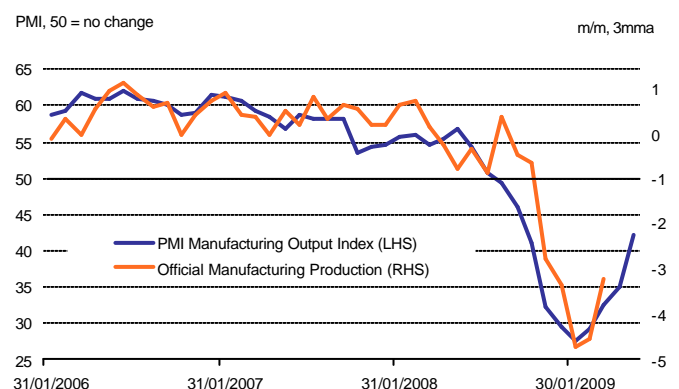
PMI Manufacturing & Services data



The PMIs provide an early indication that GDP is on track to fall at a historically steep pace in Q2, but the extent of the decline is likely to be smaller than in Q1.

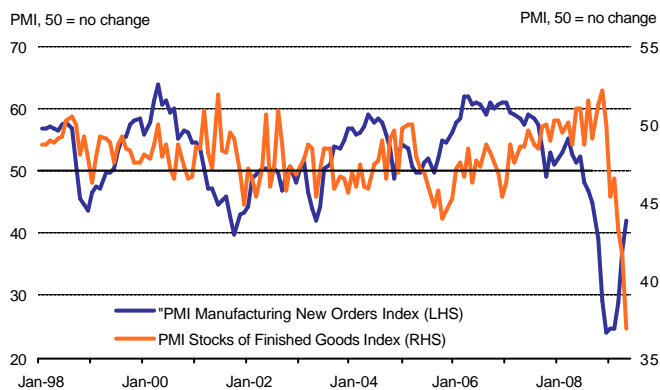
There are also tentative signs from official manufacturing output figures that the downturn has peaked, following an unprecedented 6.3% m/m fall in January. Official data chimes with the message from recent PMI data, which indicate that the contraction of manufacturing production has slowed continuously since hitting a record at the start of 2009. This is highlighted below, with PMI data available up to May.

PMI Manufacturing Output Index & Official data



Although we do not yet have detailed data on the expenditure breakdown of GDP in Q1, substantial inventory adjustments are likely to have contributed to the weak GDP outturn, as companies destocked rapidly in response to a steep drop in global trade. However, if firms start to feel that the worst of the slump has passed, and begin to return stocks towards more normal levels, this could support GDP later in 2009.

PMI New Orders & Stocks of Finished Goods Index



This is particularly applicable for Germany which, as the world's largest exporter, is well placed to benefit from any restocking of global inventories and a resumption of capital spending. The collapse in global trade has been a key reason for the unprecedented depth of the recession in Germany, but equally it may see the fastest upturn if worldwide demand recovers.

The next indication of the direction of the German recession will be on 1st June with the release of the Final Manufacturing PMI, followed by the Final Services PMI two days later.

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