

Germany: Q4

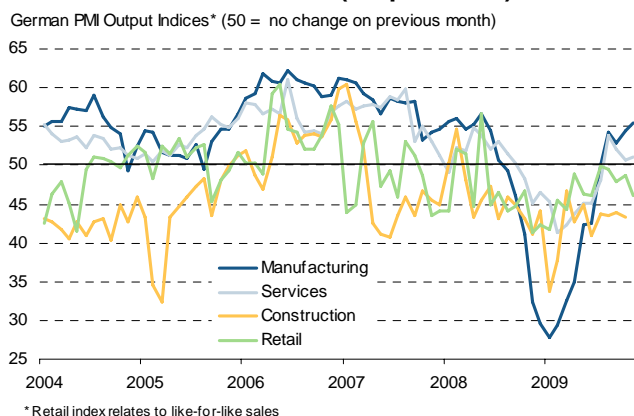
Corporate rebound contrasts with weak retail and consumer spending

- **PMI data suggest economic growth remained weak in Q4.**
- **Improved corporate performance – especially manufacturing – is offset by weak consumer markets.**

Manufacturing strength contrasts with weak retail and consumer markets

The Markit Retail PMI for Germany, published today, served as a reminder of the ongoing fragility of the country's recovery. The headline index from the survey, which measures month-on-month changes in retail sales, fell further below the 50.0 'no change' level in November, hitting a five-month low. The index suggests that the rate of decline of retail sales has accelerated in recent months, having improved to show a near-stabilisation in July.

Chart 1: German PMI data (output/sales)



Source: Markit.

The deterioration in the retail PMI in November contrasts with the improvement in the Flash manufacturing PMI data, published earlier in the week, which showed manufacturing output rising for the fifth month running. The Flash PMI also showed services activity expanding for the fourth consecutive month. However, while manufacturing showed the fastest rate of growth since May 2008, growth in the service sector remained muted.

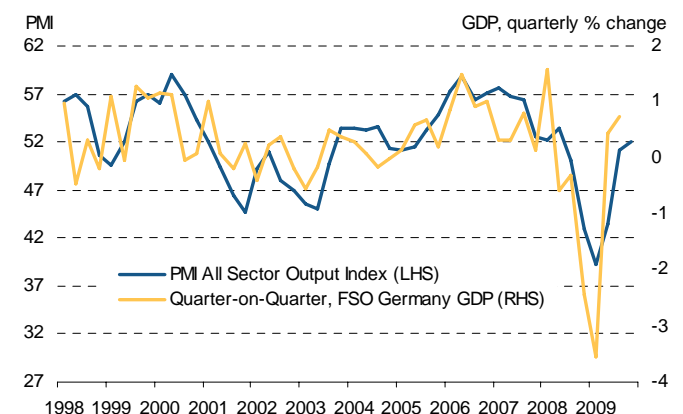
Resurgent growth in business-to-business & financial services was largely offset by an ongoing contraction of activity levels at consumer-facing service providers. Construction, meanwhile, continued to contract at a steep pace in October – the latest month for which PMI data are currently available.

The PMI data therefore paint a very mixed picture of growth by sector in Germany, with only the manufacturing sector and business-to-business & financial services reporting any convincing signs of sustained recovery.

Data point to weak Q4 GDP

The interpretation of PMI data for economic growth has been difficult so far this year. GDP signalled a steeper downturn than PMI data in Q1, and then indicated stronger growth than the PMI in Q2 and Q3. If the stronger growth of GDP relative to the PMIs in Q2 and Q3 simply reflects an increase in GDP levels from a lower base than the PMIs at the start of the year, then it is likely that GDP growth in Q4 could weaken as quarter-on-quarter base effects work in the opposite direction – especially given the weakness suggested by the PMIs in the consumer-oriented markets. **Historical comparisons suggest that the PMI surveys are currently consistent with GDP growth of approximately 0.3% for Q4.**

Chart 2: PMIs and GDP



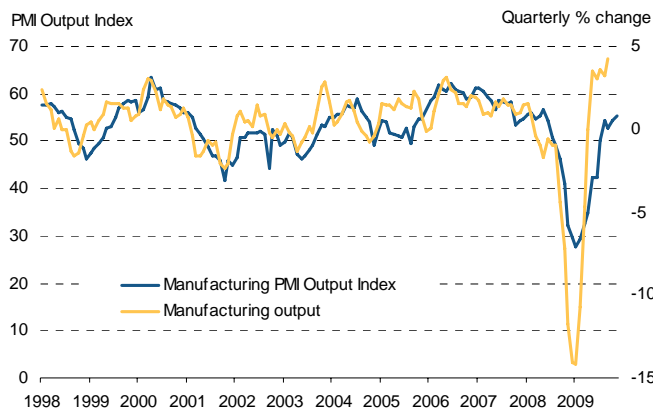
Sources: Markit, FSO.

PMI and official manufacturing data have shown an almost identical performance on average since the collapse of Lehmans

The divergence between PMI and official data has been particularly evident in the manufacturing sector, with official output falling more sharply than the PMI at the height of the downturn and then overshooting the PMI on the upturn. Interestingly, the average quarterly rate of change¹ in official manufacturing output since the collapse of Lehman Brothers in September of last year (when the divergence began) has been -3.8%. The average indicated by the PMI – derived using a linear regression – has been almost exactly the same, at -3.7%. The two series have only differed in their volatility.

If this means that the divergence in the official data relative to the PMI has now been ‘paid back’, we may see official manufacturing output data come more into line with the PMI in Q4; a quarterly rate of change more in the region of 1% rather than the 4.3% currently indicated by the latest official data for September.

Chart 3: Manufacturing



Sources: Markit, FSO.

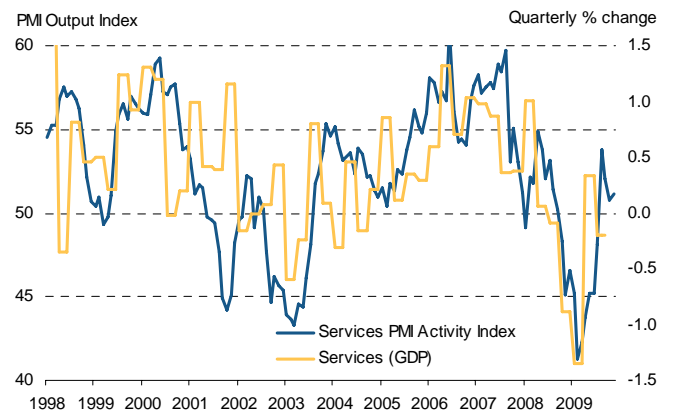
Services PMI indicates modest contribution to GDP growth in Q4

While government-measured manufacturing was stronger than the PMI in Q3, the service sector was weaker. This may be the result of a similar ‘pay-back’ process to that seen in manufacturing, as services GDP rose more sharply than the PMIs had indicated in Q2. However, comparisons are not so clear-cut due to differences in the sector coverage of services². A weighted average of the services and retail PMI was

¹ measured using a three-month percentage change in a three-month moving average.

consistent with service sector GDP rising by 0.1% in Q3 (whereas GDP showed a 0.2% decline). **PMI data for Q4 so far (Flash data up to November) are likewise currently signalling a 0.1% quarterly rise in services GDP.**

Chart 4: Services^{2*}



Sources: Markit, FSO.

German GDP – quarterly % change

	'08 Q4	'09 Q1	'09 Q2	'09 Q3
GDP	-2.4	-3.5	0.4	0.7
Construction output	-0.1	1.1	0.7	0.3
Manufacturing	-7.8	-13.4	-0.2	3.3
Services	-0.9	-1.3	0.3	-0.2
Trade, transport, communications	-2.1	-2.8	0.0	-0.3
Finance	-0.6	-0.8	0.3	-0.6
Other Services	0.1	-0.4	0.7	0.3
Private consumption	-0.4	0.9	0.6	-0.9
Government consumption	0.6	1.2	0.6	0.1
Machinery investment	-3.7	-18.5	-0.5	0.8
Construction investment	-1.0	0.2	1.3	1.5

Source: Federal Statistics Office.

² * Chart shows services PMI data (excluding retail). Note that services GDP includes government, retail and wholesale, which are not included in the services PMI.

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