

## MARKET SENSITIVE INFORMATION

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## S&P Global Flash Germany PMI®

### Downward pressure on German business activity eases in January as inflation continues to slow and optimism returns

#### Key findings:

Flash Germany PMI Composite Output Index<sup>(1)</sup> at 49.7 (Dec: 49.0). 7-month high.

Flash Germany Services PMI Activity Index<sup>(2)</sup> at 50.4 (Dec: 49.2). 7-month high.

Flash Germany Manufacturing Output Index<sup>(4)</sup> at 48.4 (Dec: 48.4). Unchanged.

Flash Germany Manufacturing PMI<sup>(3)</sup> at 47.0 (Dec: 47.1). 2-month low.

Data were collected 12-20 January

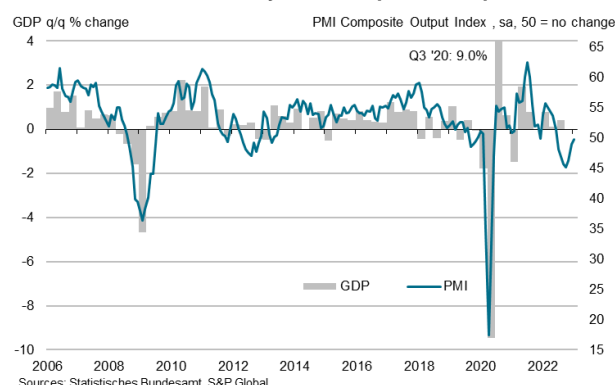
*The German services economy returned to growth in January, leaving the country's overall private sector on a more stable footing at the start of the year, latest 'flash' PMI® data from S&P Global showed. Although still historically elevated, rates of inflation meanwhile continued to lose momentum, led by a notable cooling of manufacturing cost pressures as strain on supply chains eased. At the same time, there was renewed optimism among businesses towards the year-ahead outlook and signs of continued resilience in the labour market.*

The headline **S&P Global Flash Germany PMI Composite Output Index** came in at 49.7 in January, up from December's 49.0. Although in sub-50 contraction territory for a seventh straight month, the latest reading was the highest in this sequence and marked the third successive monthly rise in the index.

The movement towards stabilisation in January owed to signs of improvement in the service sector, where the business activity index posted above the 50.0 no-change threshold – albeit only just – for the first time since June last year, at 50.4. The survey's manufacturing output index meanwhile continued to point to a shallow downturn in factory production, registering 48.4 for a second straight month.

However, the survey continued to highlight multiple headwinds to demand, including steep inflation, tightening financial conditions, investment reticence and, in the case of manufacturing, inventory reduction, which altogether led to a further broad-based fall in **inflows of new work**. That said, rates of decline did at least ease somewhat, to show the slowest overall reduction in new business for seven months.

#### S&P Global Flash Germany PMI Composite Output Index



January saw manufacturers' holdings of **pre- and post-production inventories** decrease for the first time in 16 and nine months respectively. Goods producers' purchasing activity continued to fall sharply, reflecting not only lower output requirements, but also the depletion of safety stocks amid a further improvement in material availability. Indeed, average **lead times** on inputs shortened notably and for a third successive month.

The easing of supply-chain bottlenecks amid falling global demand contributed to a further cooling of inflationary pressures in January. The rate of increase in manufacturing **input costs** in fact slowed sharply to only modest pace that was the weakest since October 2020. Although also easing, down to a 16-month low, the rate of services cost inflation by contrast remained historically elevated as many businesses in the sector commented on the influence of growing wage demands.

**Prices charged**, on the other hand, continued to rise sharply across both services and manufacturing. Here, the overall rate of inflation ticked down only slightly in January, taking it to its lowest in almost a year-and-a-half but leaving it still well above its long-run series average.

Turning to the **labour market**, January's flash data indicated further resilience. The rate of employment growth even picked up slightly to a six-month high, driven by a renewed upturn in service sector job creation. This did however mask a weakening trend in factory recruitment activity, which eased to the slowest for almost two years.

**Business confidence** remained on an upward trajectory

# PMI®

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across the German private sector, with January marking a fourth straight monthly improvement in expectations towards future activity. Sentiment not only turned positive for the first time since last August, but it was at its highest level since Russia's invasion of Ukraine in February of last year. That being said, firms were generally only cautiously optimistic about the outlook, with expectations among both services firms and manufacturers remaining below their respective historical series averages.

## S&P Global Flash Germany Manufacturing PMI

sa, >50 = improvement since previous month



Commenting on the flash PMI data, **Phil Smith**, Economics Associate Director at S&P Global Market Intelligence said:

*“January’s flash PMI, which at 49.7 showed business activity in Germany on a more stable footing at the start of the year and was broadly in line with market consensus, lends support to the notion that a recession in the eurozone’s largest economy is by no means a foregone conclusion. There was even a return to growth in services activity after six straight months of decline, although the increase was only marginal and achieved on somewhat shaky foundations as inflows new business remained in decline.*”

*“Alongside easing supply-chain strains, January’s preliminary survey also pointed to a continued slowdown in rates of inflation. However, whilst we’re seeing underlying cost pressures ease quite rapidly in manufacturing, it’s a different story in services where inflation remains far stickier thanks in large part to the influence of growing wage demands. The rate of increase in average prices charged for goods and services cooled only slightly and remained historically elevated in January, to suggest that core inflation is likely to continue running hot in the near term at least. Signs of continued labour market resilience will only serve to reinforce the stubbornness of inflation.*”

*“Business confidence continues to recover from last October’s low point, but it nevertheless remains subdued compared to the situation prior to Russia’s invasion of Ukraine, particularly in manufacturing where we’re still seeing notable weakness in new orders and perhaps the beginning of a period of stock depletion as supply-chain concerns fade. Optimism has returned amid easing recession risks, but firms remain cautious about the outlook.”*

-Ends-

# News Release

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## Note to Editors

Final January data are published on 1 February for manufacturing and 3 February for services and composite indicators.

The Germany PMI (Purchasing Managers' Index) is produced by S&P Global and is based on original survey data collected from a representative panel of around 800 companies based in the German manufacturing and service sectors. The flash estimate is based on around 85% of total PMI survey responses each month and is designed to provide an accurate advance indication of the final PMI data.

The average differences between the flash and final *PMI* index values (final minus flash) since comparisons were first available in January 2006 are as follows (differences in absolute terms provide the better indication of true variation while average differences provide a better indication of any bias):

Index	Average difference	Average difference in absolute terms
Composite Output Index <sup>1</sup>	0.0	0.4
Manufacturing <i>PMI</i> <sup>2</sup>	0.0	0.3
Services Business Activity Index <sup>2</sup>	-0.1	0.6

The *Purchasing Managers' Index*<sup>®</sup> (*PMI*<sup>®</sup>) survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries (including the European Central Bank) use the data to help make interest rate decisions. *PMI*<sup>®</sup> surveys are the first indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

S&P Global do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from S&P Global. Please contact [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com).

### Notes

1. The Composite Output *PMI* is a weighted average of the Manufacturing Output Index and the Services Business Activity Index.
2. The Services Business Activity Index is the direct equivalent of the Manufacturing Output Index, based on the survey question "Is the level of business activity at your company higher, the same or lower than one month ago?"
3. The Manufacturing *PMI* is a composite index based on a weighted combination of the following five survey variables (weights shown in brackets): new orders (0.3); output (0.25); employment (0.2); suppliers' delivery times (0.15); stocks of materials purchased (0.1). The delivery times index is inverted.
4. The Manufacturing Output Index is based on the survey question "Is the level of production/output at your company higher, the same or lower than one month ago?"

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## About PMI

Purchasing Managers' Index<sup>®</sup> (*PMI*<sup>®</sup>) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to <https://ihsmarkit.com/products/pmi.html>.

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