News Release

MARKET SENSITIVE INFORMATION
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S&P Global Flash Germany PMI®

Germany PMI sinks deeper into contraction territory in October

Key findings:

Flash Germany PMI Composite Output Index[1] at 44.1 (Sep: 45.7). 29-month low.

Flash Germany Services PMI Activity Index[2] at 44.9 (Sep: 45.0). 29-month low.

Flash Germany Manufacturing Output Index[4] at 42.5 (Sep: 47.0). 29-month low.

Flash Germany Manufacturing PMI[3] at 45.7 (Sep: 47.8). 28-month low.

Data were collected 12-20 October

The downturn in the German economy deepened at the start of the final quarter of 2022, latest ‘flash’ PMI® data from S&P Global showed. Business activity fell for the fourth month running and at an accelerated rate, amid reports of the detrimental impact of high energy prices on both business costs and demand. Firms’ expectations remained deeply negative, reflecting concerns over persistently strong inflationary pressures, rising interest rates and the prospect of a recession. The survey did, however, point to ongoing resilience in the labour market.

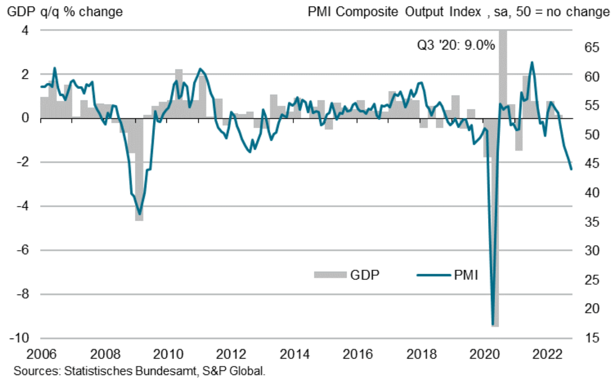
The headline **S&P Global Flash Germany PMI Composite Output Index** fell deeper into contraction territory in October, dropping from September’s 45.7 to 44.1. This was its lowest reading since the initial COVID-19 shutdowns in early-2020.

The deterioration was broad-based by sector and led by manufacturing, where the rate of contraction in output accelerated notably to the quickest for nearly two-and-half years (index at 42.5 from 47.0). High energy costs were a factor weighing on factory production, according to anecdotal evidence, alongside a sustained weakening of underlying demand for goods.

Services activity fell at a rate that was only fractionally quicker than in September (index at 44.9 from 45.0), but one that was nevertheless the fastest overall since May 2020.

High price pressures, rising interest rates, and growing hesitancy among customers due to recession fears all acted to supress demand, reports from surveyed firms showed. Both manufacturing and services saw the weakest trends in **new business** since May 2020

S&P Global Flash Germany PMI Composite Output Index



Sources: Statistisches Bundesamt, S&P Global.

(including faster decreases in **new work from abroad**), although it was the former that recorded the steeper rates of contraction by far.

The loss of new business was reflected in a sustained decline in **backlogs of work** across Germany’s private sector. October’s decrease was the third in as many months and the most marked since June 2020, led by a steep and accelerated reduction across manufacturing.

Despite signs of business capacity pressures easing, October data highlighted a further broad-based rise in **employment** as firms continued to fill vacancies. The rate of job creation even ticked up slightly, driven by a faster increase in manufacturing workforce numbers. That said, it was still the second-slowest in over a year-and-a-half, with service sector job creation dropping to the lowest seen since September 2020.

Businesses across Germany continued to face sharp cost pressures at the start of the fourth quarter, with the rate of **input price inflation** remaining well above its historical series average. It ticked down from September’s three-month high, however, due in large part to a slower rise in manufacturing costs, which was in turn a reflection of a further alleviation of supply-chain pressures. The incidence of delays on purchases was in fact the lowest since August 2020.

Conversely, service sector input cost inflation was little-changed since September and remained among the fastest on record, with surveyed firms widely commenting on the influence of higher wage bills as well as increased energy costs.

The pass-through of higher operating expenses by businesses to their customers led to a further sharp rise in **average prices charged for goods and services** in October. With both monitored sectors recording similarly sharp, albeit slightly slower increases in output prices, the rate of inflation remained historically elevated but ticked down from September's three-month high.

German businesses remained deeply pessimistic towards the **year-ahead outlook for activity** in October. Firms' concerns were centred around soaring energy costs, high inflation, rising interest rates, and the prospect of recession, both in the domestic market and further afield. Whereas service providers were less downbeat than the month before, which saw overall expectations increase slightly from September's 28-month low, manufacturing confidence fell notably and was only just above the record-low levels recorded during the initial COVID-19 shock in early-2020.

S&P Global Flash Germany Manufacturing PMI

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

"The flash PMI data show the downturn in German business activity gathering pace at the start of the fourth quarter, adding to the growing signs of an impending recession in the eurozone's largest economy.

"We're seeing weakness across the board in the survey data, with both the manufacturing and service sectors reporting accelerating rates of contraction, led by rapidly declining inflows of new work. Businesses are reporting a growing reluctance amongst clients due to increased strain on budgets and an uncertain economic outlook, with high energy costs compounding the situation by fuelling inflationary pressures and directly impacting factory production in some cases.

"Notwithstanding the downturn in activity and deeply negative business expectations, employment levels are yet to fall, pointing to resilience in the German labour market. Firms are showing a willingness to retain staff, and even continue to fill vacancies in some cases, despite facing sharply rising costs – including wage pressures – and the growing prospect of a recession."

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Note to Editors

Final October data are published on 2 November for manufacturing and 4 November 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[1]	0.0	0.4
Manufacturing *PMI*[3]	0.0	0.3
Services Business Activity Index[2]	-0.1	0.6

The *Purchasing Managers' Index®* (*PMI®*) 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®* 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.

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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We are widely sought after by many of the world's leading organizations to provide credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help the world's leading organizations plan for tomorrow, today.

About PMI

Purchasing Managers' Index® (PMI®) 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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