News Release

MARKET SENSITIVE INFORMATION
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S&P Global Flash Germany PMI®

Flash PMI data indicates contraction of activity as downturn gathers pace

Key findings:

Flash Germany PMI Composite Output Index(1) at 48.0 (Jun: 51.3). 25-month low.

Flash Germany Services PMI Activity Index(2) at 49.2 (Jun: 52.4). 7-month low.

Flash Germany Manufacturing Output Index(4) at 45.4 (Jun: 49.2). 26-month low.

Flash Germany Manufacturing PMI(3) at 49.2 (Jun: 52.0). 25-month low.

Data were collected 12-20 July

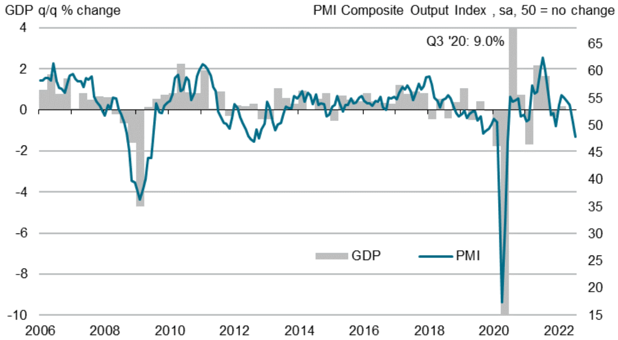
July's 'flash' PMI® data from S&P Global showed a contraction of activity in the Germany economy, the first recorded in 2022 so far and the worst performance for over two years. Declines in both domestic and export demand was indicated by the latest data as a combination of an uncertain business environment, supply shortages and stretched client budgets weighed on the sector. Expectations about the future sank into negative territory for the first time since May 2020, the height of the first wave of the COVID pandemic.

The headline **S&P Global Flash Germany PMI Composite Output Index** maintained its recent downward sequence in July, and dropped below the 50.0 no-change mark for the first time since December. The index registered 48.0, down from 51.3 and a 25-month low. Both the services and manufacturing sectors registered declines, although goods producers recorded the more acute deterioration as output slumped to the greatest degree since May 2020.

The marginal fall in services activity reflected a combination of staff shortages and a retrenchment of new business. Sales in the service sector declined for a second successive month and to the sharpest degree since February 2021. With manufacturers registering an even sharper fall in new orders – the biggest since May 2020 – the decline at the composite level was a 26-month record.

Firms across the private sector commented on a difficult economic environment. A squeeze on client budgets from rising prices weighed on service sector new business, whilst manufacturers added that widespread uncertainty related to the war in Ukraine, worries over energy security, and ongoing difficulties in the supply-chain continued to negatively impact on sales.

S&P Global Flash Germany PMI Composite Output Index



Sources: Statistisches Bundesamt, S&P Global.

New export business was also sharply lower, with declines seen across both sectors and again to a greater degree in manufacturing – export orders here fell at the greatest rate in 26 months.

Although there was some evidence that pressure on vendors was easing – the incidence of **delivery delays** was the lowest since October 2020 – concerns remained over the resilience of supply chains. Efforts to build safety stocks, alongside weaker-than-expected output, led to the sharpest rise in **pre-production inventories** for seven months. Post-production stocks meanwhile rose at a near record survey rate as transport delays and cancelled orders led to an excess of stock in warehouses.

Cost pressures remain elevated. Prices paid for energy and commodities, a weaker euro as well as rising interest rates and higher wages reported in services, meant that overall input costs rose substantially. That said, inflation did maintain its recent downward trend, dropping to a six-month low. Costs in manufacturing continued to rise at a quicker rate than in services, despite inflation here dropping to its lowest in nearly a year-and-a-half.

Similar to input prices, **average prices charged for goods and services** also rose at a slower rate (weakest in five months), but inflation remained historically elevated. Sharp rates of increase were seen across the manufacturing and service sectors.

When considering the outlook for activity, **expectations** turned notably negative in July. Both sectors saw confidence slump to the lowest since May 2020. Service providers foresee reduced activity over the next 12 months when compared to present levels for the first time in over

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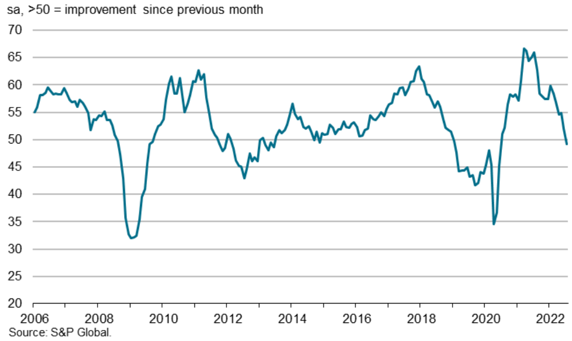
two years, although manufacturers were the more pessimistic. Supply shortages, especially for energy, rising prices, lower demand, and the continuation of war in Ukraine were all noted as reasons to be negative about the future.

Despite this negative outlook, firms continue to take on additional staff. **Employment growth** held broadly steady at a solid rate as firms sought to keep on top of workloads. Overall, **backlogs of work** were subsequently little changed compared to June.

S&P Global Flash Germany Manufacturing PMI



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

"Having enjoyed a growth boost from the previous easing of virus-related restrictions, a collision of various headwinds in July served to push the German economy into contraction territory for the first time in 2022 so far.

"Ongoing supply-delays and the uncertainty caused by the war in Ukraine continued to be reported as factors weighing on company performance, but based on a reading of anecdotal evidence, inflation and the pressures these are having on budgets was a noticeable feature behind the worst performance of private sector activity since the height of the first pandemic wave in the spring of 2020. With this in mind, whilst we are seeing a downward trend in our price indices, inflation rates remain stubbornly elevated according to the July survey.

"The decline in output was broad-based, with the downturn in manufacturing deepening, and service sector activity dropping into contraction territory for the first time since December. Moreover, given the noticeable falls in new business across both sectors, activity was somewhat prevented from experiencing a sharper fall thanks to the availability of previously secured contracts. With signs that this supportive prop is coming to an end, and warehouse inventories rising at a near-record rate in manufacturing, the outlook for output is turning increasingly negative. No wonder then company expectations have subsequently dropped into negative territory for the first time in over two years."

-Ends-

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Note to Editors

Final July data are published on 1 August for manufacturing and 3 August 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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