

MARKET SENSITIVE INFORMATION

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S&P Global Flash Germany PMI®

Downturn in German business activity eases in December as price pressures continue to cool

Key findings:

Flash Germany PMI Composite Output Index⁽¹⁾ at 48.9 (Nov: 46.3). 6-month high.

Flash Germany Services PMI Activity Index⁽²⁾ at 49.0 (Nov: 46.1). 5-month high.

Flash Germany Manufacturing Output Index⁽⁴⁾ at 48.7 (Nov: 46.6). 6-month high.

Flash Germany Manufacturing PMI⁽³⁾ at 47.4 (Nov: 46.2). 3-month high.

Data were collected 06-14 December

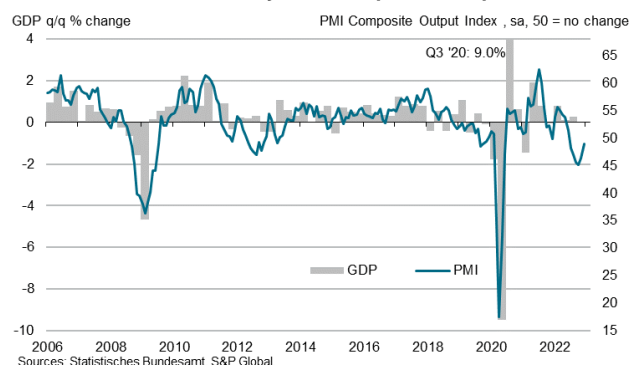
December's 'flash' PMI® data from S&P Global showed a shallower downturn in business activity across Germany's private sector economy, with rates of contraction easing across both manufacturing and services. Price pressures meanwhile continued to cool from the record highs seen earlier in the year, although they remained historically elevated. On balance, businesses were still pessimistic about the year-ahead outlook for activity, but less so than in November.

The headline **S&P Global Flash Germany PMI Composite Output Index** registered in sub-50 contraction territory for a sixth straight month in December. However, at 48.9, up from November's 46.3, its latest reading was the highest in the aforementioned sequence and indicative of only a modest rate of decline in private sector activity.

Underlying data showed slower decreases in both manufacturing production and service sector activity in December. The rates of contraction were the weakest for six and five months respectively. Where a reduction in output was recorded, firms often linked this to weaker demand, citing the impact of uncertainty among customers and high prices.

In line with the trend in output, the decline in overall inflows of **new work** eased in December, registering the shallowest decrease for four months. That said, the rate of contraction in new business remained sharp overall and notably quicker than that for output. Supporting output levels to some extent was an improvement in material availability, anecdotal evidence showed. This was also underscored by a sharp reduction in **supplier delivery times** faced by manufacturers, which was partly linked to falling demand for inputs.

S&P Global Flash Germany PMI Composite Output Index



Easing supply chain bottlenecks in turn contributed to a further reduction in pipeline price pressures at the end of the fourth quarter. **Input cost inflation** fell for the third month in a row to its lowest since March 2021, led by a slowdown in manufacturing purchase prices. Overall operating expenses still rose at a faster rate than the historical series average, however, amid widespread reports of the pass-through of high energy costs and wage demands.

Similarly, **average prices charged for goods and services** continued to rise rapidly by historical standards, as firms looked to pass on higher costs to customers where possible. That said, with both monitored sectors reporting slower increases in output prices, the overall rate of inflation ticked down for the third month in a row and was the lowest since August 2021.

Turning to **employment**, December's survey pointed to a continued steady rise in workforce numbers across Germany's private sector. The pace of job creation was broadly in line with those recorded in both October and November, but remained much slower than seen on average over the first half of the year. Firms in both monitored sectors reported taking on staff to fill vacancies. Accordingly, December saw a further broad-based reduction in **backlogs of work** as pressure on business capacity continued to ease. The rate of depletion was unchanged from November. This masked contrasting trends at the sector level, as a faster decline in service sector outstanding business was offset by a slower (though

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still sharp) fall in manufacturing order backlogs.

A loss of purchasing power due to high inflation, recession concerns, uncertainty around energy supplies and a gloomy investment outlook were just some of the factors continuing to weigh on **business confidence** during December. Firms that were pessimistic towards activity over the coming year continued to outnumber the optimists, albeit only just, with expectations recovering further from September's recent low to the highest for four months. Although still generally weak by historical standards, sentiment improved in both monitored sectors, and even turned slightly positive among services firms.

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 latest flash PMI survey paints a somewhat less gloomy picture of Germany’s economy as we head towards the end of the year. Although still in contraction territory, the headline index pointed to a shallower downturn in overall business activity in December, as the declines in both manufacturing and services eased.”

“Price pressures remain historically elevated, reflecting in large part the continued pass-through of high energy costs, but even here there are some positive signs as rates of both input cost and output charge inflation fell to multi-month lows due to weaker demand and easing supply chain frictions.”

“Supplier delivery times showed another notable improvement in December, giving some support to production levels during the month thanks to better material availability. However, we continue to see a trend where new orders are falling much quicker than output, which, if it continues, bodes ill for future activity as firms eat up their backlogs of work.”

“A backdrop of falling demand, high inflation and tightening financial conditions explains why businesses, particularly manufacturers, remain downbeat about the outlook. That said, nerves have settled somewhat compared to the situation three months ago, when concerns about the energy crisis were at their peak, in a further sign that the expected recession could be shallower than first feared.”

-Ends-

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Note to Editors

Final December data are published on 2 January for manufacturing and 4 January 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 <i>PMI</i> ²	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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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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