

Germany

German economy starts second quarter on solid footing

- All-sector PMI™ signals robust growth in German economy
- Employment levels continue to rise
- Input price inflation eases further

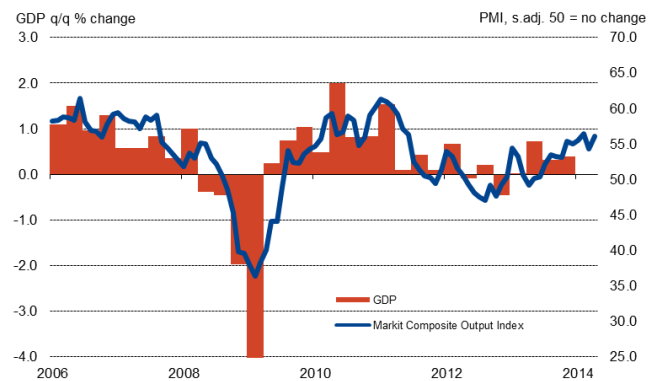
April's PMI™ surveys signal a strong start into the second quarter, with the rate of activity growth in Germany's private sector economy accelerating since March. Companies continued to take on additional workers in order to meet increased demand and inflationary pressures eased further.

The all-sector PMI, which measures the combined output of the manufacturing, construction and service sectors, rose from 54.3 in March to 55.7 in April, to signal robust and accelerated growth in Germany's private sector economy. The latest reading surpassed the average for the first quarter and was among the highest in three years. Historical data comparisons indicate that the April reading is consistent with quarterly GDP growth of around 0.8%. The acceleration is good news for the [German economy, which grew by a mere 0.4% in 2013](#).

A more detailed look at the survey data showed, that the upturn was largely driven by the manufacturing and service sectors, while [construction activity fell for the first time in one year](#). The rate of contraction in Germany's building sector was, however, only marginal overall and driven by declines in residential building and civil engineering activity, while work on commercial building projects continued to increase.

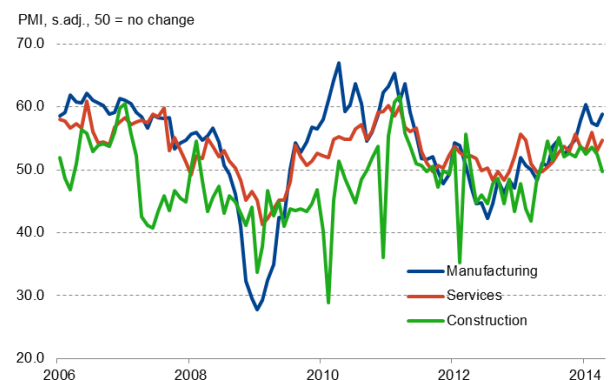
Meanwhile, the [Markit/BME Germany Manufacturing PMI[®]](#) rose from March's 53.7 to 54.1, with output growth the second-highest in nearly three years. [Services activity](#) also increased at an accelerated pace and companies remained optimistic about future workloads, partly attributed to the global economic upturn and higher consumer confidence. Encouragingly, the rise in services output was broad-based, with all six sub-sectors monitored by the survey experiencing growth in April.

German economic growth and the all-sector PMI



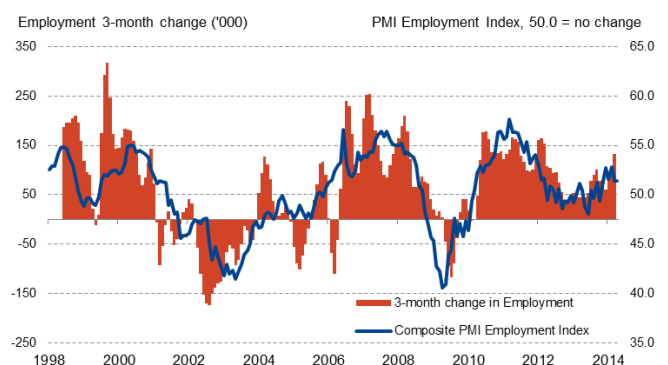
Sources: Markit, Statistisches Bundesamt.

Output/ activity across the sectors



Source: Markit.

Employment



Sources: Markit, Statistisches Bundesamt.

Employment growth continues

April's PMI data also showed that companies were encouraged to take on additional staff, in part reflecting higher order intakes and confidence about future workloads. The survey results are consistent with a monthly rise in workforce numbers of approximately 25,000. Hiring was seen across all three sectors, with the sharpest increase in payroll numbers at service providers, while hiring efforts at manufacturers and construction companies were relatively moderate.

Nevertheless, the current spell of job creation now stretches to six months, the longest period of continuous employment growth in over two years.

Official data showed that the unemployment rate in Germany held steady at 6.7% in April, the lowest level in over 20 years of data collection.

Cost inflation eases further

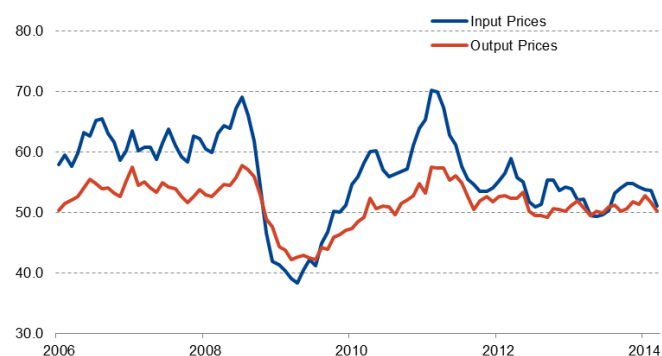
On the prices front, survey evidence signalled a further weakening of input cost inflation, with the all-sector Input Prices Index dipping to a nine-month low. While service providers and construction companies signalled further increases in costs, manufacturing input prices fell at the sharpest rate since July last year amid reports of increased competition among suppliers and lower prices for some raw materials, suggesting the exchange rate's appreciation may be helping reduce import costs.

Increased market competition was also one of the factors weighing on companies' pricing power. Output charges were broadly flat in April, with the respective index falling to a 10-month low.

ECB to leave interest rates unchanged

Despite weaker input price inflation in Germany and the euro area as a whole, no action is the most likely outcome of this month's ECB policy meeting on Thursday, given the recently strong run of survey data. Furthermore, official data showed that inflation in Germany rose from March's 43-month of 1.0% to 1.3%, while the increase in consumer prices in the single currency area rebounded from 0.5% in March to 0.7% in April. It is therefore unlikely for the ECB to feel the need to counter any threat of deflation via QE.

PMI Input and Output Prices



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