

Germany

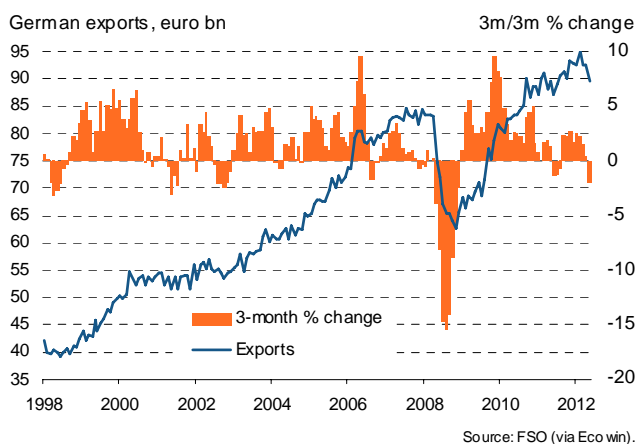
Slumping exports add to fourth quarter downturn worries

- Imports and exports fall sharply in November
- Export trend weakest since mid-2009
- Data add to worries about Q4 GDP contraction, but PMI points to stabilisation in December

A steep fall in exports adds to evidence that the German economy slid into contraction in the final quarter of 2012. The business surveys suggest that the rate of decline eased in December, and the economy may return to growth in the first quarter of 2013, but weak eurozone demand is likely to impede the pace of recovery.

Data from the Federal Statistics Office showed exports from Germany dropping 3.4% in November. After rising just 0.2% in October and also slumping 2.4% in September, exports in the latest three months were down 2.0% on the prior three month period, which represents the steepest quarterly rate of decline since June 2009.

German exports

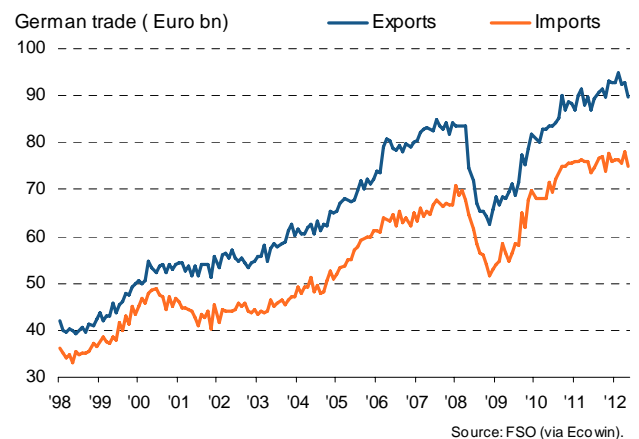


The eurozone was the principal area of weakness as far as German exports were concerned, with export values dropping some 5.7% in November. Exports outside of the EU rose 5.6%, however, helping to offset the weakness of demand in austerity-hit European markets.

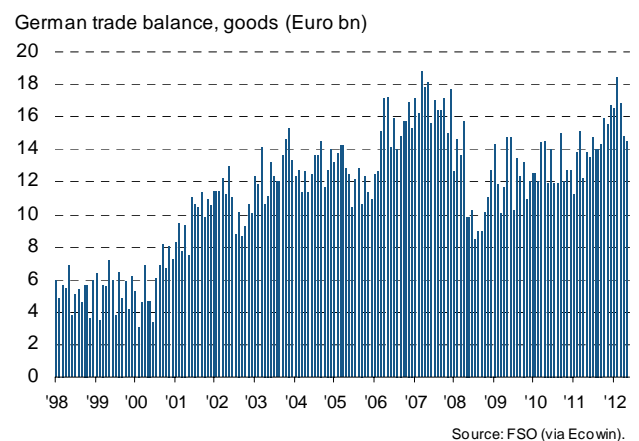
Imports also fell sharply, down 3.7% in November, suggesting that domestic demand deteriorated

markedly in Germany towards the end of last year. The resulting trade surplus of €14.57bn was the smallest since March, having now fallen for three successive months from a near-record high of €18.42bn in August.

Imports and exports



Trade balance

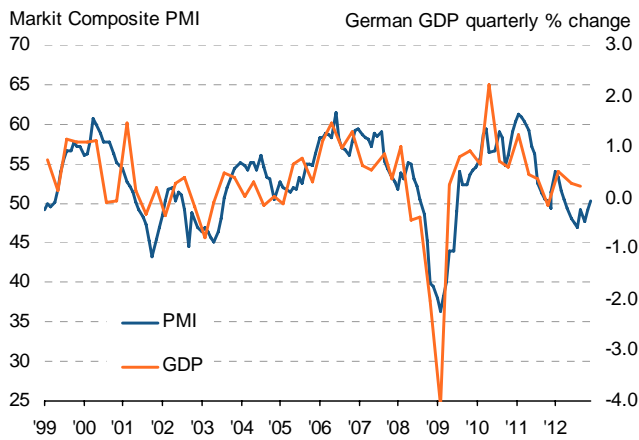


Brighter outlook

The worst may be over, however, in terms of the deteriorating export performance and the outlook for the wider German economy. Markit's PMI survey showed German manufacturers to have reported an easing in the rate of loss of export orders for the second month running in December, resulting in the smallest drop in exports since March. Exports nevertheless continue to fall sharply, squeezed by falling demand in neighbouring eurozone countries.

The US and emerging markets such as China, Brazil and Mexico are key bright spots, but until demand revives in the eurozone it is likely that German manufacturing will continue to struggle and act as a dampener on German economic growth. German GDP rose 0.2% in the third quarter but it is likely that a mild contraction will have occurred in the fourth quarter. However, with the all-sector PMI returning to near 50 in December, the economy is showing signs of stabilising again and renewed, albeit subdued, growth may be seen in the first quarter.

Economic growth



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