

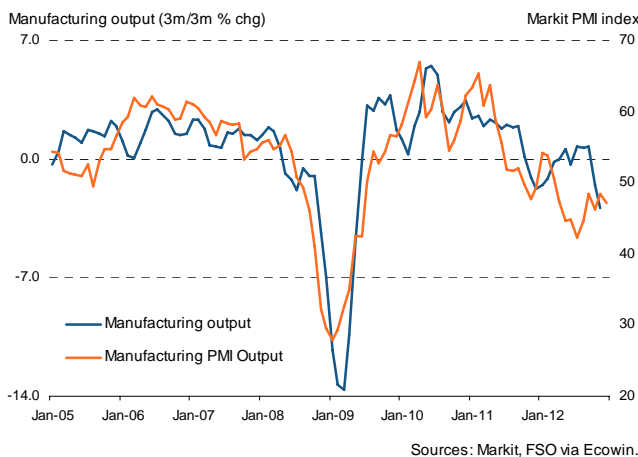
# Germany

## Steep fall in industrial production raises spectre of fourth quarter GDP slide

- **Industrial production falls at fastest quarterly rate since May 2009, down 2.6% in three months to November**
- **Downturn raises the prospect of significant drop in fourth quarter GDP**

Official industrial production data have moved closer into line with survey data which have indicated that the German economy contracted in the fourth quarter of 2012, with the possibility of a far steeper than previously expected decline.

### Manufacturing output



Data from the Federal Statistics Office showed industrial production falling by 2.4% in the three months to November, registering the steepest fall since May 2009. The decline was led by a 2.9% drop in manufacturing output.

Analysts had been hoping to see a 1.0% jump in production in November, but were disappointed with a mere 0.2% rise. The lacklustre performance in November came on the back of 2.0% drop in October and a 1.5% decline in September.

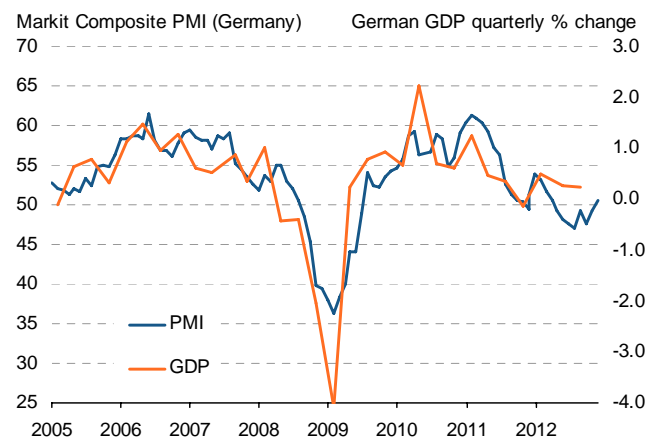
The uptick in November looks unlikely to represent the start of renewed manufacturing sector growth. The PMI survey's manufacturing output index registered a ninth successive monthly decline in December, with the rate of deterioration gathering pace slightly after easing in November.

With further weakness therefore expected for December, manufacturing looks set to act as a significant drag on the economy in the fourth quarter.

The PMI data covering manufacturing and services point to only modest a quarterly GDP decline of 0.1%, but a steeper decline may be likely due to the official data failing to reflect the underlying economic weakness that was evident in the PMI in the third quarter. Instead of falling by approximately 0.3% in the three months to September, as signalled by the PMI, GDP rose by 0.2%, buoyed by what appears to have been temporary factors early in the quarter, such as surprisingly strong car production and exports. It is possible, therefore, that the German economy has seen some pay back from this temporary third-quarter strength, leading to a commensurately sharper fall than signalled by the PMI in the fourth quarter.

To get some idea of the possible extent of the fourth quarter decline under such a pay-back scenario, the 0.5% and 0.2% declines signalled by the PMI in the third and fourth quarters respectively would translate into a 0.6% decline in GDP in the fourth quarter (assuming a 0.2% rise in the third quarter).

### German GDP and the PMI



The good news is that the GDP data have lagged behind the PMI, and the latter suggests that the economy stabilised in December, raising the prospect of a return to growth in the first quarter if conditions

---

continue to improve. Although manufacturing continued to contract in December, according to the PMIs, the service sector enjoyed the strongest growth for eight months.

---

**Chris Williamson**

**Chief Economist**

Markit

Tel: +44 207 260 2329

Email: [chris.williamson@markit.com](mailto:chris.williamson@markit.com)

For further information, please visit [www.markit.com](http://www.markit.com)