

# Germany

## German GDP growth set to rebound strongly in Q1

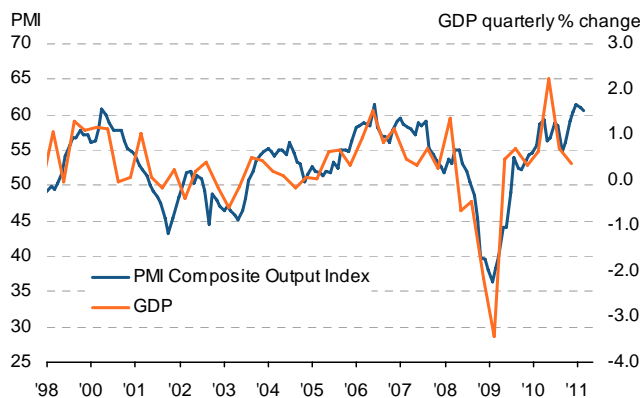
- **Manufacturing PMI suggests growth has picked up again, after the slowdown indicated towards the end of 2010.**
- **Stronger service sector expansion added to GDP growth momentum in Q1.**
- **PMIs suggest a continued surge in private sector job creation.**

### Germany grows at almost twice Eurozone average in Q1

Markit's flash PMI data for March showed output for the combined manufacturing and services sectors growing at a rate only slightly below January's four-and-a-half year high. The data are roughly consistent with GDP rising by as much as 1.5% in Q1, which is almost double the 0.8% increase signalled by PMI data for the Eurozone as a whole in the first quarter of 2011.

The data therefore indicate that growth momentum has picked up sharply in Germany since the slowdown seen late last year. GDP growth slowed from a peak of 2.2% in Q2 to just 0.4% in Q4, partly as a result of weather-related disruptions in the construction and services sectors.

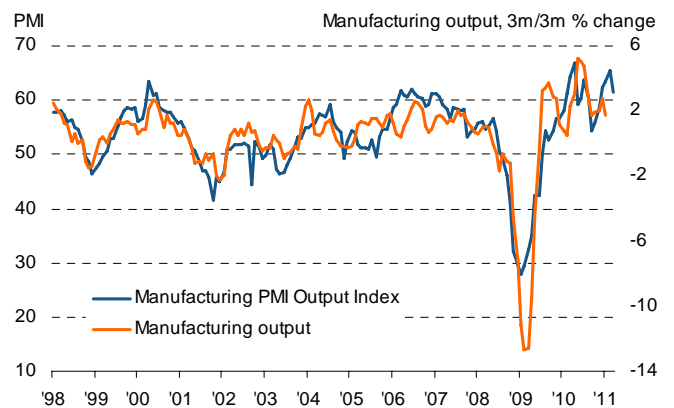
#### PMI v. German GDP



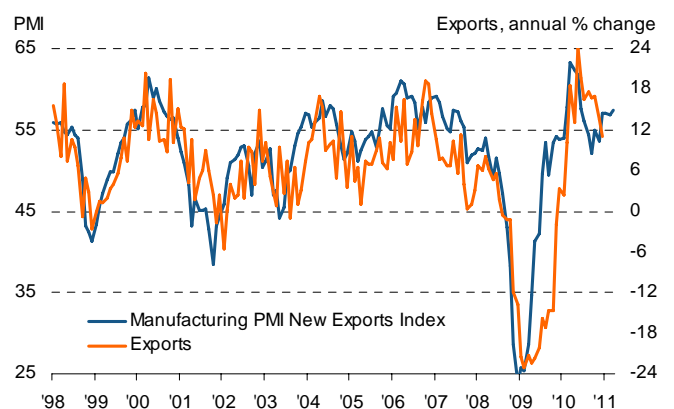
Sources: Markit, EcoWin.

The recent improvement in private sector business activity looks to have been supported by stronger external demand and an associated acceleration in manufacturing export growth at the start of 2011. The PMI New Export Orders Index reached a nine-month high in March and suggests a double-digit annual rate of expansion in manufacturing exports in Q1.

#### PMI v. official manufacturing output



#### PMI v. official manufacturing exports



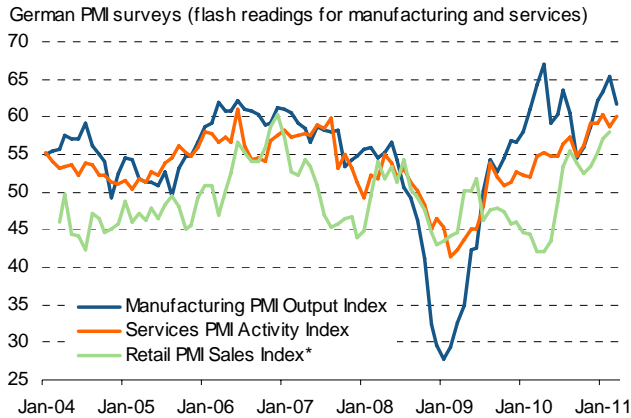
Sources: Markit, EcoWin.

### Domestic demand revival

Furthermore, sector data shows that the contributions to growth have shifted significantly since earlier in the recovery. In recent months, the upturn has been less reliant on manufacturing due to strong improvement in the services economy. Service sector business activity

rose in March at the second-strongest rate since June 2006.

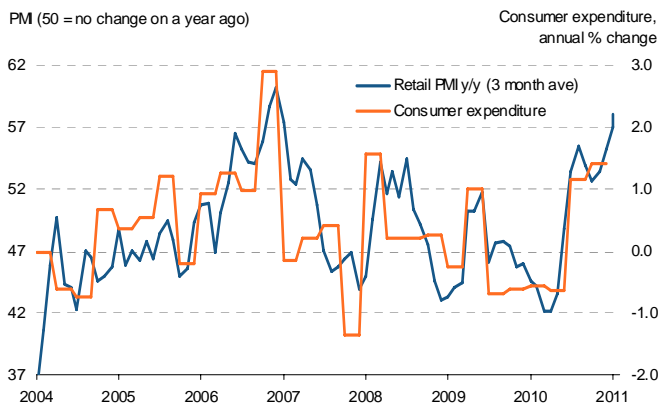
**Manufacturing, services and retail PMIs**



Source: Markit. \* Retail data available to February 2011.

Improved growth in services is a further indication that domestic demand is picking up in Germany, which is something that Markit’s Retail PMI has also highlighted. February’s retail PMI data were consistent with consumer spending rising at an annual rate of 2% (March data are published on 30 March).

**Markit Retail PMI and consumer spending**



Sources: Markit, EcoWin.

**Labour market improvement heats up**

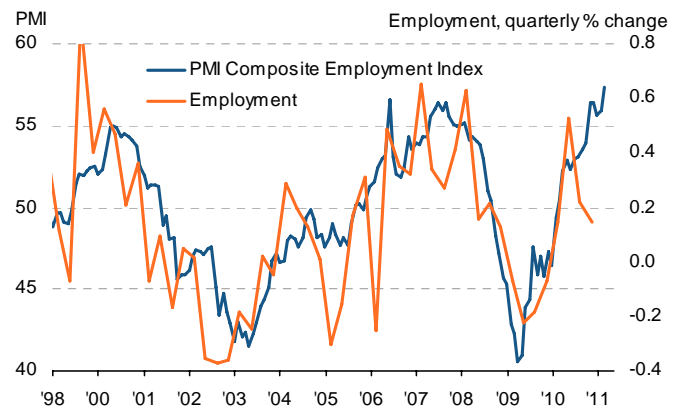
March’s flash PMI showed the fastest rate of private sector jobs growth since this series began in January 1998 as firms continued to step up recruitment in response to a surge in workloads during Q1. As well as being a reflection of pressure on current operating capacity, this upturn in hiring suggests continued confidence in the underlying outlook for business activity.

Stronger labour market conditions should also have a positive impact on the service economy by supporting consumption in the months ahead. As such, it is hoped

that the domestic demand revival will receive a secondary boost from better job security and increased willingness to spend.

The Markit Retail PMI data therefore remain key to assessing whether a German spending renaissance will appear in the months ahead, and thereby help further broaden the recovery following the initial impetus provided by external manufacturing demand.

**PMI and employment**



Sources: Markit, EcoWin.

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