

Embargoed until 0955 CEST (0755 UTC) 3 September 2018

IHS MARKIT / BME GERMANY MANUFACTURING PMI®

Germany Manufacturing PMI falls in August amid slowdown in new order growth

KEY FINDINGS

Export order growth weakest in over two years

Further strong gains in factory output and employment

Firms' year-ahead expectations soften

The German manufacturing sector saw robust increases in both output and employment in August, though signs of weakness in new orders and concerns towards global geopolitics weighed on firms' expectations towards growth in the year ahead, according to the latest PMI® survey data from IHS Markit. Notably, new export orders showed the weakest rise for over two years.

The headline IHS Markit/BME Germany Manufacturing PMI – a single-figure snapshot of the performance of the manufacturing economy – fell back to 55.9 in August, down from 56.9 in July and its joint-lowest reading in the past year-and-a-half (alongside that seen in June).

Production growth remained strong at the midway point of the third quarter, with the rate of increase in output little-changed from that seen in July. New orders, however, rose at a much weaker rate by comparison, which partly reflected the slowdown in export sales growth to the weakest since May 2016. Accordingly, stocks of finished goods increased for the first time in eight months, while the rate of backlog accumulation slowed to the weakest for over two years.

As well as sustained robust output growth, August also saw a further marked increase in the level of employment across the goods producing sector. Concurrently, higher production requirements led to a further increase in manufacturers' buying levels, which displayed the strongest rate of growth for four months.

Elsewhere, latest data showed a further steep increase in average purchase prices paid by German goods producers.

Manufacturing PMI
sa, >50 = improvement since previous month



The rate of inflation dipped to the weakest since April but remained well in excess of the historical average. Steel and oil were some of the main drivers of the increase in costs, according to anecdotal evidence, while there were also reports of pressure in supply chains leading to higher input prices.

Goods producers continued to face delays in the delivery of purchased items during August, although the extent to which lead times lengthened was the least marked for 15 months.

Higher costs were meanwhile often passed on at the factory gate, with manufacturers raising selling prices for the twenty-fourth month in a row. The rate in output charge inflation in August was the highest seen for three months.

German manufacturers generally remained optimistic about the outlook for output, with new products and a growing economy expected to support expansion in the year ahead. That said, the degree of confidence softened slightly since July and was among the lowest seen in over three years, as a number of businesses raised concerns over global geopolitics and, in particular, the imposition of tariffs.

By main industrial grouping, the best performing area was the capital goods sector, while makers of consumer goods reported falls in both output and new orders.

COMMENT

Phil Smith, Principal Economist at IHS Markit, which compiles the Germany Manufacturing PMI survey, commented:

“At first glance, the latest PMI data look reasonably healthy: at 55.9, the headline figure is comfortably inside expansion territory and well above its historical trend level of 52.5. However, having already lost significant momentum since the beginning of the year, there are warming signs that the sector could see a further correction in coming months.

“New order growth in August was substantially slower than that of output and employment, which translated into a rise in stocks of finished goods and the slowest increase in backlogs for over two years. Unless demand revives, the current pace of output growth simply cannot be sustained. And firms aren't overly optimistic about the outlook either, with worries about the global economic and political backdrop continuing to weigh on their confidence.

“In the here and now, at least, the manufacturing sector looks to have made a positive contribution to overall economic growth so far in the third quarter, thanks to sustained strong growth in goods production.”

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Methodology

The IHS Markit / BME Germany Manufacturing PMI® is compiled by IHS Markit from responses to questionnaires sent to purchasing managers in a panel of around 400 manufacturers. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of ‘higher’ responses and half the percentage of ‘unchanged’ responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Purchasing Managers’ Index® (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers’ Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers’ Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

August 2018 data were collected 13-23 August 2018.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

About PMI

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 [ihsmarkit.com/products/pmi.html](https://www.ihsmarkit.com/products/pmi.html).

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Output Index

sa, >50 = growth since previous month

Manufacturing production

sa, cal. adj., %ytr/yr



Sources: IHS Markit, Bundesbank.

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BME

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