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IHS MARKIT / BME GERMANY MANUFACTURING PMI®

Manufacturing PMI ticks up in April but remains firmly in contraction territory

KEY FINDINGS

Headline PMI remains close to March's 80-month low

Output falls markedly again despite pace of decline easing

Input lead times show greatest improvement in a decade

Latest PMI® data from IHS Markit and BME revealed a further marked contraction of Germany's manufacturing sector at the start of the second quarter, albeit with the rates of decline in output and new orders easing slightly since March. Capacity pressures meanwhile continued to dissipate, resulting in another modest decrease in employment and the most marked improvement in supplier delivery times since May 2009. The disinflationary effects of the downturn were seen in a further easing of factory gate price inflation to a 29-month low.

The headline IHS Markit/BME Germany Manufacturing PMI – a single-figure snapshot of the performance of the manufacturing economy – registered 44.4 in April, up marginally from March's 80-month low of 44.1.

The slight uptick in the headline PMI at the start of the second quarter was due in part to a slower fall in output. However, the rate of contraction was still marked overall and the second-quickest seen in over six-and-a-half years. The main area of weakness on the production front was the investment goods sector, which showed an accelerated decline.

Behind the decrease in output in April was a seventh straight monthly reduction in new orders. Despite easing slightly since March, the rate of decline remained sharp and quicker than at any other point over the past ten years. This was also the case for new export orders. Where firms reported a decrease in inflows of new work, this was often linked to a slowdown in the automotive industry.

Manufacturing PMI
sa, >50 = improvement since previous month



Source: IHS Markit

With backlogs of work being cleared at the quickest rate for almost a decade in April, the survey data showed manufacturers reducing their staffing capacity. Employment fell slightly for the second month running, with firms often commenting on the non-renewal of temporary contracts.

Another feature of April's survey was the running down of both pre- and post-production inventories. Stocks of purchases fell to the greatest extent for over three years, as manufacturers recorded a further steep fall in buying levels. The drop in purchasing activity in turn freed up yet more capacity at suppliers, which was reflected in a third straight monthly shortening of input lead times. Furthermore, the extent of the improvement in vendor performance was the most marked for almost ten years.

Purchase price inflation faced by manufacturers in April was only fractionally higher than March's 32-month low. While anecdotal evidence highlighted the influence of rising oil prices and wage pressures, this was largely offset by a general lack of supplier pricing power and falls in the cost of steel and related products. Accordingly, output price inflation slowed for the fourth month in a row to the weakest since November 2016.

Finally, April's survey showed manufacturers growing gloomier about the outlook for output over the next 12 months. The degree of pessimism was the greatest seen since November 2012.

COMMENT

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

"April saw the manufacturing PMI tick up for the first time in nine months thanks to slower falls in output and new orders, but we perhaps won't have a clear picture of whether the sector's downturn has bottomed out until the May flash results are published later this month."

"The struggles in the car industry continue to ripple through the German manufacturing sector. From electronics and chemicals, to basic metals and machinery, firms in almost all sectors are reportedly feeling the effects of the automotive slowdown."

"While some firms have started trimming staffing numbers through the non-renewal of temporary contracts, there is the potential for more aggressive cuts in months to come unless demand revives. The survey's two best measures of capacity pressures – the backlogs of work and supplier delivery times indices – are both at levels not seen since the global financial crisis, suggesting many firms remain overstaffed given the current level of demand."

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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.

April 2019 data were collected 10-23 April 2019.

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., %yryr



Sources: IHS Markit, Bundesbank.

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BME

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