

IHS Markit / BME Germany Manufacturing PMI®

German manufacturing sector sees stronger growth in February, but supply chain pressures intensify

Key findings

Production rises steeply amid sustained upturn in new orders

Record supply delays lead to higher prices and lower stocks

Manufacturers remain strongly optimistic towards the year-ahead outlook

Data were collected 11-19 February

February PMI® survey data showed strong and accelerated growth in Germany's manufacturing sector, driven in part by robust demand from abroad. Less positively, however, there was a further deterioration in supply-side conditions, with reports of delivery delays hitting a record high and costs rising sharply. Nevertheless, manufacturers remained strongly optimistic about the year-ahead outlook for production.

The headline IHS Markit/BME Germany Manufacturing PMI® – a weighted aggregate of measures of new orders, output, employment, suppliers' delivery times and stock of purchases – rose steeply to a 37-month high of 60.7 in February, from 57.1 in January.

Contributing to the rise in the headline PMI was a faster increase in new orders. Having eased to a seven-month low at the start of the year, order book growth reaccelerated to the quickest since last October. There were widespread reports of higher demand from Asia (especially China), the US and across Europe, with export sales rising to the greatest extent since December 2017.

Production levels were ramped up accordingly, increasing at the fastest rate for three months and led by particularly sharp growth in the capital goods category. Even so, latest data showed a further marked rise in backlogs of work in February.

In many cases, manufacturers reported using stocks of finished goods to meet demand. This resulted in a ninth straight monthly decline in post-production inventories, and one that was the most marked since last November. Surveyed businesses indicated that supply constraints were a factor.

February's survey saw record reports of increased lead times on inputs, with 64% of surveyed firms facing delays. Anecdotal evidence highlighted a lack of available transport capacity

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Germany Manufacturing PMI
sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Commenting on the latest survey results, Phil Smith, Associate Economics Director at IHS Markit, said:

"German manufacturing saw strong growth in February on the back of an increasingly positive trend in export orders. Capital goods producers noted a particularly strong performance, in a sign of increasing investment spending.

"But while the headline numbers are very encouraging and there was finally stability in employment at factories, less positive was the news that supply chain pressures intensified in February, with more firms reporting delays than ever before in nearly 25 years of data collection.

"There looks to be further upward pressure on inflation in the German economy from supply bottlenecks and a subsequent surge in manufacturing input costs. Not only did costs rise more quickly in February, but goods producers were also better able to pass the burden on, leading to the steepest rise in factory gate prices for nearly two-and-a-half years.

"The data suggest that supply disruption is making it more difficult to replenish stocks, which could have consequences for production in the coming months. Nevertheless, the overriding sentiment for the longer-term outlook is optimism, with a record number of manufacturers expecting to see output rise over the next 12 months."

(particularly shipping containers) and shortages of key inputs such as steel, plastics and electronic parts.

Concerns about increasing lead times on inputs, combined with the need to fulfil higher production requirements, led to a sharp rise in manufacturers' buying levels in February. The increase was the seventh in as many months and the fastest since January 2018. Still, stocks of purchases fell for the tenth straight month.

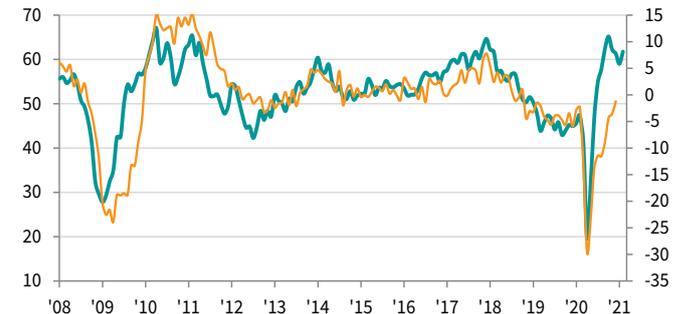
The combination of higher demand for inputs and squeezed supply resulted in a further increase in purchase prices in February. Furthermore, the rate of cost inflation picked up to the quickest since April 2011 and was among the fastest seen in nearly 25 years of data collection. Steel was widely reported as up in price, alongside chemicals, plastic and electronic parts.

In line with the trend in costs, average prices charged by manufacturers increased at a faster rate in February. Output price inflation had remained relatively mild in the previous four months, but accelerated sharply midway through the opening quarter to the quickest for nearly two-and-a-half years.

Turning to expectations, manufacturers were strongly confident about production levels rising over the next 12 months, reflecting hopes for a further recovery in demand as COVID-19 restrictions are eased and client confidence improves. Moreover, the degree of optimism improved to a fresh record high (since mid-2012).

Lastly, February's survey showed a stabilisation in factory employment, thereby ending a near two-year sequence of staff cuts. A rise in workforce numbers at capital goods producers offset declines in the consumer and intermediate goods categories.

Germany Manufacturing PMI Output Index Manufacturing production
 sa, >50 = growth since previous month cal. adj., %yr/yr



Sources: IHS Markit, Federal Statistical Office.

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Survey 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.

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

Survey dates and history

February data were collected 11-19 February 2021.

Survey data were first collected April 1996.

Flash vs. final data

Flash data were calculated from 94% of final responses. Since January 2006 the average difference between final and flash Manufacturing PMI values is 0.0 (0.3 in absolute terms).

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.
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