PMI slips deeper into contraction territory in May as output falls for first time since 2015

KEY FINDINGS

PMI at 50-month low of 48.3
Exports decrease for eighth month in a row
Job creation slows to weakest in over three years

Business conditions across the Austrian manufacturing sector worsened for the second month running in May, led by a further marked drop in new export orders. Notably, firms reported the first fall in output since early-2015. With confidence towards future production also waning, job creation in the goods-producing sector slowed to its weakest in over three years.

The headline UniCredit Bank Austria Manufacturing PMI is a composite single-figure indicator of manufacturing performance. It is derived from indicators for new orders, output, employment, suppliers' delivery times and stocks of purchases. Any figure above 50.0 indicates overall improvement of the sector.

Having fallen below the neutral 50.0 threshold for the first time in over four years in April (49.2), the PMI slipped further in May to 48.3 – its lowest since March 2015. All components of the index imparted a negative directional influence except new orders, which fell at a slightly slower rate than in April.

The main downward pressure on the PMI came from production, which fell modestly in May to end a sequence of growth stretching back over four years. There were moderate decreases in output across each of the main industrial groupings – consumer, intermediate and capital goods.

New orders meanwhile decreased for a fifth straight month in May. Though the rate of decline was slower than in April – when it reached the quickest since late-2014 – it was still marked by historical standards. Part of the issue was another steep decrease in export sales, which fell for the eighth month in a row and at one of the quickest rates for over six-and-a-half years. Panelists often linked lower new orders to client uncertainty and a downturn in the autos industry.

As well as showing a slowdown in job creation – with employment rising only slightly overall, the latest data indicated a notable paring back of buying levels across the manufacturing sector in May. Purchasing activity fell to the greatest extent since March 2015, as firms adjusted to lower output requirements and made efforts to reduce input stocks, accordingly. However, lower-than-expected sales meant that post-production inventories rose for the sixth time in the past seven months.

Lower demand for inputs was reflected in a third straight monthly improvement in supplier delivery times in May. Purchase price inflation also remained subdued, as the cost of a number of key inputs, in particular steel and some electronic components, fell amid reports of excess supply in the market. However, due in part to recent oil price rises, the overall rate of cost inflation ticked up slightly from April's 31-month low.

Average factory gate prices also increased at a faster rate in May, with the rate of inflation rebounding from a near two-and-a-half-year low in the previous survey period to the highest since January.
Methodology
The Bank Austria Manufacturing PMI® is compiled by IHS Markit from responses to questionnaires sent to purchasing managers in a panel of around 300 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.

May 2019 data were collected 13-23 May 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.

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