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IHS MARKIT / BME GERMANY MANUFACTURING PMI®

Manufacturing PMI slide extends into fourth quarter as order books move into contraction

KEY FINDINGS

New orders fall for first time since November 2014

Output and jobs continue to rise, but at slower rates

First negative outlook for output in four years

New orders placed with German manufacturers decreased in October, causing overall growth in the sector to slow to its weakest in nearly two-and-a-half years, latest PMI® survey data from IHS Markit showed. Order books fell for the first time since late-2014 to end a record sequence of growth. Firms linked the slowdown to troubles in the automotive sector and hesitancy among foreign clients, reporting slower increases in output and employment as a result. Moreover, production is expected to fall in the next 12 months, the first sign of pessimism among manufacturers for four years.

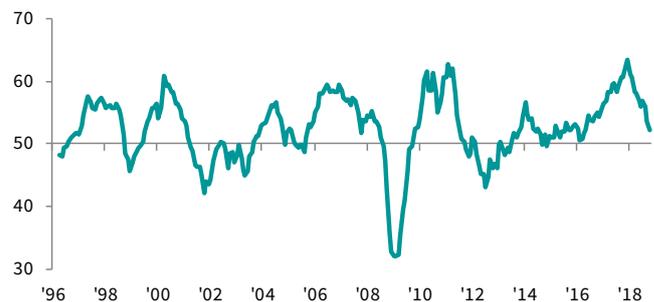
The headline IHS Markit/BME Germany Manufacturing PMI – a single-figure snapshot of the performance of the manufacturing economy – fell for the third month running in October, from 53.7 in September to a 29-month low of 52.2. The Index remained above the 50.0 no-change mark thanks in part to increases in output and employment, though growth slowed on both fronts.

The rise in production in October was only marginal and the weakest seen since November 2014. Output was supported somewhat by clearing backlogs of work, the level of which fell for the second month in a row. It marked the first time that back-to-back declines have been recorded since 2013.

Inflows of new work fell into contraction in October, having risen continuously on a monthly basis since December 2014. The decline was centred on the intermediate and capital goods sub-sectors.

Underpinning the reduction in total inflows of new business was a second straight monthly fall in export sales.

Manufacturing PMI
sa, >50 = improvement since previous month



Manufacturers faced the sharpest drop in new business from abroad for over five years, citing increased hesitancy among international clients.

Manufacturers' buying levels fell accordingly, ending a sequence of growth in purchasing activity stretching back to early-2015. Supplier delivery times continued to worsen, though the drop in demand for inputs helped relieve some pressure and the deterioration in performance was the least marked since February last year.

One of the areas where the manufacturing sector continued to see growth was employment. The latest rise in workforce numbers was again solid by historical standards, with all three main industrial groupings contributing to the increase. That said, the pace of job creation moderated further from strong rates seen early in the year to the slowest since February 2017.

Elsewhere, latest data showed an intensification of cost pressures as input price inflation rebounded from a 12-month low in September. Manufacturers highlighted increases in the cost of electronics, energy, oil derivatives and steel. Output prices, however, showed the smallest rise since July last year.

Finally, October saw manufacturers' expectations for output in the year ahead turn negative, reflecting concerns over a slowing economy, issues across the car industry and geopolitical frictions.

COMMENT

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

"A second consecutive monthly decline in export orders poured more cold water on the manufacturing sector in October, with PMI data indicating the worst overall growth performance for almost two-and-a-half years.

"Output barely rose compared with the month before, and the odds appear to be in favour of production falling in coming months rather than regaining momentum. New orders were down for the first time in four years in October and backlogs fell again. But perhaps most telling is the view of manufacturers that output levels are expected to be lower 12 months from now.

"Employment growth remained more resilient but, being a lagging indicator, it's more than likely that the pace of hiring will continue to slow as we move through the fourth quarter.

"Whether the sector does enter a phase of contraction remains to be seen, but it's nonetheless been a while since the outlook has looked so bleak."

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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.

October 2018 data were collected 12-24 October 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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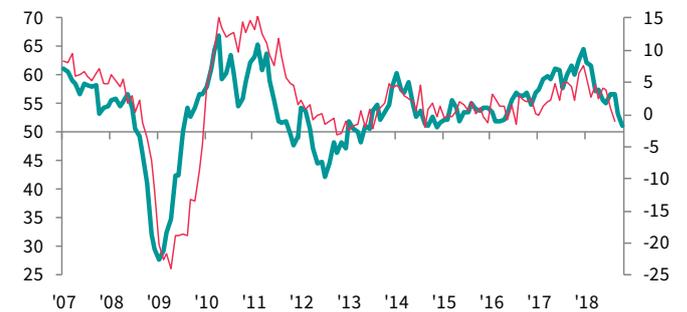
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Output Index

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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