

Purchasing Managers' Index[®]
MARKET SENSITIVE INFORMATION
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IHS Markit Flash Germany PMI[®]

Return to growth of services buoys overall activity, but manufacturing sees increasing disruption from supply issues

Key findings:

- Flash Germany PMI Composite Output Index⁽¹⁾ at 56.2 (Apr: 55.8). 2-month high.
- Flash Germany Services PMI Activity Index⁽²⁾ at 52.8 (Apr: 49.9). 10-month high.
- Flash Germany Manufacturing Output Index⁽⁴⁾ at 62.7 (Apr: 67.6). 3-month low.
- Flash Germany Manufacturing PMI⁽³⁾ at 64.0 (Apr: 66.2). 3-month low.

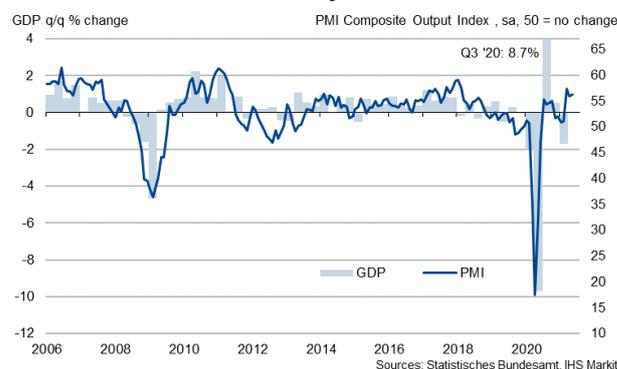
Data collected May 11-20

Germany's private sector economy saw a slight pick-up in growth in May, reflecting an improved performance across services, latest 'flash' PMI[®] data from IHS Markit showed. The survey pointed to a further loss of momentum in the manufacturing sector, however, as record supply delays caused disruption to production at an increasing number of businesses.

Severe supply-chain bottlenecks meanwhile contributed to an intensification in inflationary pressure, with firms' costs and output prices rising at the quickest rates on record in May.

May's **headline Flash Germany PMI Composite Output Index** came in at 56.2, up slightly from 55.8 in April. The rise in the index was driven by a return to growth in services activity after the sector stagnated at the beginning of the second quarter as measures to curb the spread of COVID-19 infections were tightened (index at 52.8 from 49.9 in April). The increase in services activity was only moderate, but nevertheless the strongest recorded since July 2020, as a number of firms reported stronger demand linked in part to the renewed easing of some lockdown restrictions during the month.

IHS Markit Flash Germany PMI



The Manufacturing Output Index meanwhile fell notably to 62.7, from 67.6 in April and further from the record high at the end of the first quarter. While the number of firms reporting improved output levels remained elevated by historical standards, there was a growing incidence of companies attributing lower output to supply disruption and associated downtime at customers.

Growth of new orders at goods producers remained strong but eased to the slowest for three months. This was also the case for manufacturing export orders. New business in the service sector meanwhile rose solidly in May, ending a seven-month sequence of decline thanks to stronger domestic demand and a near-stabilisation in new work from abroad. **Overall new work** posted the steepest increase since April 2011.

The severity of the supply-chain issues facing manufacturers was underlined by some 79% of surveyed goods producers reporting delays in the receipt of inputs – a new record for the survey. Supply shortages in turn drove a further surge in manufacturing purchase prices, which rose at the fastest rate since the start of data collection in 1996.

Service sector cost pressures also picked up, reaching the highest for almost 13 years. **Overall cost inflation** across the two monitored sectors combined was at a record high (since 1998), surpassing the previous peak seen in February 2011.

Led by an unprecedented increase in factory gate prices, **average prices charged** by German businesses showed the steepest rise since comparable data were first available (for this series the start date is September 2002). The survey also revealed a growing willingness among services firms to increase charges, with output prices in the tertiary sector rising to the greatest extent since November 2019.

Amid a further broad-based accumulation of **outstanding business**, May saw **employment** levels continue to recover across both manufacturing and services. However, the pace of job creation slowed slightly from April's two-and-a-half year high, with staffing numbers showing a smaller rise across services and factory employment growth unchanged from the rate seen in the previous month. In the case of manufacturing, there were indications from the survey's anecdotal evidence that efforts to control costs had constrained firms' hiring intentions.

Businesses' **expectations for activity** over the next 12 months remained strongly positive in May. The degree of optimism was unchanged on the month and remained just below the record high seen at the end of the first quarter. Sectorally, confidence in manufacturing remained at its highest since the series began in July 2012 and was stronger than that recorded across services.

Comment

Commenting on the flash PMI data, **Phil Smith**, Associate Director at IHS Markit said:

"May saw a welcome pick-up in services activity across Germany, as firms reported a rise in demand across the sector for the first time since the retightening of lockdown measures last October. The improved performance in services comes at a crucial time, making up for a further loss of momentum in manufacturing due to worsening supply issues."

"While the demand picture for manufacturing remains positive, we are getting more reports from businesses of supply shortages curbing production levels and weighing on new orders due to forced downtime at customers. On top of this, there is also the issue of an associated surge in costs, with supply shortages pushing up factory input prices in May at a rate that easily surpasses anything seen before in the manufacturing survey's 25-year history. Inflationary pressures are increasingly spreading to services as well, pushing the overall measures of input costs and output prices both to record highs."

"The survey suggests that the surge in operating expenses is having implications for staff recruitment, with some manufacturers reporting efforts to control costs despite growing demand. Nevertheless, with backlogs rising at a near-record rate as demand continues to outstrip supply, and firms still strongly confident about future activity, there remains a positive attitude towards hiring."

-Ends-

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Final May data are published on 1 June for manufacturing and 3 June for services and composite indicators.

The Germany PMI (Purchasing Managers' Index) is produced by IHS Markit and is based on original survey data collected from a representative panel of around 800 companies based in the German manufacturing and service sectors. The flash estimate is based on around 85% of total PMI survey responses each month and is designed to provide an accurate advance indication of the final PMI data.

The average differences between the flash and final PMI index values (final minus flash) since comparisons were first available in January 2006 are as follows (differences in absolute terms provide the better indication of true variation while average differences provide a better indication of any bias):

Index	Average difference	Average difference in absolute terms
Germany Composite Output Index ¹	0.0	0.4
Germany Manufacturing PMI ³	0.0	0.3
Germany Services Business Activity Index ²	-0.1	0.6

The *Purchasing Managers' Index*[®] (PMI[®]) survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries (including the European Central Bank) use the data to help make interest rate decisions. PMI[®] surveys are the first indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

IHS Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from IHS Markit. Please contact economics@ihsmarkit.com.

Notes

1. The Composite Output PMI is a weighted average of the Manufacturing Output Index and the Services Business Activity Index.
2. The Services Business Activity Index is the direct equivalent of the Manufacturing Output Index, based on the survey question "Is the level of business activity at your company higher, the same or lower than one month ago?"
3. The Manufacturing PMI is a composite index based on a weighted combination of the following five survey variables (weights shown in brackets): new orders (0.3); output (0.25); employment (0.2); suppliers' delivery times (0.15); stocks of materials purchased (0.1). The delivery times index is inverted.
4. The Manufacturing Output Index is based on the survey question "Is the level of production/output at your company higher, the same or lower than one month ago?"

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