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IHS MARKIT / BME GERMANY MANUFACTURING PMI®

Slower fall in new orders lifts PMI to 11-month high in January

KEY FINDINGS

New orders show smallest drop since October 2018 as export sales near stabilisation

Pace of staff cuts remains among fastest since early-2010

Firms express greater optimism towards outlook

The pace of contraction of Germany's manufacturing sector eased at the start of 2020, helped in part by order book volumes recording the smallest decline for 15 months, latest PMI® data from IHS Markit and BME showed. Output also fell more slowly, though the pace of staff cuts remained among the fastest seen over the past ten years. Competitive pressures continued to weigh on factory gate prices, but manufacturers nevertheless expressed greater optimism towards the outlook for output.

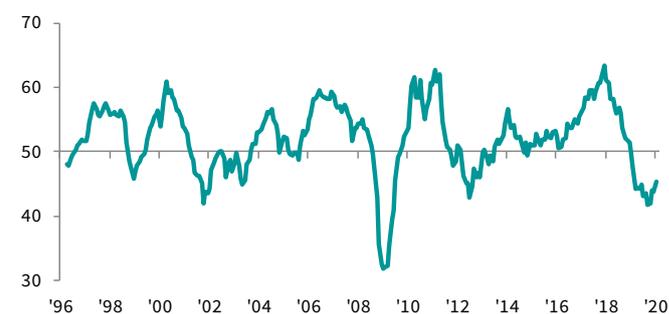
January saw the headline IHS Markit/BME Germany Manufacturing PMI – a single-figure snapshot of the performance of the manufacturing economy derived from indicators for new orders, output, employment, suppliers' delivery times and stocks of purchases – climb to an 11-month high of 45.3, from December's 43.7. The Index has now risen in three of the past four months from a ten-year low last September, though the latest reading was still firmly inside contraction territory.

Principal upward pressure on the PMI in January came from a slower rate of decline in new orders, which in turn partly reflected the near stabilisation of export sales. Anecdotal evidence indicated that while market conditions remained challenging and there was a reluctance among businesses to invest, some firms had seen a pickup in demand in key markets such as the US and China.

Output fell at the slowest rate for five months in January. That said, the pace of decline remained notably faster than that of new orders, with all three main industrial groupings

Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit

(consumer, intermediate and capital goods) recording lower production.

Employment continued fall sharply at the start of the year. The rate of job shedding seen in January was unchanged from the month before and has been exceeded only once (in October 2019) since January 2010.

January also saw further substantial reductions in manufacturers' inventory levels. Stocks of purchases dropped at the sharpest rate for three months, while holdings of post-production goods showed the steepest decline for almost three-and-a-half years.

Goods producers often reported efforts to streamline stocks and, as such, noted a further decline in their quantity of purchases. Though remaining marked by historical standards, the rate of decline in purchasing activity was the weakest for 11 months. This was reflected in a more moderate improvement in supplier delivery times.

There was sustained downwards pressure on prices at the start of the year, with average factory gate charges falling for the seventh month in a row and at a slightly faster rate. Panellists noted the influence of strong competitive pressures and lower input costs.

More positively, manufacturers' expectations towards output over the next 12 months remained on an upward trajectory. Improving for the fifth month in a row (up from a record low last August), sentiment was the strongest for almost one-and-a-half years as firms cited brighter prospects for international sales.

COMMENT

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

"Germany's manufacturing sector showed more signs of being on the way to recovery in January, with the PMI climbing further from last September's nadir to its highest for 11 months. The most encouraging findings are those around new orders and export sales, which continue to edge closer to stabilisation. That said, output, stocks, and employment in particular remain firmly in contraction, to show that the sector is not out of the woods yet.

"The recent improvement in manufacturers' expectations extended into January, with firms noting the influence of easing trade tensions and the prospect of a revival in exports. However, the picture has change somewhat in the short space of time since the survey was conducted [13-24 January], with the disruption to business in China from the coronavirus bound to have an impact on German manufacturers' exports and sentiment in the coming months."

Output Index

sa, >50 = growth since previous month

Manufacturing production

sa, cal. adj., %y/yr



Sources: IHS Markit, Bundesbank.

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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.

January 2020 data were collected 13-24 January 2020.

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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BME

BME is the German Association for Materials Management, Purchasing and Logistics, founded in 1954. It provides services for around 9000 individual and corporate members, including small and medium-sized businesses as well as Germany's top 200 companies. The BME promotes a dialogue between business and academia, both on the demand and the supply side, by providing the necessary networks for communication and knowledge exchange. The association is open to all company types from any sector (industry, trade, banking/insurance, public sector, service providers, etc.).

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