Output growth quickens amid sharp rise in new orders

Faster increases in production and new business
Business sentiment at record high
Inflationary pressures soften

The Greek manufacturing sector made a strong start to the second half of 2019, seeing overall growth accelerate on the back of faster increases in output, new orders and employment. The strong demand picture in July contributed to improved optimism among firms regarding the future, with confidence the highest since data on sentiment were first collected in July 2012. At the same time, inflationary pressures were relatively weak.

The seasonally adjusted IHS Markit Greece Manufacturing Purchasing Managers’ Index® (PMI®) – a composite indicator designed to measure the performance of the manufacturing economy – rose to a three-month high of 54.6 in July from 52.4 in June. The reading signalled a marked improvement in the health of the sector, extending the current sequence of expansion to 26 months.

Central to the latest strengthening of business conditions was a sharp monthly rise in new orders. According to panelists, successful advertising and quicker deliveries to customers contributed to higher sales. New export business also increased, albeit to a lesser extent than total new work.

Higher new orders encouraged manufacturers to expand their production in July. The rate of growth was substantial, having quickened from that seen in June.

Moreover, the re-acceleration of sales growth supported confidence among firms that output will continue to expand over the coming year. In fact, sentiment was the strongest recorded since the series began in July 2012.

Output growth in July was supported by a marked rise in employment as firms looked to expand capacity. This enabled manufacturers to reduce their backlogs of work for the sixth month running in spite of the strength of new order inflows.

Firms also expanded their purchasing activity in line with improved demand, subsequently putting pressure on supply chains. Vendor delivery times lengthened again at the start of the third quarter.

Although purchasing activity rose solidly, stocks of inputs decreased as items were used in the production process. Pre-production inventories fell for the tenth month running, albeit to the least extent in this sequence. Stocks of finished goods were also down amid the use of inventories to help meet new orders.

The rate of input cost inflation softened for the fourth consecutive month in July, and was the weakest in 40 months. Although some inputs such as oil and paper were reported to have risen in price over the month, there were declines in the cost of other items including steel.

After having fallen in the previous month, output prices increased in July. That said, the rate of inflation was only slight as firms maintained competitive pricing policies in order to attract clients.
**COMMENT**

David Owen, Economist at IHS Markit, which compiles the Greece Manufacturing PMI survey, commented:

“Strong sales growth led to a marked improvement in the health of Greece’s manufacturing sector, with substantial increases in output and employment also benefiting goods producers in July. Businesses were noticeably boosted by the upturn, with the sentiment-led Future Output Index climbing to a record high.

“These results stand in stark contrast with the global manufacturing sector, which has experienced a demand slowdown in recent months. If Greek producers remain unaffected by this subdued picture, and current sales trends continue, they could enjoy solid growth in the second half of the year.”

**CONTACT**

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