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UNICREDIT BANK AUSTRIA MANUFACTURING PMI®

Downturn in manufacturing sector extends into October

KEY FINDINGS

Output and new orders fall markedly again

Employment shows steepest decline since November 2009

Prices continue to fall as supply outstrips demand

The downturn in Austria's manufacturing sector continued into October, latest PMI data showed. The month saw another notable decrease in output and the steepest fall in factory employment for nearly ten years, as firms adjusted to a further drop in demand from clients both at home and abroad.

Falling backlogs of work and improving supplier delivery times meanwhile pointed to the continued emergence of excess capacity, with prices falling accordingly.

The headline UniCredit Bank Austria Manufacturing PMI – a single-figure snapshot of overall business conditions, calculated from indicators of output, new orders, employment, suppliers' delivery times and stocks of purchases – registered in contraction territory for the seven straight month in October. At 45.5, the latest reading was up only slightly from September's near seven-year low of 45.1.

Production was down for the sixth month in a row in October, marking the longest sequence of contraction since 2011. The rate of decline eased since September but was still one of the quickest seen over the past seven years.

The latest drop in output levels was in part a reaction to a further reduction in new work, which fell sharply during the month but slightly more slowly than in September. The data showed a particularly steep (albeit fractionally slower) fall in export sales. When explaining the decline in demand, surveyed firms commented on a lack of investment and a downturn in the automotive sector, with the German market highlighted as a particular area of weakness.

Manufacturing PMI

sa, >50 = improvement since previous month



Sources: Bank Austria, IHS Markit.

Manufacturers also responded to the deteriorating order book situation by cutting workforce numbers in October. The rate of job shedding was the quickest seen since November 2009. A further marked decrease in backlogs of work during the month pointed to excess capacity across factories in Austria.

There were also signs of the underutilisation of capacity in supply chains, as data showed another marked improvement in input delivery times. This reflected lower purchasing activity among manufacturers, with greater efforts being made to reduce stocks and optimise working capital. Pre-production inventories fell in October to the greatest extent since December 2016.

Weaker demand for inputs was also reflected in lower purchase prices in October. Input costs fell sharply and for the fifth month in succession, with items such as steel, plastic and a range of wood products widely mentioned as down in price. Average factory gate charges also decreased, down for a fourth straight month, though the rate of decline was the slowest in the current sequence.

Finally, sentiment among manufacturers towards the year-ahead outlook for output improved only slightly in October, after having hit a near seven-year low at the end of the third quarter. More firms expect production to fall over the next 12 months than those predicting a rise. Fears of an economic slowdown at home and abroad continued to weigh on confidence.



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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.

October 2019 data were collected 11-24 October 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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UniCredit Bank Austria

Our customers' success is one of our primary concerns. For this reason we are pleased to prepare the Purchasing Managers' Index on a monthly basis jointly with IHS Markit, thereby enhancing the quality of our information on the Austrian economy. Because having access to accurate information at the right time is decisive for business decisions, especially in an increasingly harsher competitive environment.

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