News Release

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IHS MARKIT / BME GERMANY MANUFACTURING PMI®

Manufacturing moves closer to stabilisation in February despite supply chain disruption

KEY FINDINGS

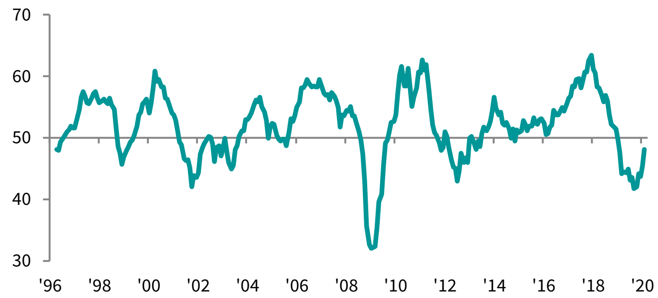
Decline in new orders eases to weakest in 17 months despite steeper drop in exports

Lead times lengthen for first time in over a year

Coronavirus-related concerns weigh on output expectations

Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit

The downturn in Germany's manufacturing sector continued to ease in February, with latest PMI® data from IHS Markit and BME showing slower falls in output, new orders and employment. The results came despite an accelerated drop in new export orders and disruption to supply chains, both linked to the outbreak of Covid-19 in China. There was also evidence of coronavirus-related concerns weighing on firms' expectations towards future output.

The headline IHS Markit/BME Germany Manufacturing PMI – a single-figure snapshot of the performance of the manufacturing economy – rose to a 13-month high of 48.0 in February, up from January's reading of 45.3. Underlying data showed upward pressure on the headline PMI from all of its component, with output, new orders, employment and stocks of purchases each falling at slower rates. That said, the biggest contributing factor behind the rise was a deterioration in supplier delivery times, with longer lead times having a positive influence on the PMI.

After improving in each of the past 12 months on the back of easing supply chain pressures, average input lead times faced by German manufacturers lengthened markedly in February. The majority of firms linked delivery delays to the shutdowns in China caused by the outbreak of Covid-19.

There were some reports from panellists of supply chain disruptions impacting buying activity, the level of which fell at a sharp and slightly accelerated rate in February. However, in spite of this, the decline in production across Germany's manufacturing sector eased for the fourth time in the past five months to the joint-weakest since February 2019.

The trend in output was mirrored by a further slowdown in the rate of decline in new orders to the softest in the current 17-month sequence of contraction. Total order book volumes neared stabilisation despite new export orders falling to the greatest extent for three months, with some firms mentioning higher demand from domestic sources.

Though easing to the joint-weakest in the past seven months in February, the rate of staff cuts across the manufacturing sector remained marked by historical standards. A number of firms commented on adjustments to lower capacity utilisation. Indeed, backlogs of work fell for the eighteenth month in a row, albeit at the slowest rate since January last year.

On the price front, February saw a further substantial drop in average factory gate charges, with the rate of decline unchanged since January and remaining among the fastest seen over the past ten years. There was also a further drop in prices paid for raw materials and other inputs, though the rate of decline eased sharply from the previous survey period to the slowest since last June.

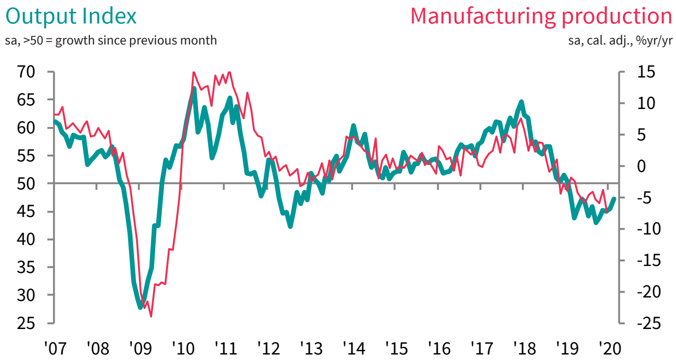
German manufacturers remained optimistic about the outlook for output over the next 12 months. That said, amid uncertainties about the impact of the coronavirus outbreak on supply chains and the global economy, confidence eased from January's 17-month high.

COMMENT

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

"Notwithstanding the impact of the coronavirus outbreak in China on exports and supply chains, the manufacturing sector in Germany managed to creep closer to stabilisation in February as declines in output and total new orders eased, helped by signs of firmer domestic demand.

"Though there was evidence of supply chain disruptions affecting some businesses' purchasing activity, the impact on production was limited as it came at a time when manufacturers in general were already looking to trim stock levels in line with lower output requirements. But should disruptions continue in China and even spread to other economies, as is looking increasingly likely given the recent news flow, then we could see supply- and demand-side constraints come into effect and the decline in production accelerate anew. As such, there's a sense that February's slightly more positive results could merely be a false dawn."



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.

February data were collected 12-21 February 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.
ihsmarkit.com/products/pmi.html.

About IHS Markit

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

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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