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IHS MARKIT / BME GERMANY MANUFACTURING PMI®

Output falls at fastest rate for nearly 11 years amid escalation of COVID-19 crisis

KEY FINDINGS

March sees steep falls in output and new export orders

Supply chain disruption worsens as virus outbreak sweeps Europe

Business confidence collapses to series-record low

The progression of the coronavirus disease 2019 (COVID-19) outbreak into a pandemic saw the downturn in Germany's manufacturing sector deepen in March. Latest PMI® data from IHS Markit and BME showed steep and accelerated falls in both output and new orders, driven by growing weakness in international demand and increased supply-chain disruption. Employment capacity was meanwhile scaled back as business confidence posted a record fall, slumping to its lowest for at least eight years.

March saw the headline IHS Markit/BME Germany Manufacturing PMI – a single-figure snapshot of the performance of the manufacturing economy – fall from February's 13-month high of 48.0 to 45.4. The decline in the headline index was softened by a marked increase in input lead times. While usually a sign of demand pressures, the lengthening of delivery times in March was instead a result of the severe supply-side disruption caused by COVID-19. At the same time, a slower fall in stocks of purchases also helped support the headline index, as some firms embarked on precautionary inventory building due to fears over the future availability of inputs.

The decrease in production in March was the steepest since April 2009 and led by a sharp drop in output across the investment goods category – which includes automotives and machinery equipment. This sector was the worst-performing during the month, amid reports of plant closures and heightened uncertainty hitting demand for capital goods.

Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit

Whilst unable to avoid falls in output and new orders, the consumer goods category was buoyed by increased demand for foodstuffs, cleaning products and protective clothing, and as such saw growth in backlogs, employment and purchasing activity during March.

Overall new orders received by German manufacturers posted the steepest drop for six months. New export orders fell faster still, the latest decline being the most marked since April 2009, as weakness in demand across Asian markets spread globally, to Italy and the US in particular.

With the rate of overall backlog depletion accelerating, manufacturers demonstrated increased efforts to reduce staffing capacity in March. Data showed employment falling at the second-fastest rate for over a decade, amid reports of contractor numbers being cut.

The decline in purchasing activity among manufacturers was only slightly faster than in February. This owed to elements of safety stock building by firms, linked to supply chain disruption. Lead times on inputs increased to the greatest extent since July 2018, with the respective index having posted a record month-on-month fall.

There was some relief on the supply-side from a further drop in input costs, linked to lower demand for raw materials and the recent slump in oil prices. The decline in output prices meanwhile accelerated to the quickest since September 2009.

COMMENT

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

"Manufacturing production in Germany took a considerable hit in March, falling to the greatest extent for nearly 11 years. Furthermore, there's scope for the numbers to get even worse before they get better, as most containment measures and factory shutdowns happened either during or after the survey data were collected [12-24 March]."

"Investment goods producers were the biggest losers in terms of both output and new orders. While there can be no winners from the current situation, the data did show a relatively resilient performance across the consumer goods segment, where the survey found an increase in employment."

"Overall staffing capacity was reduced drastically in March, although the availability of supplementary short-time working payments should help soften the blow to incomes."

"When trying to gauge the severity of the impact of the COVID-19 crisis on manufacturing, it's important at the moment not to read too much into the headline PMI, which is still being supported by rapidly increasing supplier delivery times."

CONTACT

IHS Markit

Phil Smith
Principal Economist
T: +44-1491-461-009
phil.smith@ihsmarkit.com

Katherine Smith
Public Relations
T: +1-7813-019-311
katherine.smith@ihsmarkit.com

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.

March data were collected 12-24 March 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

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Output Index

sa, >50 = growth since previous month

Manufacturing production

sa, cal. adj., %y/yr



Sources: IHS Markit, Bundesbank.