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IHS MARKIT / BME GERMANY MANUFACTURING PMI®

Downturn in manufacturing sector continues to ease in June

KEY FINDINGS

PMI at three-month high, but still in contraction territory

Slower declines in production and new orders

Output expectations turn positive for the first time since February

Data were collected 12-23 June 2020.

The severe downturn in Germany's manufacturing sector brought on by the coronavirus disease 2019 (COVID-19) pandemic showed further signs of easing in June, according to latest IHS Markit PMI® data. With more businesses starting to ramp up operations, the declines in output and new orders moderated further from the historic lows in April to the softest since February. Manufacturers also showed renewed optimism towards the year-ahead outlook, although they continued to cut payroll numbers amid under-utilised capacity.

June saw the headline IHS Markit/BME Germany Manufacturing PMI – a single-figure snapshot of overall business conditions – rise sharply from May's 36.6 to a three-month high of 45.2. Nevertheless, the index was still below the 50.0 level that separates growth from contraction, as has been the case since the start of 2019.

Weighing on the sector's recovery was a continued slump in demand and, in particular, export sales. Surveyed businesses reported reluctance among customers, who often postponed or cancelled orders due to already-high stock levels and reduced work schedules. That said, with more firms starting to see a pickup in demand as lockdowns were lifted, the overall decline in new orders eased to the weakest since February, with underlying data even showing slight growth in sales of consumer goods.

Production remained subdued in June. However, like new orders, output fell to the smallest extent since before the escalation of the COVID-19 pandemic in March.

Manufacturing PMI
sa, >50 = improvement since previous month



Source: IHS Markit

With manufacturers still operating well below capacity – as evidenced by a rapid depletion of backlogs of work – there were further job cuts across the sector during June. Furthermore, the pace of job shedding eased only slightly since May and remained among the fastest since the global financial crisis.

Goods producers meanwhile noted a further considerable – albeit slower – decrease in purchasing activity, as they looked to reduce pre-production inventories and free-up working capital. Stocks of finished goods were also down slightly on the month, following record growth earlier in the second quarter.

The disruption to supply chains caused by the COVID-19 pandemic showed signs of easing in June, with lead times on inputs improving for the first time since January, albeit only slightly. Average prices paid for purchases meanwhile fell for the fourteenth month in a row. Strong competition for new work meant that cost savings were often passed on to clients in the form of lower factory gate charges, which fell at a marked pace that was unchanged since May.

Finally, latest data showed a stark improvement in manufacturers' expectations for output over the next 12 months. Sentiment was in positive territory for the first time since February, as more firms saw activity recovering over the second half of the year.

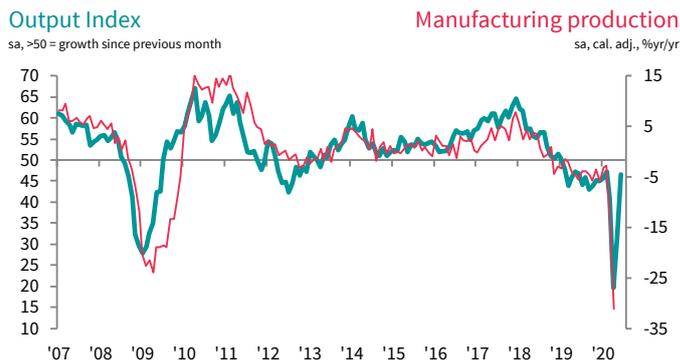
COMMENT

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

"We can take away positives and negatives from June's manufacturing PMI survey. On the one hand, the data show more German manufacturers starting to ramp up production, and a regaining of confidence which has been severely lacking in recent months. But on the other, demand remains very much subdued and is holding back any recovery."

"The lack of new orders means manufacturers are relying on ever-dwindling backlogs of work to support production, and until new orders start to pick up and factories get back to somewhere near capacity, jobs across the sector are at risk."

"The export market remains difficult, and probably will for some time. But it's not all bad on this front either, with German manufacturers already seeing sales returning in Asia, and to China in particular."



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.

June data were collected 12-23 June 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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