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IHS MARKIT / BME GERMANY MANUFACTURING PMI®

Manufacturing PMI slips to 31-month low as downturn in new orders deepens

KEY FINDINGS

New orders contract at fastest rate for four years

Slight rise in output as firms build stocks, clear backlogs

Output price inflation dips to 16-month low

Germany's manufacturing sector lost further momentum in November, according to the latest PMI® survey data from IHS Markit, as goods producers recorded a decrease in new orders for the second time in as many months. Output rose only marginally and at the slowest rate in over five-and-a-half years, while job creation in the sector also slowed as firms maintained a pessimistic view towards the outlook.

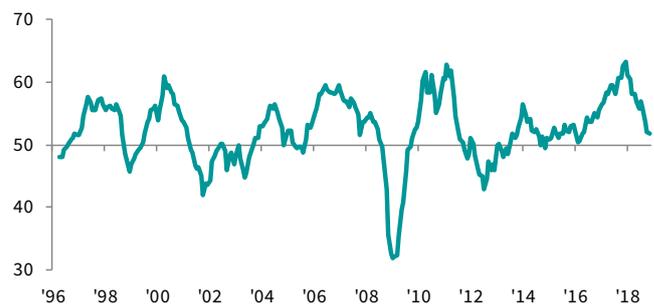
November saw the headline IHS Markit/BME Germany Manufacturing PMI – a single-figure snapshot of the performance of the manufacturing economy – slip to a 31-month low of 51.8, from 52.2 in October. It marked the tenth time in 2018 so far that the PMI has fallen, signalling a sustained cooling of growth from the record high seen at the end of 2017.

November's decrease in new orders was the steepest seen in four years. In many cases, lower order books reflected a drop in demand from abroad, with overall export sales down for a third straight month and to the greatest extent since June 2013. A number of firms commented on a drop in orders from China.

Output growth was sustained despite the further contraction in order books, with firms reporting the clearing of backlogs of work and the build up of finished goods stocks. The increase in production, however, was only marginal and the weakest seen since the current upturn began in May 2013.

By sector, slight increases in the production of consumer and intermediate goods contrasted with a decline in the level of capital goods output.

Manufacturing PMI
sa, >50 = improvement since previous month



Backlogs of work fell for the third straight month and at the fastest rate since December 2012. Increased staffing capacity helped manufacturers make inroads in outstanding orders, with employment rising across each of the three main industrial groupings during the month. That said, the overall pace of job creation eased to the slowest in nearly two years.

Manufacturers scaled back their buying levels for the second month running in November, though lead times on purchases continued to lengthen. Shortages of inputs, resource constraints among suppliers and a lack of available freight capacity all contributed to delivery delays, according to the survey's anecdotal evidence.

Tightness in supply chains continued to contribute to higher input prices during November. Alongside increased raw material costs, surveyed firms also highlighted higher energy prices and transport-related costs. Prices charged by manufacturers increased as a result although, amid reports of intensifying competitive pressure, the rate of inflation was at a 16-month low.

Finally, expectations among manufacturers towards the outlook for output remained subdued, with confidence improving only slightly from October's six-year low. Surveyed businesses highlighted concerns surrounding political uncertainty, trade tensions and weakness in the auto industry.

COMMENT

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

"The PMI showed the recent slowdown in the manufacturing sector extending into the penultimate month of the year.

"With the car industry still struggling and geopolitical uncertainties affecting client demand, manufacturers reported a deepening decline in new orders, and export sales in particular.

"Output levels are now teetering on the brink of contraction. November's small increase in production was the weakest since the upturn began more than five-and-a-half years ago and was due in large part to firms catching up on backlogs of work. With backlogs shrinking at an accelerated rate, manufacturers will need inflows of new work to recover to maintain growth.

"Elsewhere, the latest survey showed that it is becoming increasingly difficult for manufacturers to pass on higher costs to clients due to competitive pressures, with November's increase in average factory gate charges the least marked for 16 months."

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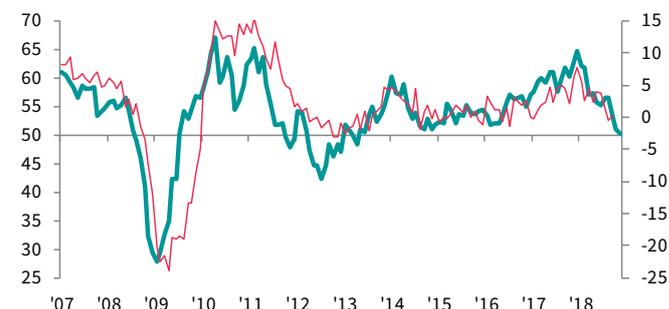
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Output Index

sa, >50 = growth since previous month

Manufacturing production

sa, cal. adj., %ytr/yr



Sources: IHS Markit, Bundesbank.

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.

November 2018 data were collected 12-23 November 2018.

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](https://www.ihsmarkit.com/products/pmi.html).

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BME

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