Production falls at unprecedented rate amid COVID-19 pandemic

The latest PMI® survey data signalled the most substantial decrease in production across the Greek manufacturing sector since the series began 21 years ago. The escalation of the coronavirus disease 2019 (COVID-19) outbreak across Europe led to the widespread cancellation or postponement of orders, with domestic and foreign demand slumping at unprecedented rates. Subsequently, firms shed staff at the fastest pace in the series history as a lack of new business led to greater spare capacity. Uncertainty and fears of a slow recovery weighed on business confidence which dropped to the lowest since July 2015.

On the price front, both suppliers and manufacturers lowered their charges in an effort to attract, and importantly, retain clients.

The seasonally adjusted IHS Markit Greece Manufacturing Purchasing Managers’ Index® (PMI®) – a composite indicator designed to measure the performance of the manufacturing economy – posted 29.5 at the start of the second quarter, down notably from 42.5 in March. The deterioration in operating conditions was the strongest since data collection began in May 1999, despite being buoyed slightly by a further extension in supplier delivery times (ordinarily a sign of improving manufacturing performance).

Driving the headline figure down to a new series low was the sharpest contraction in output for 21 years. Global lockdowns following the escalation of the COVID-19 pandemic reportedly limited production capacity, whilst a stark turnaround in demand conditions reduced order book volumes. The decrease in total sales was the quickest since data collection began in May 1999, with new export orders also declining markedly amid order cancellations and postponements across key export destinations.

In line with the substantial reduction in client demand, backlogs of work fell at the sharpest pace since the series began in November 2002. Spare capacity and factory closures were reportedly key contributing factors behind an unprecedented drop in workforce numbers, a vast turnaround from job creation seen at the start of the year.

The outlook for output across the Greek manufacturing sector was pessimistic in April, as firms expect production to decline over the coming year. Negative sentiment was attributed to fears of a slow recovery, longer lockdowns, and worries surrounding access to credit.

At the same time, firms sought to attract clients into making purchases by reducing their output charges at the sharpest pace since March 2009. Suppliers also cut their prices, with cost burdens falling at the quickest rate for just over four years. Manufacturers registered the fastest fall in input buying since July 2015 as demand for raw materials dwindled. Despite a fall in purchasing activity, lead times lengthened markedly as tighter border controls and logistical issues caused by the virus outbreak led to greater delays.
COMMENT

Siân Jones, Economist at IHS Markit, which compiles the Greece Manufacturing PMI survey, commented:

“The impact of the escalation of the COVID-19 outbreak across Europe during April had a crippling effect on the Greek manufacturing sector. Output and new orders contracted at the quickest rate for 21 years as emergency lockdowns and factory closures took hold. The marked deterioration in manufacturing performance was a long way from the start of the year when the sector appeared to be going from strength to strength.

“The knock-on effects of the substantial fall in client demand resulted in little choice for firms but to shed workers. The pace of job depletion far outpaced anything seen in the survey’s history, with firms also cutting their output charges markedly in an attempt to attract orders.

“Greek manufacturers expect output to decline over the coming year, with pessimism stemming from extensions to lockdowns, struggles to access credit and worries over the speed of any recovery. Our current forecast expects Greek industrial production to contract by 4.1% in 2020. Recovery of the manufacturing sector will be linked to any pick-up in service sector activity due to the importance of food and beverage production in the Greek manufacturing sector.”

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Methodology

The IHS Markit Greece 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.

April 2020 data were collected 7-23 April 2020.

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