Manufacturing PMI drops to lowest since June 2009

KEY FINDINGS

Headline PMI slips to 41.7 in September

Faster decreases in output, new orders and employment

Output charges fall to greatest extent since March 2016

Germany’s manufacturing sector recorded its worst performance since the depths of the global financial crisis in September, latest PMI® data from IHS Markit and BME showed, as contractions in output and new orders accelerated. Job shedding also intensified, with factory employment falling to the greatest extent for almost a decade.

Elsewhere, the survey revealed a growing number of firms cutting output prices amid increasing competitive pressures, and a sustained decline in the cost of raw materials. The headline IHS Markit/BME Germany Manufacturing PMI – a single-figure snapshot of the performance of the manufacturing economy derived from indicators for new orders, output, employment, suppliers’ delivery times and stocks of purchases – registered 41.7 in September, down from 43.5 in August and its lowest reading since June 2009.

A breakdown of the data by main industrial grouping showed that investment goods was the worst-performing category during the month, followed by intermediate goods. Notably, consumer goods producers joined their counterparts in recording a contraction.

September saw output fall for the eighth month in a row. Moreover, the rate of decline accelerated and was the quickest since July 2012. New orders fell even faster, however, dropping to the greatest extent since April 2009 and leading to a further reduction in backlogs of work. Firms that reported a decrease in new business commented on clients postponing, scaling down and even cancelling orders, often due to uncertainty about the outlook. A key factor remained lower export sales, which continued to fall at a sharp rate, albeit one that was unchanged from August.

Manufacturers showed an increased willingness to reduce workforce numbers during September, with the pace of staff shedding accelerating to the quickest since January 2010. Sector employment has now fallen for seven months in a row, with the latest round of job losses again largely centred on contractors.

With production requirements decreasing and efforts being made to reduce stocks accordingly, manufacturers’ buying levels also fell sharply in September. This in turn help to free up capacity at suppliers, resulting in an eighth consecutive monthly improvement in lead times on purchases.

Another upshot of the decrease in demand for inputs was a drop in prices paid, as suppliers continued to compete over price. The rate of decline in input costs eased since August, but was still the second-quickest seen since April 2016. The drop in input prices and competition for new work also saw manufacturers cut output charges in September. The extent of the discounting was the most marked for three-and-a-half years.

Lastly, latest data revealed that manufacturers remained strongly pessimistic about the outlook in September. That said, expectations were slightly higher than the seven-year record-low seen in August.
COMMENT

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

“The manufacturing numbers coming out of Germany continue to disappoint, with September’s PMI widely missing expectations and showing the downturn deepening. The downward trend in new orders – which fell the most in more than ten years – is a particular worry, and continues drive cutbacks in factory output, employment and prices.

“The severity of the job losses across manufacturing we are now seeing could start to weigh more heavily on consumer confidence, which up to this point has been relatively resilient. Interestingly, the weakness seen for a long time across the intermediate and investment goods sectors shows signs of spreading to consumer products, the decreases in output and new orders of which were key factors behind September’s lower headline number.”

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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.

September 2019 data were collected 22-23 September 2019.

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.

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BME

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