PMI shows weak end to 2019 for manufacturing, but brighter prospects for year ahead

KEY FINDINGS

December sees marked falls in output and employment...

...but new orders post smallest drop of 2019

Output expectations highest for 15 months

Germany's manufacturing sector ended 2019 deep in contraction, recording further marked decreases in output and employment, latest PMI® data from IHS Markit and BME showed. De-stocking remained prevalent, while the slowdown in the sector continued to translate into lower prices. More positively, however, December’s decrease in new orders was the slowest in the whole of 2019 and manufacturers' output expectations showed a further – albeit marginal – improvement.

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 43.7 in December, down slightly from November's five-month high of 44.1. The latest reading was below the average since the current period of contraction began last January.

The downturn persisted across all three main industrial groupings, with makers of investment goods noting the worst performance, followed by intermediate goods producers. The consumer goods category was alone in recording a slower rate of contraction.

Data showed inflows of new business at German manufacturers falling for the fifteenth month in a row in December. Reports from panellists highlighted that demand, and particularly investment, continued to be undermined by lingering uncertainties around trade and the global economic outlook. However, the rate of decline in new orders eased for the third month in a row to the weakest since December 2018, helped by export sales posting the smallest drop since last January.

Buoyed somewhat by tentative signs of stabilisation in new orders and hopes for a pickup in economic conditions in 2020, manufacturers recorded their strongest confidence for 15 months in December.

Goods producers continued to make inroads into their backlogs of work and thereby maintained a preference for lower workforce numbers. The rate of stuff cuts accelerated from November and was among the quickest over the past decade.

December also saw sustained de-stocking by goods producers, which they linked to not only lower output requirements, but also improving lead times on purchases. Input buying was down sharply on the month, freeing up capacity at suppliers and putting further downward pressure on prices for raw materials and components.

A sharp fall in input costs, combined with strong competition for new work, led manufacturers to reduce their output charges for the sixth consecutive month in December.
**COMMENT**

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

“Germany’s manufacturing sector closed out 2019 with another weak performance and remains a thorn in the side of the economy. Falling goods production across the fourth quarter of the year bodes ill for final growth figures, while sustained cuts to workforce numbers at factories continue to pose a threat to Germany’s so-far solid consumer spending.

“Importantly, however, the forward-looking survey measures for new orders and output expectations both give off more positive signals as we move into the new year. What’s more, the US-China ‘phase one’ trade deal and a potentially clearer path to Brexit make for a more settled backdrop on the international stage.”

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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.

December 2019 data were collected 5-16 December 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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