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IHS MARKIT / BME GERMANY MANUFACTURING PMI®

Manufacturing PMI sinks deeper into contraction territory in February

KEY FINDINGS

Headline PMI at 74-month low of 47.6

Output falls for first time in almost six years

Input lead times improve as pressure on suppliers eases

Germany's manufacturing sector contracted at a faster rate in February, with latest PMI® survey data from IHS Markit and BME showing a deepening downturn in new orders and the first drop in output in almost six years. The easing of supply chain pressures meanwhile saw input price inflation dip to a 28-month low and lead times on inputs shorten for the first time in almost three years.

February saw the headline IHS Markit/BME Germany Manufacturing PMI – a single-figure snapshot of the performance of the manufacturing economy – sink further into contraction territory in February, to 47.6, after having registered below the 50.0 'no-change' mark in January (49.7) for the first time in more than four years. The latest reading was the lowest since December 2012, with all sub-components of the index imparting a negative directional influence, except employment.

Output decreased for the first time in almost six years in February. The contraction was the most marked since December 2012 and reflected the intermediate and capital goods sectors, with makers of consumer goods recording the only increase in output.

Latest data also showed the recent downturn in new orders gathering pace, led by a sharp and accelerated decline in export sales. The level of new business from abroad fell the most since October 2012, with surveyed businesses blaming falling car sales, weaker demand from Asia (particularly China), Brexit anxiety among clients and growing competition.

Manufacturing PMI
sa, >50 = improvement since previous month



Source: IHS Markit

Lower production requirements saw manufacturers pared back their purchasing activity for the fifth straight month in February, with the rate of decline accelerating to the quickest in over six years. This sustained reduction in demand for inputs was reflected in shorter supplier delivery times – the first such improvement in vendor performance since March 2016.

Stocks of purchases held by German manufacturers decreased in February, reversing the slight rise seen in January. Meanwhile, post-production inventories were accumulated for a fifth straight month, albeit at a slower rate than January's joint-record high.

German manufacturers remained in hiring mode midway through the opening quarter of the year, despite lower demand and signs of excess capacity. The rate of employment growth was unchanged from the solid pace recorded in January, with a number of firms taking on new staff as part of strategic planning for the longer-term outlook. Confidence towards output over the next 12 months eased to the lowest since November 2012, however, amid concerns over Brexit, trade wars, the car industry and an economic slowdown.

The overall loss of momentum in the manufacturing sector in February translated into weaker inflationary pressures. Average input costs rose the least since October 2016, with lower steel prices highlighted. In turn, prices charged by manufacturers showed the slowest increase for over two years.

COMMENT

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

"February saw Germany's Manufacturing PMI sink deeper into contraction territory, as output fell for the first time in almost six years and new orders retreated further from the highs in 2018, weighed down by a sustained slump in exports."

"Following the sector's boom in 2017 and early-2018, capacity has seemingly finally caught up with demand. Supplier delivery times have started to improve for the first time in almost three years and surveyed businesses are reporting growing competition within Europe linked to high capacity."

"It's fast becoming a buyers' market in many areas, most notably for capital goods, which is evident in the disinflationary trends in input and output prices."

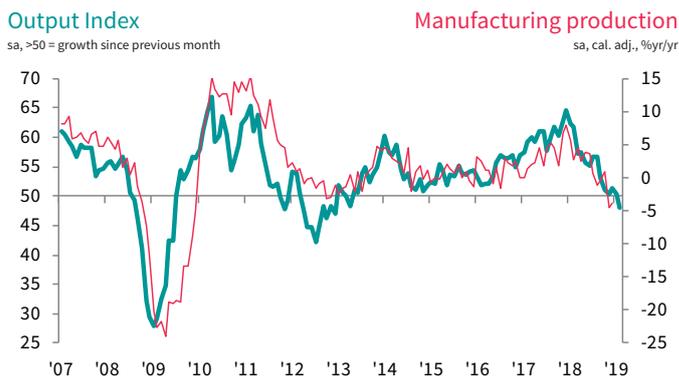
"Although manufacturers are expecting a tough 2019 – given the uncertainty around Brexit, the threat of trade wars and the concerns around a slowdown not only in the car industry but the broader global economy as well, strategic planning for further ahead has seen the rate of employment growth in the goods-producing sector remain strong."

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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.

February 2019 data were collected 12-21 February 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](https://www.ihsmarkit.com/products/pmi.html).

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BME

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