Germany Manufacturing PMI at seven-year low as downturn gathers pace

Conditions in Germany’s manufacturing sector showed the greatest deterioration for seven years in July, according to the latest PMI® data from IHS Markit and BME, led by the steepest drop in new export orders since 2009. Output also fell at a faster pace, with manufacturers making more aggressive cuts to employment and purchasing activity.

Easing supply chain pressures remained a prominent feature of the survey, as lower demand from manufacturers for materials and parts resulted in improving lead times and a third straight monthly fall in input costs. The weakness of the manufacturing sector was underlined by the first fall in factory gate charges for almost three years.

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 – sank deeper into contraction territory in July. At 43.2, down from 45.0 in June, the latest reading signalled the steepest decline in overall manufacturing conditions since mid-2012.

The fall in the headline index reflected all of its sub-components except suppliers’ deliver times which, while still improving, did so at a slower rate than in June. The greatest downward pressure came from new orders, which fell the most since April amid reports of growing competition, delayed decision-making and weakening demand (both domestically and internationally). The drop in export orders was noticeably quicker than that of total new work and the steepest overall since April 2009, with a number of firms mentioning falling sales to China and a slump in the automotive sector.

Output levels were reduced accordingly, falling for the sixth month running in July. The rate of decline likewise gathered pace and was the second-quickest since July 2012. Strong growth in consumer goods production was insufficient to counter faster falls in the intermediate and capital goods sectors.

The increasingly challenging environment saw more manufacturers making cuts to employment and purchasing activity during July. Workforce numbers fell for the fifth month running and to the greatest extent for seven years. Meanwhile, the rate of decline in buying levels accelerated sharply and was the quickest seen for over a decade.

With lower demand for materials and parts resulting in excess supply and greater competition among suppliers, input prices fell again in July, and at the fastest rate since April 2016. Combined with a generally weaker backdrop of demand, this led manufacturers to lower output prices for the first time since August 2016.

Finally, after turning positive – albeit only marginally – for the first time in nine months in June, manufacturers’ future expectations plunged to their most negative since late-2012. This principally reflected heightened concerns about the growth outlook and the autos sector, according to anecdotal evidence.
COMMENT

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

"After displaying a broadly sideways tendency throughout the second quarter, the PMI tumbled in July to signal a level of weakness in the Germany manufacturing sector not seen for seven years.

“The strong growth recorded early last year now feels like a distant memory. Over the past year-and-a-half, the combination of trade tensions, the Brexit saga, upheaval in the car industry, and a slowing Chinese economy has been a toxic mix for manufacturers globally, but particularly for those in Germany. Export orders fell in July at a rate unseen in the euro area’s largest economy for over a decade, which underlines the extent to which the recent global headwinds have taken a toll on the country.

"With no end in sight to the current malaise, Germany’s manufacturers have gone into full retrenchment mode, making more aggressive cuts to both employment and their buying levels, whilst also slashing prices in an attempt to stimulate demand."

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BME

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