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IHS MARKIT / BME GERMANY MANUFACTURING PMI®

German manufacturing sector remains in contraction in June

KEY FINDINGS

PMI at four-month high but still well below 50.0 threshold

Growth in consumer goods contrasts with downturns elsewhere

Input prices dragged lower by further fall in buying activity

Germany's manufacturing sector contracted further in June, according to the latest PMI® data from IHS Markit and BME. Weaker external demand and a slowdown in the auto industry continued to weigh on order books, which in turn led to declines in both output and employment. Sub-sector performances continued to vary, however, with growth in consumer goods contrasting with downturns in the intermediate and investment goods categories.

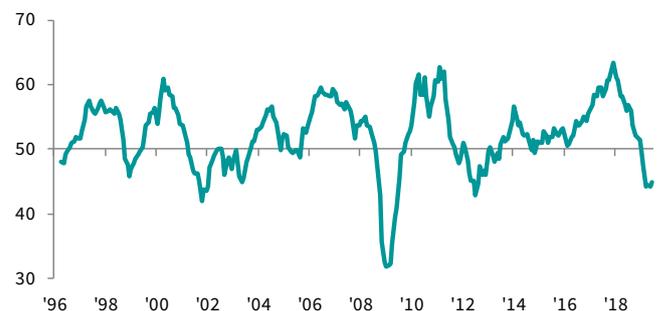
Elsewhere, input prices fell at a faster rate in June, dragged lower by a further reduction in buying activity and associated destocking efforts. Output expectations meanwhile turned positive for the first time in nine months, albeit remaining subdued by historical standards.

The headline IHS Markit/BME Germany Manufacturing PMI – a single-figure snapshot of the performance of the manufacturing economy – showed a deterioration in overall business conditions for the sixth month in a row in June. At 45.0, up from 44.3 in May, the index was at a four-month high, but still well below the neutral 50.0 mark and close to its lowest since 2012.

The slight uptick in the PMI mainly reflected the new orders component, which showed the rate of decline easing for the third month in a row in June (albeit still running at a marked pace overall). A key weakness remained export sales, where there were reports of lower demand from Asia in particular.

Output fell at a solid and slightly accelerated rate in June. That said, the decline was still weaker than that of new orders. This resulted in a further decrease in backlogs of

Manufacturing PMI
sa, >50 = improvement since previous month



Source: IHS Markit

work, as well as a marginal rise in finished goods stocks.

On both the output and new order fronts, consumer goods manufacturers saw rates of growth quicken. This contrasted with a deepening downturn in the intermediate goods category, which saw the sharpest overall falls in production, new orders and employment. Makers of investment goods meanwhile recorded slower rates of decline.

Total manufacturing employment fell for the fourth month running in June, albeit at a slower pace than in May. Firms that reported lower staffing number often commented on the non-renewal of temporary contracts and the non-replacement of retirees.

Goods producers also reduced their purchasing activity in June, with the rate of decline unchanged from the marked rate recorded in May. This partly reflected efforts to reduce input stocks, which fell markedly and for the fifth month in a row amid reports of lower production requirements and shortening lead times on purchases. Supplier performance in fact showed the greatest improvement since the height of the global financial crisis in 2009 amid reports of the emergence of spare capacity.

Falling demand for inputs meanwhile contributed to a second straight monthly decrease in purchases prices in June. Alongside reports of discounts from suppliers, there were also frequent mentions of lower steel prices. Output charges were meanwhile unchanged, ending a 33-month sequence of inflation.

COMMENT

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

"Although inching up in June, Germany's manufacturing PMI remains well inside contraction territory as the sector continues to suffer in the face of global trade tensions, an autos slowdown and lingering uncertainty. That said, some encouragement can be taken from the fact that the rate of decline in new orders eased for a third month running and future expectations returned – albeit only just – to positive territory."

"Intermediate goods manufacturers have replaced makers of capital goods as the worst performers. This partly reflects the current destocking trend, where firms are keeping fewer parts and components due to not only lower output requirements, but also improving input lead times and availability."

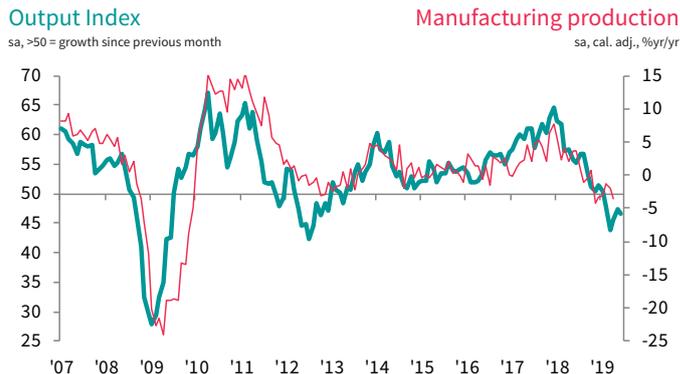
"The more domestically orientated consumer goods sector remains the only bright spot, seeing stronger growth in both output and new orders in June. Prices for these goods continue to rise, but elsewhere we're seeing more discounting. The survey's overall price gauges are now at their lowest for around three years."

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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.

June 2019 data were collected 12-21 June 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

BME is the German Association for Materials Management, Purchasing and Logistics, founded in 1954. It provides services for around 9000 individual and corporate members, including small and medium-sized businesses as well as Germany's top 200 companies. The BME promotes a dialogue between business and academia, both on the demand and the supply side, by providing the necessary networks for communication and knowledge exchange. The association is open to all company types from any sector (industry, trade, banking/insurance, public sector, service providers, etc.).

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