

IHS Markit / BME Germany Manufacturing PMI®

Business conditions continue to recover across manufacturing sector during August

Key findings

Output growth hits 30-month high

Upturn supported by revival in export sales

Stronger confidence and rising backlogs help temper rate of job shedding

Data were collected 12-21 August

Latest PMI® data showed a further improvement in business conditions across the German manufacturing sector in August, with new orders continuing to rebound from the lows during the coronavirus disease 2019 (COVID-19) lockdown and growth of production reaching the strongest for two-and-a-half years. Goods producers meanwhile noted a further marked round of job cuts, though the decline in employment eased amid improved expectations and steadily rising backlogs of work.

The headline IHS Markit/BME Germany Manufacturing PMI® – a single-figure snapshot of overall business conditions – improved to a 22-month high of 52.2 in August, up from 51.0 in July. The index has risen in each month since hitting an 11-year low at the height of the COVID-19 lockdown in April.

Supporting the rise in the PMI in August was a faster increase in output which, after having returned to growth territory for the first time in 18 months at the start of the third quarter, showed the strongest expansion for two-and-a-half years. The upturn in production was led by the intermediate and consumer goods categories, with makers of investment goods lagging behind.

Manufacturers raised output in line with a further marked rise in new orders in August. The increase, which was only slightly slower than July's 30-month high, was often attributed to recovering demand, as well as a degree of catch-up following the lockdown period. Sustained growth in export sales also helped bolster overall order books, with rising sales to markets including China and Turkey helping drive the fastest increase in export orders since April 2018.

The sustained upturn in incoming new business was reflected in a build-up of backlogs of work during August. Manufacturers still continued to cut employment, however, linking this to cost cutting, the streamlining of workforces and restructuring.

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Germany Manufacturing PMI
sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Commenting on the latest survey results, Phil Smith, Associate Economics Director at IHS Markit, said:

"The manufacturing sector continues to make up the ground lost during the lockdown, with the survey data for August showing output growth reaching the fastest since early-2018. There has been a sustained strong rebound in new orders, although it's unclear where the true current level of demand is really at, with some firms still noting a catch-up effect due to orders having previously been delayed during the lockdown."

"The encouraging top-line numbers mask ongoing troubles in some sectors, especially machinery and equipment production, which is being hit by a lack of appetite for investment."

"Factory jobs continued to be lost at an unsettling rate in August, which is bad news for domestic demand. However, with backlogs of work at factories on the rise, we're at least seeing the pace of staff cuts slowing down."

"By contrast, the decline in inventory levels has accelerated, with some firms under financial pressure to streamline stocks and many still showing caution in terms of their purchasing activity."

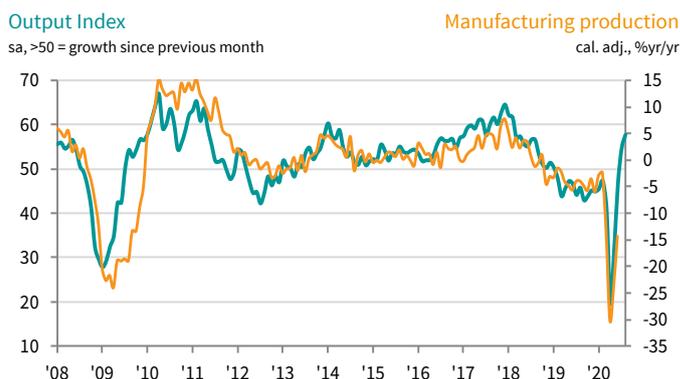
The rate of job shedding eased to the weakest for five months, though it was still marked by historical standards.

Manufacturers' purchasing activity returned to growth in August, following decreases in each of the previous 22 months. The increase was only marginal, however, as some firms looked to reduce stocks of inputs. Pre-production inventories decreased for the fourth month in a row and to the greatest extent since January. That was accompanied by an even steeper fall in stocks of finished goods, which continued to be scaled back after record growth in the second quarter.

With demand for raw materials and other inputs still relatively subdued, manufacturers reported a further drop in purchasing costs in August. That said, the rate of reduction eased for the third month in a row to the weakest since May 2019. Similarly, though output prices continued to fall amid reports of pressure from clients, the decline, like in July, was only marginal and notably softer than at the height of the COVID-19 crisis.

Turning to supply chains, lead times on inputs increased for the first time in three months in August, following marginal improvements in both June and July. Reports of delays remained well below the levels seen during the initial lockdown period, however.

Lastly, August's survey indicated a further improvement in manufacturers' expectations towards activity over the coming year. The degree of optimism was the highest since February 2018, with a growing number of companies hopeful of a sustained recovery in domestic and export demand.



Sources: IHS Markit, Bundesbank.

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Survey 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.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

Survey dates and history

August data were collected 12-21 August 2020.

Survey data were first collected April 1996.

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.
ihsmarkit.com/products/pmi.html

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The BME is the German Association for Supply Chain Management, Procurement and Logistics. Founded in 1954 it provides services for around 9750 individual and corporate members, including small and medium-sized businesses as well as Germany's top 200 companies. The BME liaises between businesses 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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