

IHS Markit / BME Germany Manufacturing PMI®

PMI at 51.0 in July as new orders rebound sharply

Key findings

Output ramped up amid sharp rebound in new orders

Rise in export supplements recovering domestic demand

Further deep job cuts recorded

Data were collected 13-24 July

July saw business conditions start to improve across the German manufacturing sector following the severe disruption caused by the coronavirus disease 2019 (COVID-19) pandemic, led by a steep rebound in new orders. Production was ramped up accordingly, however sector employment continued to fall sharply.

The headline IHS Markit/BME Germany Manufacturing PMI® – a single-figure snapshot of overall business conditions – registered 51.0 in July, up from 45.2 in June. This was the first reading above the 50.0 no-change mark since December 2018 and represented a further recovery from April's recent low of 34.5, recorded at the height of lockdown measures related to the COVID-19 outbreak.

Underpinning the return to growth in July was a steep rise in new orders, which panellists linked to the release of pent-up demand and a wider recovery in activity, both domestically and abroad. Indeed, firms reported a solid rise in export sales, commenting on higher demand from Asia (especially China) and across parts of Europe. The rise in total order book volumes was the sharpest since January 2018, while exports increased more moderately by comparison.

Production increased during July, marking the first rise signalled by the survey since January 2019. Growth was strong and the fastest in almost two years, albeit slower than that of new orders.

However, with output often still below pre-crisis levels, manufacturers continued to make deep cuts to employment. Moreover, the rate of job losses accelerated and was among the fastest since 2009. The combination of a sharp rise in new orders and lower employment meanwhile contributed to a first – albeit marginal – rise in backlogs of work since August 2018.

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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 recovery of the German manufacturing sector remains on track, with the PMI improving further from April's low and now finally in growth territory."

"The headline reading of 51.0 is the highest since December 2018, although it actually understates the strength of the rebounds in the underlying measures of output and new orders, with the PMI dampened by steep falls in both employment and stocks."

"The deep cuts to factory job numbers are a sign that activity and demand are still comfortably down on pre-crisis levels, and represent a key headwind to any recovery."

"Nevertheless, with new orders up sharply in July the immediate outlook for production looks positive, and the manufacturing sector remains on course to make a strong contribution to an expected technical rebound in the economy in the third quarter."

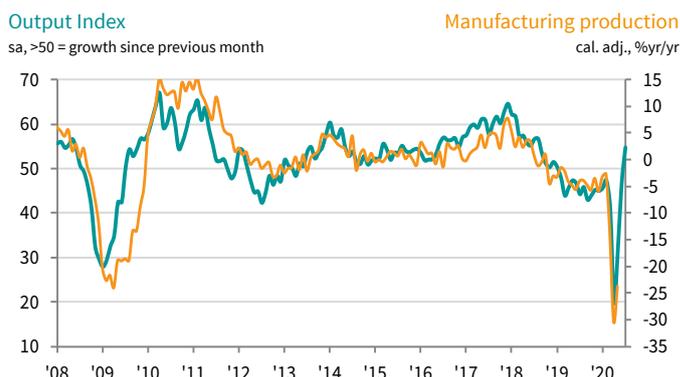
Several firms reported using stocks of finished goods to fulfil sales during July, resulting in a second straight monthly decrease in post-production inventories. The rate of depletion was the fastest in over ten years.

Manufacturers also held lower stock of purchases in July, the second month this has been the case, with the rate of decline also gathering pace. Reflecting a preference for lower pre-production inventories, goods producers reported a further (albeit slower) decline in purchasing activity, despite higher production requirements.

One reason why firms were willing to hold lower inventories was greater stability in supply. After having deteriorated rapidly during the first few months of the COVID-19 pandemic, average lead times on inputs showed little change in July, following a slight improvement in June.

The manufacturing supply chain remained a buyers' market in July, with lower raw material prices and discounts from suppliers leading to a further marked decrease in average purchasing costs. That said, the rate of reduction was the weakest since February. Factory gate charges likewise fell more slowly in July, decreasing only marginally and to the smallest extent in the current 13-month period of discounting.

Looking ahead, manufacturers reported increased optimism towards the 12-month outlook for output. Growth expectations reached the highest in almost two years, as more firms reported hopes of a sustained recovery in activity and demand. That said, several of those anticipating an upturn reported that activity was coming off of a low base and would remain below pre-COVID levels over the next 12 months.



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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

July data were collected 13-24 July 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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