Manufacturing staff cuts deepen in May as downturns in output and new orders remain severe

KEY FINDINGS

- Declines in output and new orders continue after record falls in April
- Rate of staff cuts accelerates to quickest in 11 years
- Output expectations remain deeply negative

Germany's manufacturing sector continued to be severely impacted by the coronavirus disease 2019 (COVID-19) pandemic in May, with the rates of decline in output and new orders remaining sharp following April's record falls. Notably, with firms operating well below full capacity and remaining pessimistic about the outlook for output, the rate of factory staff cuts accelerated to the quickest for 11 years.

The headline IHS Markit/BME Germany Manufacturing PMI – a single-figure snapshot of overall business conditions remained deep in contraction territory in May, at 36.6. This was up only slightly from April's 11-year low of 34.5, as slower falls in output and new orders were partly offset by a steeper decline in employment, a renewed drop in stocks of purchases and a less marked lengthening of supplier delivery times.

Amid reports of reduced productive capability and a sustained slump in demand, German manufacturers continued to report lower output in May. However, whilst remaining marked by historical standards, the rate of decline was discernibly slower than in April as more firms reported a pick-up in output. The same trend was seen in all three main industrial groupings covered by the survey – consumer, intermediate and investment goods.

Client closures and hesitancy among businesses and consumers alike were key factors behind a further decrease in new orders in May, with export sales continuing to fall more sharply than overall order book volumes. Rates of decline slowed on both fronts, though less so than was the case for output. As such, data showed a continued build-up of finished goods.

May saw backlogs of work across the manufacturing sector continue to fall sharply and at a rate that was little-changed since April. Goods producers, thereby, further reduced staffing capacity during the month, partly through the non-renewal of fixed-term contracts and redundancies. Moreover, the rate of job losses continued to accelerate, reaching the quickest since May 2009.

A lack of confidence among manufacturers for a swift recovery in output levels was another factor that contributed to staff cuts during May. Though improving further from March's historic low, sentiment towards output over the next 12 months remained firmly in negative territory.

Purchases of raw materials and semi-manufactured meanwhile continued to fall sharply during May. This reflected lower production requirements, as well as efforts by some firms to partially unwind input inventories. After rising in April for the first time in 15 months, stocks of purchases at German manufacturers showed a slight decline midway through the second quarter. This was consistent with signs of supply chain pressures gradually starting to ease, with reports of delivery delays down from April's record high.

Input prices paid by German manufacturers continued to fall in May, linked to a demand-related slump in commodity prices and supplier discounting. Factory gate charges also fell, dropping for the eleventh month in a row, albeit at the slowest rate since February.
COMMENT

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

"The PMI data for May show Germany’s manufacturing sector still firmly in contraction territory. Though not as ugly as April’s numbers, the latest data show that business continues to be severely disrupted by the COVID-19 crisis. Even though more factories have started to resume operations after the loosening of restrictions, weak underlying demand is still a limiting factor, as evidenced by the survey’s measure of new orders rebounding far less than that of output in May.

"Manufacturing production was already down 7-8% from a peak in late-2017 even before the onset of the pandemic, and now that figure looks to be in the region of 25-30%. With production as far as it is below capacity and manufacturers not expecting a full recovery anytime soon, factory job losses have continued to accelerate, led by another round of staff cuts in the particularly ravaged investment goods sector."

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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.

May data were collected 12-21 May 2020.

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.

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BME

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