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IHS MARKIT / BME GERMANY MANUFACTURING PMI®

Manufacturing PMI sinks to 25-month low as exports fall the most in over five years

KEY FINDINGS

Output, new orders and employment all rise at slower rates

Export sales fall for first time in more than three years

Gloomiest outlook for output since May 2015

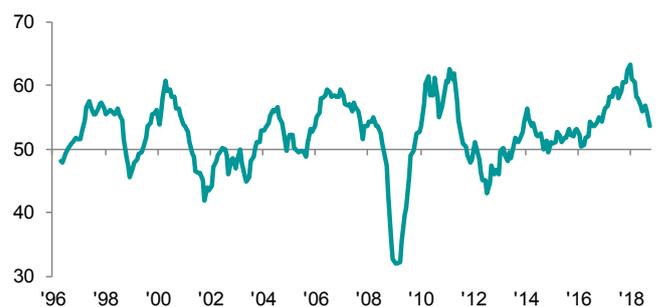
Growth of Germany's manufacturing sector slowed in September, subdued by the steepest drop in new export orders in over five years, the latest PMI® survey data from IHS Markit showed. Production levels exhibited their smallest gain since April 2016, while business confidence towards the year-ahead outlook for output was the gloomiest for over three years.

September saw the headline IHS Markit/BME Germany Manufacturing PMI – a single-figure snapshot of the performance of the manufacturing economy – sink to a 25-month low of 53.7 from 55.9 in August. The fall in the index reflected slower growth in output, new orders and employment, as well as a reduction in the incidence of supplier delivery delays. The only positive directional influence was from stocks of purchases, which showed a marginal rebound following a slight drop in August.

Inflows of new orders at German manufacturers rose only fractionally in September, with the latest increase being in the weakest in the current 46-month sequence of growth. The slowdown was largely due to a drop in new orders from abroad, which fell for the first time in over three years and to the greatest extent since June 2013. Broken down by main industrial groupings, the data showed that the decline in demand in September was largely centred on the capital goods sector (which includes machinery & equipment and transport), where there were falls in both total orders and exports sales following strong growth in August.

Growth in output levels remained quicker than that of new

Manufacturing PMI
sa, >50 = improvement since previous month



orders but also eased during the month, down to the weakest in nearly two-and-a-half years. The rate of job creation across the manufacturing sector meanwhile decelerated to the slowest since February 2017, though it remained elevated by historical standards.

Owing to sustained strong growth in workforce numbers, combined with the near stagnation in new order inflows, manufacturers were able to reduce backlogs of work for the first time in over three-and-a-half years in September.

September's survey meanwhile indicated a softening of German goods producers' confidence in regards to future output. Although firms on balance still believed production would grow in the year ahead, the degree of optimism was at its lowest since May 2015 amid uncertainties surrounding the US-China trade war and Brexit negotiations.

Elsewhere, September data signalled a moderation in the rate of input cost inflation in the manufacturing sector for the fourth month in a row, down to its weakest for a year. That said, the latest rise in average purchase prices was steep overall, with panellists commenting on increases in the cost of energy, basic metals (particularly steel) and metal products. Goods producers raised output charges, accordingly, with the rate of inflation ticking down slightly since August but remaining strong.

Supply chains remained under pressure in September, though the latest increase in lead times was the least marked since March 2017.

COMMENT

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

"It was inevitable that growth would naturally pull back from the high levels seen late last year, but the recent waning of exports has really taken the wind out of manufacturers' sails. The escalating US-China trade war, uncertainty surrounding Brexit negotiations and Turkey's currency crisis have all played a part. It was producers of investment goods such as machinery, transport and other equipment that led the decline in orders in September, in some cases reporting the postponement of projects."

"Uncertainties in the global market have clouded the outlook, which has led to manufacturers significantly lowering their expectations of where output levels will be in a year's time."

"The main positive takeaway was another strong round of hiring in the goods-producing sector, which will provide further impetus to domestic demand. It's likely, however, that we'll see recruitment slow in coming months if capacity pressures continue to ease."

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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.

September 2018 data were collected 12-21 September 2018.

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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Output Index

sa, >50 = growth since previous month

Manufacturing production

sa, cal. adj., %yr/yr



Sources: IHS Markit, Bundesbank.

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BME

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