IHS Markit/BME Germany Manufacturing PMI® – final data

Manufacturing boom shows signs of easing amid supply-chain constraints

Key findings:
- Output and new orders continue to grow strongly, but rates of expansion soften
- Record input delivery delays amid supply-chain bottlenecks
- Factory selling price inflation at a near seven-year high

Data collected February 12-21

Germany’s booming manufacturing sector grew at a slightly slower rate in February, according to the latest PMI® survey data from IHS Markit and BME, with reports of supply-chain bottlenecks helping drive up costs and prices charged at the factory gate.

The headline IHS Markit/BME Germany Manufacturing PMI – a single-figure snapshot of the performance of the manufacturing economy – dipped to 60.6 in February, from January's 61.1. The latest reading was well above the 50.0 no-change mark, indicating another month of strong growth within the sector. However, since reaching a record-high at the end of 2017, the PMI has retreated for two consecutive months, down to its lowest level since last October.

Despite easing in February, output growth across Germany’s factories remained strong and among the highest seen since early-2011. The expansion was led by consumer and capital goods sectors, which both recorded similarly steep increases in levels of output. The month also saw a sharp rise in the production of intermediate goods, i.e. items used as inputs in the manufacture of other goods.

Manufacturers expanded production amid another marked increase in new orders. The rate of growth in order books slowed, however, with inflows of new business from abroad showing the smallest rise for seven months (albeit still growing strongly overall).

Manufacturing employment continued to rise during February as firms looked to boost capacity. Although easing for the third month running, the pace of job creation remained close to the fastest seen in the survey’s near 22-year history. Backlogs of work continued to accumulate despite the expansion in staffing capacity, albeit rising at the slowest rate for ten months.

February’s survey meanwhile revealed yet more pressure on supply chains, as manufacturers faced the greatest monthly increase in average lead times ever recorded. Many firms commented on capacity bottlenecks at suppliers as well as a lack of availability of materials.

With demand for inputs outstripping supply, February saw a further steep increase in average prices paid for purchases. The rate of inflation eased from January's 81-month high, but it was nonetheless the third-quickest since April 2011. Steel was cited as one of the main drivers of the overall cost increase, while manufacturers also reported paying more for plastics and energy.

The sustained upward pressure on firms’ costs consequently led to a further steep rise in prices charged by goods producers. Furthermore, having picked up for the second month running, the rate of
output price inflation was the strongest seen for nearly seven years.

Manufacturers remained confident of output rising over the next 12 months in February. However, the degree of optimism was at a three-month low, reflecting worries about price pressures and a potential overheating of the sector.

Comment
Commenting on the final IHS Markit/BME Germany Manufacturing PMI® survey data, Phil Smith, Principal Economist at IHS Markit said:

“Although February’s final manufacturing PMI reading came in higher than the preliminary ‘flash’ estimate, the overall message from the survey data is unchanged: the sector continues to grow strongly but is showing signs of easing off from the record highs seen at the end of 2017.

“Insight into why the pace of growth has tempered slightly can be gleaned from some of the survey’s sub-indices. Recent months have seen manufacturers hiking up output prices, under pressure from spiralling costs. The problem lies largely in supply chains, where capacity issues have led to bottlenecks forming and allowed vendors to negotiate higher prices as demand outstrips supply. The seriousness of the problem is highlighted by the survey’s measure of delivery times, which in February showed the greatest deterioration in supplier performance in 22 years of data collection.

“Manufacturers of capital goods, which tend to be highly metal intensive, have been hardest hit by both supply delays and rising costs, with steel reported to be a key problem area.

“Export growth has meanwhile lost momentum, easing to the lowest for seven months, not helped by manufacturers upping their prices and the recent strengthening of the euro. All these factors have weighed on business expectations for the year ahead, though the general view among manufacturers remains that output will continue to rise over the course of 2018.”

-Ends-
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**Note to Editors:**

The Germany Manufacturing PMI® (Purchasing Managers’ Index®) is produced by IHS Markit and is based on original survey data collected from a representative panel of over 400 companies based in the German manufacturing sector.

The final Germany Manufacturing PMI follows on from the flash estimate which is released a week earlier and is typically based on at least 85% of total PMI survey responses each month. The February flash was based on 93% of the replies used in the final data.

The average differences between the flash and final PMI index values (final minus flash) since comparisons were first available in January 2006 are as follows (differences in absolute terms provide the better indication of true variation while average differences provide a better indication of any bias):

<table>
<thead>
<tr>
<th>Index</th>
<th>Average difference</th>
<th>Average difference in absolute terms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany Manufacturing PMI®</td>
<td>0.0</td>
<td>0.3</td>
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</tbody>
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The Purchasing Managers’ Index® (PMI®) survey methodology has developed an outstanding reputation for providing the most up-to-date possible indication of what is really happening in the private sector economy by tracking variables such as sales, employment, inventories and prices. The indices are widely used by businesses, governments and economic analysts in financial institutions to help better understand business conditions and guide corporate and investment strategy. In particular, central banks in many countries (including the European Central Bank) use the data to help make interest rate decisions. PMI® surveys are the first indicators of economic conditions published each month and are therefore available well ahead of comparable data produced by government bodies.

IHS Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from IHS Markit. Please contact economics@ihsmarkit.com.

**Notes**

1. The Composite Output PMI® is a weighted average of the Manufacturing Output Index and the Services Business Activity Index.
2. The Services Business Activity Index is the direct equivalent of the Manufacturing Output Index, based on the survey question “Is the level of business activity at your company higher, the same or lower than one month ago?”
3. The Manufacturing PMI® is a composite index based on a weighted combination of the following five survey variables (weights shown in brackets): new orders (0.3); output (0.25); employment (0.2); suppliers’ delivery times (0.15); stocks of materials purchased (0.1). The delivery times index is inverted.
4. The Manufacturing Output Index is based on the survey question “Is the level of production/output at your company higher, the same or lower than one month ago?”

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