

Embargoed until 0955 CET (0855 UTC) 1 February 2019

IHS MARKIT / BME GERMANY MANUFACTURING PMI®

Sharp fall in new orders causes PMI to fall into contraction territory in January

KEY FINDINGS

Steepest fall in new orders for six years

Uncertainty, trade friction and autos weakness hit demand

Purchase price inflation pulls back to 27-month low

Conditions across Germany's manufacturing sector worsened at the start of the year, with latest PMI® survey data from IHS Markit and BME showing inflows of new orders falling at the fastest rate in over six years. Client uncertainty, trade tensions and a slowing automotive sector were all found to have undermined demand, with the same factors also weighing on firms' expectations for production.

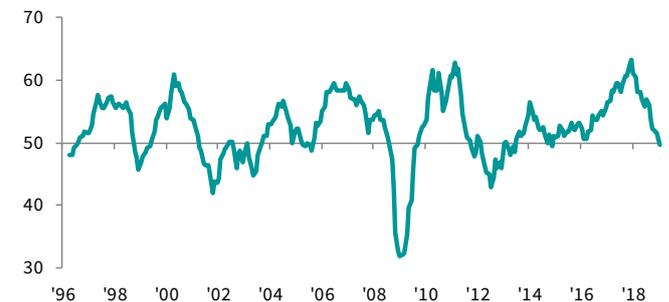
Elsewhere, January saw a further slowdown in the rate of input cost inflation in the sector to a 27-month low, reflecting the recent downward pressure on a number of key global commodity prices and falling demand for inputs.

At 49.7 in January, down from 51.5 in December, the headline IHS Markit/BME Germany Manufacturing PMI – a single-figure snapshot of the performance of the manufacturing economy – was below the 50.0 'no-change' mark for the first time in more than four years.

The notable fall in the headline PMI since December was led by a deepening downturn in new orders, which contracted to the greatest extent in over six years. Part of the reason for lower order books was a drop in demand from international markets, with surveyed firms reporting decreases in sales to the US, UK, Italy, Turkey and Asia (particularly China).

Despite the worsening order book situation, manufacturers maintained output growth at the start of the year. That said, the extent to which production increased was only marginal and the joint-weakest since the current upturn began in May 2013. Growth was also confined to the consumer goods sector, where a strong rise in output offset decreases at

Manufacturing PMI
sa, >50 = improvement since previous month



Source: IHS Markit

makers of intermediate and capital goods.

The main highlight in January was a further solid increase in factory workforce numbers. Though the rate of job creation eased and was close to November's near two-year low, it remained elevated compared to the long-run average (since 1996). Accordingly, the additional staffing capacity was reflected in a further solid decrease in backlogs of work.

Stocks of finished goods were accumulated during January as production levels outstripped sales. Pre-production inventory levels also rose, albeit only slightly, despite manufacturers scaling back their purchasing activity.

January's fall in buying levels was the fourth in as many months and the most marked since April 2013. In line with this sustained decline in demand for inputs, pressure continued to come off supply chains, with the incidence of delivery delays at its lowest in two-and-a-half years.

There was also a sharp slowdown in the rate of purchase price inflation in January to the lowest since October 2016. Panellists reported that recent falls in the price of oil and steel had weighed on overall cost pressures. Factory gate charge inflation meanwhile eased only slightly and remained strong overall.

Finally, latest data showed that German manufacturers remained mildly pessimistic about the outlook, on balance expecting output to fall over the next 12 months.

COMMENT

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

"Germany's manufacturing sector showed no sign of turning the corner in January, with the downturn in order books extending to a fourth straight month and gathering pace. A number of factors continued to undermine demand, affecting predominantly the intermediate and capital goods sectors.

"Thanks to a strong rise in consumer goods output, overall production remained just inside growth territory in January, but there are growing risks to the near-term outlook. Stocks of finished goods rose the joint-most on record, backorders continued to be depleted, and firms' expectations towards future output showed no appreciable improvement from last October's six-year low.

"The downturn is feeding through to supply chains, with lead-times on purchased items edging closer to stabilisation in January as manufacturers scaled back their demand for inputs. Purchase price inflation has also come down a lot in recent months, offering some respite to any struggling manufacturers."

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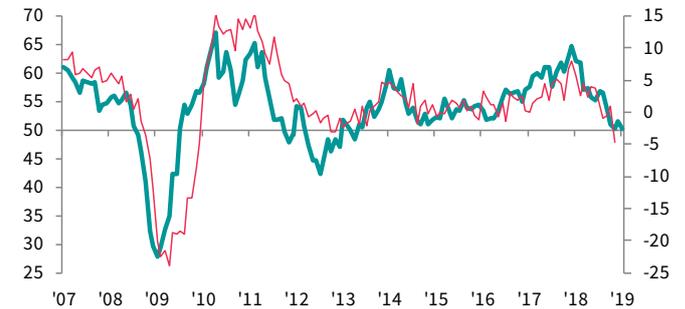
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Output Index

sa, >50 = growth since previous month

Manufacturing production

sa, cal. adj., %yr/yr



Sources: IHS Markit, Bundesbank.

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.

January 2019 data were collected 11-24 January 2019.

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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BME

BME is the German Association for Materials Management, Purchasing and Logistics, founded in 1954. It provides services for around 9000 individual and corporate members, including small and medium-sized businesses as well as Germany's top 200 companies. The BME promotes a dialogue between business 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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