

News Release

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S&P Global / BME Germany Manufacturing PMI®

Downturn in German manufacturing sector deepens in October

Key findings

Faster declines in both output and new orders

Employment shows resilience despite falling business confidence

Rates of inflation remain high but slip further from recent peaks

Latest PMI® survey data showed the downturn in Germany's manufacturing sector gather pace at the start of the fourth quarter. Goods producers reported the steepest drop in output since May 2020, whilst also noting a deepening decline in new orders, as conditions across the sector worsened amid growing concerns about the economic outlook and high energy costs.

There was some alleviation of overall costs pressures, however, with falling demand for materials and an associated easing of supply-chain constraints contributing to a slowdown in input price inflation to a 21-month low. Factory employment meanwhile continued to defy the broader downturn in conditions, as firms reported filling vacancies amid efforts to clear backlogs of work.

The headline seasonally adjusted S&P Global / BME Germany Manufacturing Purchasing Managers' Index® (PMI®) – a single-figure measure of sector performance derived from measures of new orders, output, employment, suppliers' delivery times and stocks of purchases – moved further below the 50.0 no-change mark that separates growth from contraction in October. At 45.1, down from September's 47.8, the latest reading was the lowest since the initial COVID-19 wave in early-2020.

The fall in the headline index in October was driven by faster declines in both output and new orders. The latter exhibited a particularly sharp rate of contraction that was one the fastest in the series history, exceeded only by those seen during the global financial crisis and the initial COVID shock. High inflation, soaring energy costs and greater caution among clients amid concerns towards the outlook all acted to suppress demand, anecdotal evidence showed, which in turn contributed to a notably quicker fall in production levels.

Backlogs of work at German manufacturers continued to come down sharply during October. The decline was the steepest since May 2020 and aided by a continued expansion of factory workforce numbers. The rate of employment growth even picked up slightly from September's 19-month low.

One area where manufacturers did report notable retrenchment was the purchasing of inputs. Buying levels fell for the fourth month in a row and to the greatest extent since June 2020, as

Germany Manufacturing PMI

sa, >50 = growth since previous month



Source: S&P Global.

Data were collected 12-24 October 2022.

Comment

Phil Smith, Economics Associate Director at S&P Global Market Intelligence, said:

"October's PMI showed business conditions across the manufacturing sector becoming more and more difficult, with no quick turnaround in sight.

"There was further downward pressure on output levels at the start of the fourth quarter, with firms noting the influence of high energy costs and a deepening downturn in demand.

"Manufacturers are gravely concerned about the outlook for the next 12 months, with expectations having fallen to their lowest since the initial COVID wave.

"Despite the gloomy outlook, factory employment continued to show resilience. The gap between the survey's employment and business expectations indexes is by far the widest since the latter's inception ten years ago. Given the scarcity of available skilled staff, it seems goods producers are keen to retain what talent they already have despite worsening business conditions.

"Inflationary pressures in the manufacturing showed signs of easing in October but remained historically elevated. Falling demand for inputs and an associated easing of supply-chain constraints helped the rate of input cost inflation resume its recent decline following the brief energy-driven upturn in September. Input costs rose at the slowest rate since January 2021, but nevertheless one that has rarely been exceeded prior to this. High energy costs have prevented producer price inflation from falling more quickly."

goods producers reacted to falling output requirements and were somewhat less inclined to build up stocks. Pre-production inventories rose at the slowest rate for seven months (although one that was still robust by historical standards).

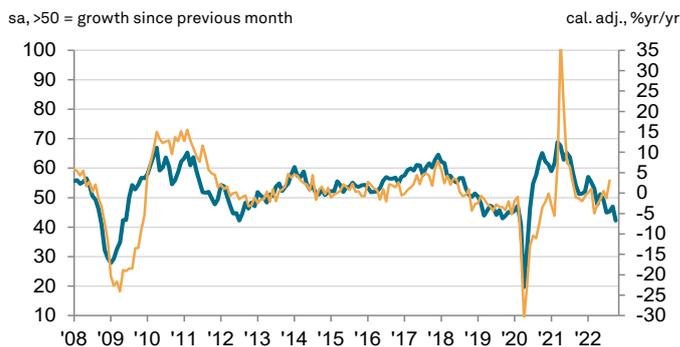
Growth of stocks of finished goods showed a more pronounced slowdown. Here, the latest increase was only marginal. There was a growing number of firms reporting deliberate attempts to reduce post-production inventories, in some case linked to cashflow management.

The rate of input price inflation was still well above its historical series average, owing in large part to high energy costs. That said, with demand for inputs falling and surveyed firms reporting a softening of some material prices (notably steel), the rate of increase slipped to the lowest since January 2021. Easing supply bottlenecks were evidenced by a drop in the incidence of delays on purchases to the lowest since August 2020.

Factory gate price inflation likewise ticked down, dropping to an 18-month low, although it was still higher than any time in the series history prior to May 2021.

Looking ahead, German manufacturers showed increased pessimism towards output over the coming year. Expectations slumped to the lowest since the initial COVID-19 outbreak, amid concerns over persistently high inflation, elevated energy costs, rising interest rates and the prospect of recession.

■ PMI Output Index ■ Manufacturing production



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Survey methodology

The S&P Global Germany Manufacturing PMI® is compiled by S&P Global from responses to questionnaires sent to purchasing managers in a panel of around 420 manufacturers. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP. Data collection began in April 1996.

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.

Flash vs. final data

Flash data were calculated from 95% of final responses. Since January 2006 the average difference between final and flash Manufacturing PMI values is 0.0 (0.3 in absolute terms).

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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