

Unicredit Bank Austria Manufacturing PMI®

Manufacturing sector continues to lose momentum as sharply rising prices hit demand

Key findings

PMI slips to 16-month low in May

New orders contract for first time in nearly two years

Output price inflation stays close to April's record high

Growth of Austria's manufacturing sector continued to show a slowing tendency during May, with demand coming under pressure from sharp price increases. New orders declined midway through the second quarter, amid near-record rises in both input costs and factory gate charges. Production was supported by work on order backlogs, but expectations towards future output hit a near two-year low.

The seasonally adjusted UniCredit Bank Austria Manufacturing Purchasing Managers' Index® (PMI®) – a single-figure gauge of performance calculated from measures of output, new orders, employment, stocks of inputs, and supplier delivery times – continued to trend downwards in May, dropping from April's 57.9 to a 16-month low of 56.6.

Key to the headline PMI's decline in May was a contraction in new orders – the first in almost two years. A number of surveyed firms linked a drop in demand to sharp price increases and client hesitancy due to economic uncertainty. The reduction in overall new orders included a fall in international sales, which was likewise the first since mid-2020.

More positively, manufacturers were able to increase output at a slightly faster rate than the five-month low seen in April. According to surveyed businesses, the result was driven by improved production capabilities (linked in turn to increased staffing levels) and deliberate efforts to tackle backlogs of work, which rose at the slowest rate since November 2020.

The contrasting trends in output and new orders were reflected in a renewed rise in stocks of finished goods, following a brief decline in April. At the same time, there was a sharp and accelerated rise in pre-production inventories – the third-fastest on record – as firms looked to boost safety stocks to mitigate against supply issues. Indeed, there were signs of manufacturers over-purchasing inputs, as growth in buying levels continued to outstrip that of output by some

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sa, >50 = growth since previous month



Source: S&P Global.

Data were collected 12-24 May 2022.

margin. That said, the latest increase in purchasing activity was the weakest for 16 months.

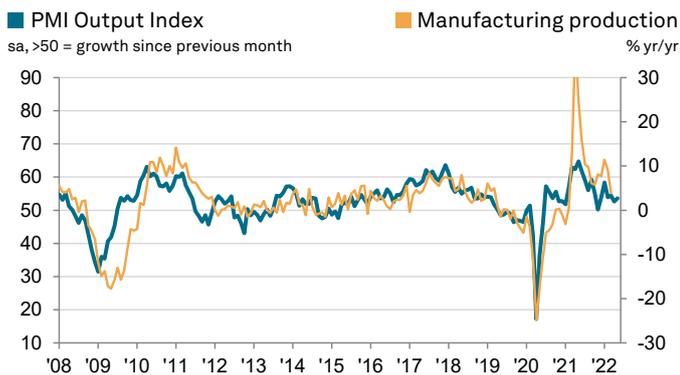
There were once again widespread reports of delays in the receipt of inputs, as firms commented on disruption caused by COVID-related lockdowns in China and the war in Ukraine, alongside continued challenges with material and transport availability in general. Though the incidence of longer lead times eased for the second month running, it remained higher than at any time prior to the pandemic.

Imbalances between supply and demand for materials and parts, combined with the elevated cost of energy and transportation, led to a further sharp increase in manufacturers' input prices in May. The rate of cost inflation ticked down from April but remained among the quickest on record.

It was a similar picture for factory gate price inflation, which despite easing since April's record high was still quicker than at any other time in the series history, as goods producers often looked to pass on at least part of the burden of higher costs to clients.

Sharp inflationary pressures, alongside the uncertainty surrounding the war in Ukraine and continued supply chain disruption, weighed on business confidence in May. In fact, expectations towards future output were the lowest since the first wave of the COVID-19 pandemic.

Employment at Austrian factories continued to rise strongly during May, reflecting long-running efforts by companies to fill vacancies and boost capacity. The rate of job creation was still well in excess of the long-run average but eased for the third month in a row to the weakest since February 2021.



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Survey methodology

The Unicredit Bank Austria Manufacturing PMI® is compiled by S&P Global from responses to questionnaires sent to purchasing managers in a panel of around 300 manufacturers. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP. Data collection began in October 1998.

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.

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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