News Release

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S&P Global / BME Germany Manufacturing PMI®

Conditions worsen across manufacturing amid steep drop in new orders and surge in energy prices

Key findings

PMI at 27-month low of 47.8 as decline in new orders deepens

Cost inflation re-accelerates, driven by surge in energy prices

Expectations sink sharply to lowest since initial COVID wave

The health of Germany's manufacturing sector took a further turn for the worse in September, latest PMI® survey data showed, with the downturn in new orders deepening and soaring energy prices driving up the rate of input cost inflation.

Amid a further easing of supply-side constraints, the rate of decline in output was the weakest for three months in September. However, firms' expectations towards future production sank sharply to their lowest since May 2020, with rising stocks of finished goods and risks around energy supply each boding ill for growth prospects.

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 – sank deeper into sub-50 contraction territory in September, falling from August's 49.1 to 47.8. This was its lowest reading since June 2020.

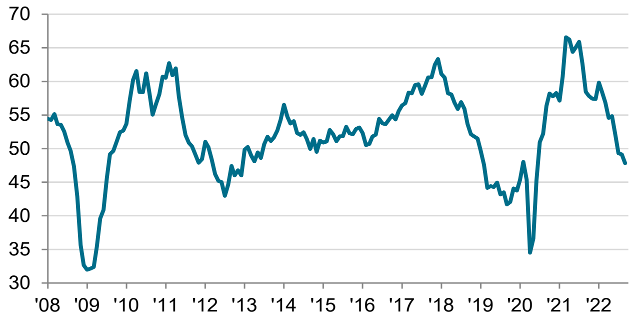
Driving the decline in the headline PMI was a faster fall in new orders. September saw inflows of new work at German manufacturers decrease for the sixth month in a row and to the greatest extent since May 2020. Anecdotal evidence indicated that sharply rising prices and the deteriorating economic outlook had led to a growing number of customers either postponing or cancelling orders. The downturn in new export orders was likewise the deepest for almost two-and-a-half years, with a number of firms commenting on weaker demand from China.

Lower demand, combined with production cutbacks due to increased energy costs, weighed on overall production volumes during September. That said, amid some reports of improved material availability and with firms able to continue clearing backlogs of work, the rate of decline in output eased to the weakest in three months and was substantially slower than that of new orders.

Accordingly, manufacturers continued to build up stocks of finished goods during September, marking a fifth straight month of growth. The rate of accumulation eased since August but was still among the quickest on record (since 1996).

Germany Manufacturing PMI

sa, >50 = growth since previous month



Source: S&P Global.

Data were collected 12-23 September 2022.

Comment

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

"September's PMI survey indicated a sustained downturn in Germany's manufacturing sector, with goods producers coming under pressure from a deepening decline in demand as well as an energy-led rise in cost inflation.

"Amid reports of improvement in the availability of some materials, there was a degree of resilience in output levels, which showed the shallowest decline for three months as firms worked through order backlogs and accumulated stocks of finished goods. However, the soaring cost of energy, which has already led some businesses to cut production, caused alarm bells, with manufacturers' expectations for future output plummeting in September following the shutdown of the Nord Stream 1 pipeline.

"The surge in energy prices put paid to the steady slowdown in input cost inflation seen over recent months, causing it to re-accelerate to a three-month high in September. If demand continues falling in the months ahead as businesses are expecting, the pass-through of higher costs will inevitably become more and more difficult, thereby squeezing margins. Indeed, we're already getting reports of some manufacturers trying to improve cashflow by running down stocks of purchases."

PMI® by S&P Global

Association for Supply Chain Management, Procurement and Logistics

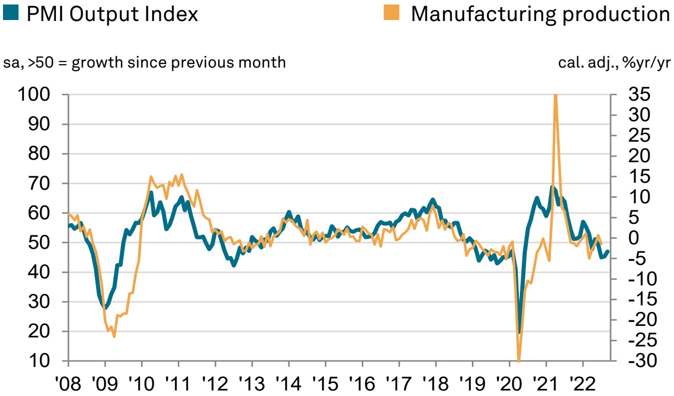
Pre-production inventories held by goods producers, on the other hand, rose at a noticeably slower rate, and one that was the weakest seen since March. This partly reflected efforts by some to improve cashflow, as well as a sustained decline in purchasing activity. The decrease in input buying was the quickest since June 2020.

Lower demand for inputs helped to further ease the pressure on supply chains at the end of the third quarter. The incidence of delivery delays in fact reached the lowest for over two years.

Nevertheless, driven by a fresh surge in energy prices, average input costs faced by German manufacturers rose at the fastest rate for three months in September. Output price inflation remained elevated by historical standards as firms looked to pass on some of the burden of increasing costs, although it ticked down to the joint-lowest in the past 17 months.

Concerns around the price and supply of energy, and the implications for inflation and demand, led to a considerable deterioration in manufacturers' expectations towards future output. Firms were the most pessimistic since the initial COVID-19 wave almost two-and-a-half years ago.

Finally, whilst factory employment continued to rise during September, the rate of job creation slowed to a 19-month low.



Sources: S&P Global, Federal Statistical Office.

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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 94% 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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About BME

The BME is the German Association for Supply Chain Management, Procurement and Logistics. Founded in 1954 it provides services for around 9750 individual and corporate members, including small and medium-sized businesses as well as Germany's top 200 companies. The BME liaises between businesses 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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