

NEWS RELEASE
MARKET SENSITIVE INFORMATION
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HCOB Germany Manufacturing PMI[®]

Manufacturing output buoyed by easing supply constraints, but sector continues to face headwinds to demand

Key findings:

Modest output growth in April amid improved material availability

New orders continue to fall, albeit at a slower rate

Factory gate price inflation at 27-month low

Data were collected 12-21 April 2023.

The latest HCOB PMI[®] survey showed another subdued performance from the German manufacturing sector at the start of the second quarter. Output rose modestly, buoyed by rapidly easing supply constraints, but there was continued downward pressure on new orders due to customer hesitancy and efforts to unwind buffer stocks. Although manufacturing expectations ticked up to a 14-month high, they remained low by historical standards.

On the price front, factory gate charge inflation eased to a 27-month low, reflecting growing competition for new work and a deepening fall in input costs.

The **HCOB Germany Manufacturing PMI[®]** came in at 44.5 in April, down slightly from 44.7 in March and its lowest reading since May 2020. The headline index was once again dragged down by the suppliers' delivery times sub-component, which is inverted in the calculation of the PMI and hit a record high for a third consecutive month.

The shortening of lead times and associated improvement in material availability did however provide a tailwind for manufacturing production, which edged higher for a third straight month. The rate of growth was the quickest since May last year, though still only modest overall. There were contrasting trends at the sub-sector level, with a strong rise in investment goods production being partly offset by declines across the consumer and intermediate goods categories.

New orders remained in contraction territory in April. Reports from firms highlighted caution among customers, including a reluctance to invest. Many also highlighted the influence of high stock levels among clients. The rate of decline in new orders did however ease to the weakest for 11 months, helped by a slower fall in export sales.

Efforts by manufacturers to unwind buffer stocks of inputs that had been built up during the pandemic saw pre-production inventories fall for a third straight month in April. Furthermore, the rate of decline quickened to the fastest for almost two years. There was also a renewed decline in stocks of finished goods, following increases in the previous two months.

German manufacturers greatly reduced their purchasing activity in April. The decrease was the second-sharpest since the initial COVID-19 shutdowns in early-2020 after that seen last November.

This deepening decline in input buying, combined with easing energy costs, acted to put further downward pressure on manufacturing input prices in April. Average purchase prices fell for the third month running and at the quickest rate since December 2019.

Factory gate charges rose in April, but the rate of inflation slowed for the tenth time in the past 12 months to the lowest since January 2021. Where an increase was recorded, this was often linked to the pass-through of higher wages. However, growing competition for new work was reported to have weakened pricing power, particularly among makers of intermediate goods.

Elsewhere, April's survey showed a sustained slowdown in the pace of job creation at manufacturers. Workforce numbers rose only modestly and at the weakest rate in the current 26-month sequence of employment growth. Where staffing levels did rise (predominantly at investment goods producers), this was partly linked to efforts to clear backlogs. Overall, work-in-hand fell markedly in April, and at a rate that was unchanged from March.

Lastly, April saw manufacturers' expectations towards future output tick up slightly to the highest since February 2022. That said, ongoing concerns about a sluggish economy, stubbornly high prices and geopolitical tensions kept confidence below its long-run average.

Comment

Commenting on the PMI data, Dr. Cyrus de la Rubia, Chief Economist at Hamburg Commercial Bank, said:

"Germany's manufacturing sector again produced slightly more in April. At the same time, signs of weak demand can be seen according to the HCOB PMI survey. The clearest indicator is the PMI index for new orders, which again signals a decline, including orders from abroad. But faster supplier delivery times are also an indication that demand is weakening."

"However, the weakness in demand indicated by the HCOB PMI does not mean at all that a crash in production is imminent. After all, according to Destatis, order books are still sufficient for seven to eight months of production, an extremely comfortable situation by historical standards."

"The weakness in demand coupled with a high order backlog also has something good for companies in the short term. This is because, as measured by the PMI price indices, firms seem to be able to increase their profit margins. For example, the PMI input price index has fallen sharply to below 40 points, while the PMI selling price index continues to be in inflation territory, even if the gains are diminishing."

"Compared to other European countries, the manufacturing sector in Germany is doing relatively well. In France in particular, companies have recently cut back their output sharply, according to the PMI survey, possibly also due to strike activity in the country. But output has also fallen recently in Italy."

-Ends-

HCOB Germany Manufacturing PMI

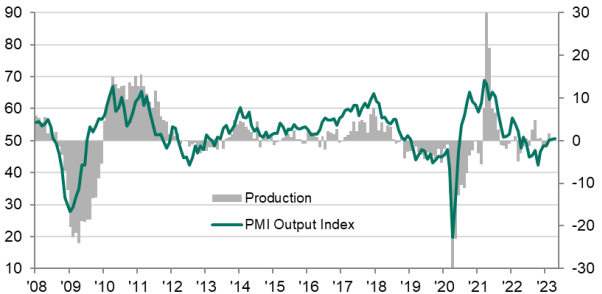
sa, >50 = improvement since previous month



Sources: HCOB, S&P Global.

PMI Output Index

sa, >50 = growth since previous month



Sources: HCOB, S&P Global, Statistisches Bundesamt.

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Note to Editors

The HCOB 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.

Flash data were calculated from 93% of final responses. Since January 2006 the average difference between final and flash Manufacturing PMI values is 0.0 (0.3 in absolute terms).

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

Hamburg Commercial Bank AG

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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. www.spglobal.com/marketintelligence/en/mi/products/pmi.html

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