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IHS MARKIT / BME GERMANY MANUFACTURING PMI®

Manufacturing slowdown continues into December as PMI slips to 33-month low

KEY FINDINGS

Growth curbed by sustained decline in new orders

Exports fall to greatest extent in six years

Input cost inflation eases to 16-month low

The recent slowdown in Germany's manufacturing sector extended into the final month of 2018, according to the latest PMI® survey data from IHS Markit. Though output growth was sustained, the recent downturn in new orders deepened amid a steep and accelerated decline in exports.

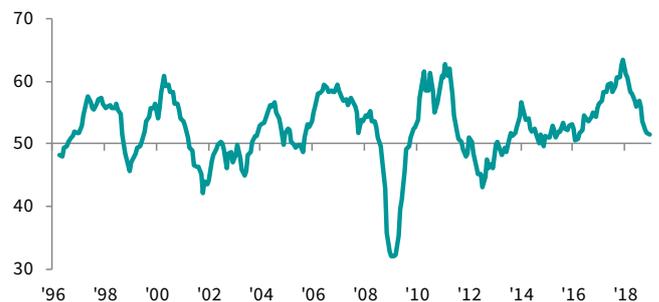
More positively, data showed a solid increase in manufacturing employment as well as a cooling of input cost inflation to a 16-month low.

The headline IHS Markit/BME Germany Manufacturing PMI – a single-figure snapshot of the performance of the manufacturing economy – slipped to 51.5 in December, down from 51.8 in November and its lowest reading since March 2016. It marked the eleventh time that the index had fallen in 2018, down from a record high in December 2017.

The performance of the sector continued to be undermined by falling inflows of new orders. December's decrease was the third in as many months and the steepest since November 2014. Surveyed businesses highlighted increased cautiousness among clients and cited subdued demand in the automotive industry. New export orders showed the steepest fall for six years, with a number of firms reporting lower sales to China.

Output, nevertheless, rose slightly in December, and at a marginally quicker rate than in both October and November. Growth was centred on the consumer goods sector, with the production of both intermediate and capital goods contracting slightly on the month.

Manufacturing PMI
sa, >50 = improvement since previous month



Source: IHS Markit

With overall output levels continuing to rise, but new orders falling further into contraction, December saw both the accumulation of finished good stocks and a further decline in backlogs of work. The drop in outstanding business was the steepest seen for six years.

Stocks of purchases meanwhile fell on the month as manufacturers scaled back their purchases of raw materials and semi-finished goods. The drop in buying levels – the third in as many months – in turn helped to alleviate some of the strain on supply chains, with the incidence of delivery delays at its lowest since December 2016.

December's survey meanwhile showed another solid rise in manufacturing sector employment across Germany. The rate of job creation picked up from November's 23-month low, though it was still one of the weakest seen over the past two years.

Another positive development in December was a sharp slowdown in the rate of input cost inflation across the manufacturing sector, which anecdotal evidence partly attributed to the recent drop in oil prices. The rate of increase was the slowest in 16 months (albeit still above the historical average). Factory gate charges, however, rose at a slightly quicker pace, the fastest since September.

Finally, business confidence towards the year-ahead outlook stayed close to last October's near six-year low. Sentiment was curbed by uncertainty relating to Brexit, trade frictions and the slowdown in the automotive industry.

COMMENT

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

"A year that started with rapid growth in the manufacturing sector ended on a disappointing note, with latest PMI data showing the sector edging closer to stagnation in December.

"With things having got a little too hot at the end of 2017 a correction was inevitable, but the extent of the slowdown has been somewhat of a surprise. The darkening global economic picture has had ramifications for Germany's outwardly-focussed manufacturing sector over the course of 2018, while a sequence of headwinds in the car industry in the latter stages of the year has been a further restricting factor.

"Inflows of new orders fell deeper into contraction territory as the fourth quarter progressed, and it's only because of work on backorders that manufacturers were able to sustain output growth. The rate of job creation has also held up relatively well thus far, though the accelerated decline in backlogs suggests that more and more companies are starting to see capacity pressures ease off.

"Notably, however, consumer goods producers defied the broader slowdown to record strong growth across the board in December. Cost pressures were also found to have cooled as the effects of lower oil prices and softer underlying demand started to feed through."

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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.

December 2018 data were collected 5-14 December 2018.

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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Output Index

sa, >50 = growth since previous month

Manufacturing production

sa, cal. adj., %ytr/yr



Sources: IHS Markit, Bundesbank.

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IHS Markit (Nasdaq: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

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BME

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