

News Release

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S&P Global / BME Germany Manufacturing PMI®

May sees further decline in new orders amid multiple headwinds to demand

Key findings

Export sales fall for the third month running and at a faster rate

Production rises slightly, but expectations remain pessimistic

Output price inflation little-changed from April's record high

May PMI® data showed a sustained softening of demand for German manufactured goods, with a combination of heightened economic uncertainty, sharply rising prices and COVID-related lockdowns in China leading to a further decline in new orders. Output levels nevertheless picked up slightly during the month, buoyed by work on order backlogs, growing employment levels and some instances of improved material availability. Still, firms' expectations for future activity remained pessimistic.

The headline seasonally adjusted S&P Global / BME Germany Manufacturing Purchasing Managers' Index® (PMI®) – a weighted aggregate of new orders, output, employment, suppliers' delivery times and stocks of purchases – registered 54.8 in May. This marked a slight improvement from April's 20-month low of 54.6.

A return to growth of output, following a decline at the start of the second quarter, contributed to the rise in the headline PMI in May. Some surveyed businesses reported being able to raise production due to increased staffing levels and improved availability of materials. Supply bottlenecks continued to hold back output in many cases, however, and the extent to which overall production rose during the month was only modest.

There were once again widespread reports of delays in the receipt of inputs across the manufacturing sector. However, although remaining higher than at any time prior to the pandemic, the incidence of longer lead times eased to its second-lowest since December 2020.

While the data pointed to a slightly better month on the production front in May, new orders exhibited a weakening trend. After having fallen into contraction for the first time in 22 months in April, overall inflows of new work showed a deepening decline during the latest survey period, led by a marked and accelerated reduction in export sales. Panellists reported reluctance among clients due to economic uncertainty and sharp price pressures, as well as headwinds to demand caused by COVID-related lockdowns in China.

The contrasting trends in output and new orders were reflected in a slower rise in backlogs of work – the weakest since July 2020.

Germany Manufacturing PMI
sa, >50 = growth since previous month



Source: S&P Global.
Data were collected 12-24 May 2022.

Comment

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

"Latest PMI data signalled a deepening decline in manufacturing new orders, amid an array of headwinds to demand that included heightened uncertainty among clients due to the war in Ukraine, COVID-related lockdowns in China and some signs of demand destruction from elevated prices.

"Although May's survey pointed to a slight upturn in manufacturing production levels, with firms reporting a boost from greater staffing capacity and, in some cases, better material availability, the rate of output growth was only modest overall as supply problems continued to curb activity across many companies. Manufacturing output still has some way to go to catch up with demand, but a slowdown in the rate of accumulation of backlogs is a further indication that the gap has closed somewhat.

"Positively, the incidence of supply delays eased during the month, down to the second-lowest since December 2020, coinciding with slightly slower increases in both input costs and output prices across the goods-producing sector. Notwithstanding the tentative signs that price and supply-chain pressures have perhaps peaked, material shortages are still a considerable constraint on production and price pressures remain uncomfortably high for businesses.

"The near-term operating environment facing manufacturers is a challenging one in terms of both demand and supply, and this is emphasised by the fact that firms' expectations remain pessimistic and stuck at their lowest for nearly two years."

Data also showed a renewed, albeit slight, increase in stocks of finished goods.

Pre-production inventories held by manufacturers meanwhile rose sharply during the month, with the rate of accumulation accelerating for the second month running to take it closer to last year's record highs. Many firms reported deliberately building up safety stocks to mitigate against supply delays. Accordingly, May saw a marked increase in manufacturers' purchasing activity, with the rate of growth outstripping that of output by some margin.

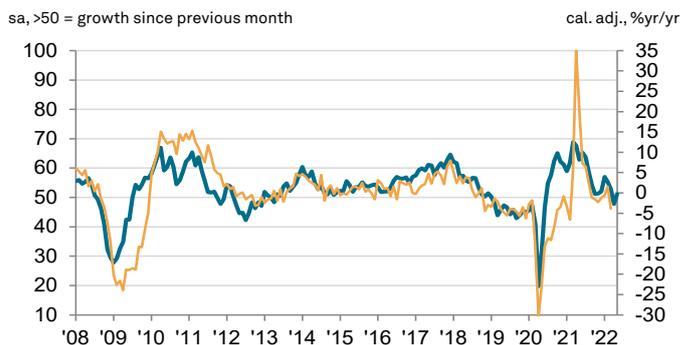
Higher demand for materials, combined with continued supply issues and the elevated cost of energy and fuel, resulted in sustained upward pressure on purchase prices in May. The overall rate of input cost inflation did, however, tick down to a three-month low.

With higher purchase prices still being passed on by manufacturers, average factory gate charges continued to rise sharply, and at a rate that was close to April's record high.

Concerns over inflation served to suppress business confidence. Firms' expectations towards the year-ahead outlook for output remained pessimistic and showed no change from April's near two-year low.

Still, reflecting long-running efforts to fill vacancies and expand staffing capacity, factory employment levels rose once again during May. Moreover, the pace of job creation was the quickest for three months.

■ PMI Output Index ■ Manufacturing production



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 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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