

News Release

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S&P Global / BME Germany Manufacturing PMI®

Manufacturing outlook darkens as sharp fall in demand for goods weighs on factory output

Key findings

June sees steep and accelerated decline in new orders

Output shows renewed fall, with firms growing more pessimistic

Rates of input cost and output price inflation tick down

Latest PMI® data highlighted a difficult end to the second quarter for Germany's manufacturing sector, with new orders falling further amid growing headwinds to demand, and output also in decline. Firms grew more pessimistic about the outlook, owing to concerns about a combination of high inflation, continued supply disruption and shrinking order books.

Elsewhere, whilst still elevated, rates of increase in both factory input costs and output prices slowed for the second month in a row in June, as the survey showed an easing of some supply-chain pressures.

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 – registered 52.0 in June, down from 54.8 in May and its lowest reading for almost two years. It stayed above the 50.0 no-change threshold thanks to its employment, stocks of purchases and supplier delivery times components (the last of which is inverted in the PMI's calculation).

New orders in particular exhibited a much weaker trend than that implied by the headline PMI, with the respective index registering deep in sub-50 contraction territory in June. Amid reports of customer uncertainty, high prices and disruption to external demand, inflows of new work placed with German manufacturers fell for the third month running, with the rate of contraction continuing to accelerate. It was a similar picture for new export orders, although here the decline extended to a fourth straight month.

Like new orders, output levels at German manufacturers fell in June, down for the second time in the past three months. Supply shortages remained a constraint on production for some firms, although for others a fall in demand was the driving factor behind lower output. The rate at which production fell was only modest and much slower than that of new orders, however, reflecting a buffer of order backlogs. That said, June saw outstanding business volumes fall for the first time in two years.

There was also a steep rise in stocks of finished goods held by

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



Source: S&P Global.
Data were collected 13-23 June 2022.

Comment

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

"We're seeing a rapid correction in underlying demand for German goods. Inflows of new orders across the sector showed a deepening decline in June, as firms reported a degree of demand destruction from higher prices, growing market uncertainty, and multiple headwinds to export sales.

"However, though steep, the decline in new orders has merely brought the level more into line with that of output after a long period of outperformance, which helps explain why we've not seen a similarly sharp fall in production.

"Still, the data for the three months to June pointed to the sector's weakest quarterly trend in production for two years. With backlogs now in decline, firms have downgraded their expectations for output over the next 12 months to the gloomiest for over two years.

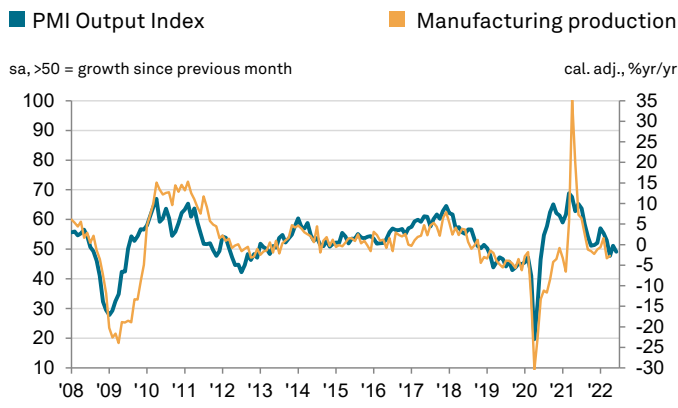
"We're starting to see some relief on the inflation front, with rates of increase in both input costs and output prices slowing down for a second straight month. However, it's difficult to untangle any alleviation of pressure coming from the supply side from the effects of weaker demand."

German manufacturers during June. The rate of growth in post-production inventories was the second-quickest on record, behind that seen during the initial COVID lockdowns in April 2020, and it coincided with a sustained strong build-up of stocks of purchases as firms looked to mitigate against supply delays.

Reports of longer lead times on inputs remained widespread during June, with surveyed firms mentioning shortages of a range of materials as well as transport bottlenecks. That said, the deterioration in supplier performance was the least marked since February.

Signs of the alleviation of some supply-chain pressures coincided with a second straight monthly slowdown in the rate of input price inflation faced by German manufacturers. Although still historically elevated and buoyed by higher energy, material and transport costs, the overall rate of increase in purchase prices eased to a 16-month low in June. Factory gate charge inflation meanwhile ticked down sharply to its slowest so far this year, although it remained quicker than at any point prior to last June.

Alongside concerns over high inflation and supply disruption, worries about the outlook for demand saw firms' expectations towards the year-ahead outlook for output turn more pessimistic in June. Still, latest data showed another robust rise in employment at factories, reflecting long-running efforts to expand capacity. The pace of job creation did, however, ease since May.



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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 92% 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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