

News Release

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S&P Global / BME Germany Manufacturing PMI®

German manufacturing sector remains in contraction in August

Key findings

PMI slips to 26-month low of 49.1

Sustained sharp downturn in new orders

Cost inflation maintains steady retreat from historic levels

Germany's manufacturing sector remained in contraction in August, latest PMI® survey data showed, with a sustained downturn in new orders serving to weigh on production levels and slow the rate of job creation at factories. Rising stock levels remained a prominent feature of the survey.

Amid signs of a further easing of supply-side constraints, the rate of cost inflation retreated further from its recent historic highs, although it was still elevated due to pressure from increased energy costs in particular. Firms were less pessimistic about the outlook than the month before.

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 49.1 in August. Down slightly from 49.3 in July, this was the second successive reading in sub-50 contraction territory following a two-year period of growth.

A sharp decline in new orders continued to be seen across the German manufacturing sector in August. The rate of contraction eased only slightly since July, when it was the quickest since May 2020. Panel member reports pointed to greater hesitancy among clients due to high prices and an uncertain outlook. A number of firms also mentioned that high stocks levels among clients had weighed on demand. Lower international sales were reported once again, and here the rate of decline accelerated to the quickest since June 2020.

There were reports of firms scaling back production in line with falling intakes of new work, while others indicated persistent constraints on output from material shortages. Overall, production fell at a solid rate, but one that was slightly weaker than in July and far less marked than the decline in new orders.

German manufacturers subsequently recorded lower backlogs of work for the third month in a row. The rate of decline was the quickest in this sequence, though still only modest. At the same time, goods producers noted a sustained rapid build-up of stocks of finished goods, with the rate of accumulation accelerating

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



Source: S&P Global.
Data were collected 12-23 August 2022.

Comment

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

"The Germany Manufacturing PMI remained in contraction territory in August, with the sector under pressure from a notable moderation in demand. New orders continued to show a steep decline, albeit from historically high levels, with economic uncertainty and strong inflation both acting to suppress sales volumes.

"Material shortages are still a constraint on output in some cases. However, many manufacturers are accumulating stocks of finished goods as sales disappoint, which is a downside risk to the sector's performance in the coming months as these firms look to bring output more into line with demand and scale back their purchasing activity accordingly.

"Amid an easing of imbalances across supply chains, cost inflation has retreated further from its recent historic highs. However, owing to the energy supply shock, cost pressures remain stubbornly high and have fresh upside risks in the coming months.

"Manufacturers are bearish about the outlook, but while we've seen the pace of job creation slow, there are no signs yet of the goods-producing sector going into retrenchment mode on the employment front."

to the second-quickest on record (behind that seen during the initial COVID-19 wave in April 2020).

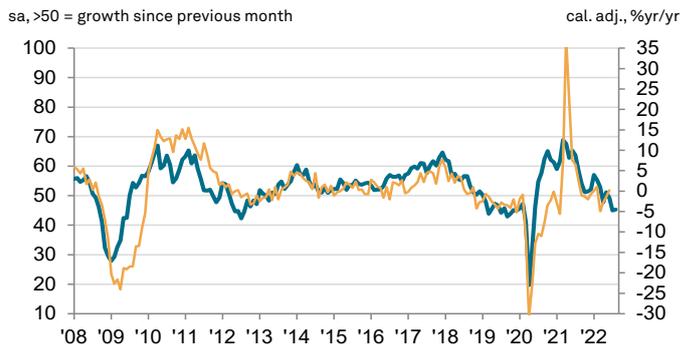
Markedly higher pre-production inventories were also recorded, as firms reported stockpiling inputs as part of efforts to mitigate against supply disruption. However, manufacturers' buying levels fell for the second month running and there was a further easing of supply delays, with the incidence of longer lead-times on inputs at its lowest since October 2020.

Signs of reduced pressure on supply chains were reflected by a further cooling in the rate of input price inflation, which ticked down for the fourth straight month to its lowest since January 2021. It remained elevated by historical standards, however, as firms widely commented on the influence of high energy prices. Factory gate charge inflation meanwhile ticked up slightly from July's 15-month low.

Concerns about the high inflation environment, uncertainty in the energy market, and economic slowdown risks all weighed on business confidence, with manufacturers remaining pessimistic about the outlook. That said, expectations did rebound somewhat from July's 26-month low.

Lastly, August's survey showed a further slowdown in the rate of job creation across Germany's manufacturing sector, to the lowest since March. The rise in employment was still relatively solid by historical standards, however.

■ 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 91% 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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