News Release

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S&P Global / BME Germany Manufacturing PMI®

Output rises slightly whilst input costs plummet amid rapidly improving supply conditions

Key findings

Improvement in supplier delivery times tops previous record by wide margin

Output edges higher, supported by backlogs, but demand continues to wane

Decline in input costs gathers pace, weighing on factory gate price inflation

German manufacturing output edged slightly higher for the second month running in March, aided by increased availability of components and materials, latest PMI® survey data showed. The improvement in supplier performance was by far the greatest seen in the series history and represented an unwinding of the unprecedented disruption brought about by the pandemic. The decline in manufacturing input costs meanwhile gathered pace.

Less positively, demand remained under pressure as customers refrained from placing new orders due to low confidence, rising borrowing costs and a desire to run down inventories. Accordingly, the degree of optimism towards the outlook remained low.

The headline seasonally adjusted S&P Global / BME Germany Manufacturing Purchasing Managers' Index® (PMI®) – which is a single-figure measure of sector performance derived from measures of new orders, output, employment, suppliers' delivery times and stocks of purchases – registered 44.7 in March. This was down from 46.3 in February and the lowest reading since May 2020. The fall was driven mainly by the supplier delivery times sub-component, which is inverted in the calculation of PMI and thereby has a negative directional influence as it rises.

New orders, which fell at a sharp and slightly accelerated rate, also contributed to March's sub-50 PMI reading. That said, the rate of contraction in overall new orders remained slower than seen on average over the second half of last year, helped by an easing in the decline in export sales to the weakest for nine months.

Whilst falling demand led a number of businesses (particularly makers of intermediate goods) to scale back production in March, others reported a rise in output during the month linked to better supply of materials and parts, which allowed progress on backlogs of work. The net result was a slight rise in output, with the rate of growth picking up marginally since February.

Short-notice postponements and cancellations of orders by customers contributed to a rise in stocks of finished goods at German manufacturers in March, the tenth increase in the past 11 months. By contrast, pre-production inventories were down

Germany Manufacturing PMI

sa, >50 = growth since previous month

Source: S&P Global.
Data were collected 10-24 March 2023.

Comment

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

"The headline PMI pointed to a deepening downturn in the manufacturing sector in March, but, having been heavily influence by the supplier delivery times sub-index, it masked a second successive, albeit slight, uptick in production levels during the month. Falling input costs were another plus-point, with lower pipeline price pressures a welcome development for inflation, although this is in large part a symptom of cooling demand.

"There are clear signs of disinflationary forces taking hold in the manufacturing sector, with input costs falling for the second month running and at the quickest rate since May 2020. Furthermore, a sharp slowdown in factory gate price inflation to a 26-month low shows that more and more manufacturers are losing pricing power, particularly producers of intermediate goods who are exposed to a decline in demand for inputs.

"We're seeing a general preference for lower buffer stocks now that lead times on materials and parts have greatly improved. The decrease in supply-chain pressures is self-fulfilling, as quicker delivery times prompts attempts to unwind excess stocks, which in turn leads to lower input demand.

"Confidence among manufacturers towards the year ahead generally remained subdued in March, amid continued concerns towards future demand. However, underlying data showed that investment goods producers were more optimistic than most, having seen some promising signs on the order book front and an upswing in output."

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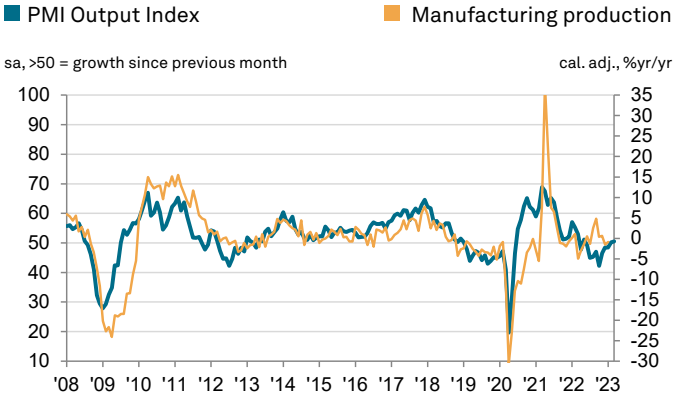
for a second straight month, falling at a robust pace that was little-changed from that seen in February as firms slashed their purchasing activity.

Manufacturers looked to reduce buffer stocks of inputs in line with falling demand and a rapid improvement in lead times on purchases. The extent to which supplier delivery times shortened was the most marked in the series history (since 1996) and far outstripped the previous record set a month earlier.

The easing of supply-demand imbalances was further underscored by a deepening decline in manufacturing input costs, which fell for the second month running and at the quickest pace since May 2020. Panellists commented on reduced raw material and transport costs, alongside a softening of energy prices.

March saw the rate of factory gate price inflation slow sharply to its lowest in over two years. Whilst some manufacturers raised charges, citing the pass-through of costs and increased wage demands, others (particularly intermediate goods producers) noted the influence of growing competitive pressures.

German manufacturers' expectations towards future production, although positive, were subdued by historical standards in March. They even ticked down slightly and for the first time in five months. There were concerns towards future demand, amid geopolitical uncertainty, high inflation and tightening financial conditions. Job creation among manufacturers meanwhile slowed, showing the weakest rise in staffing levels in over two years of employment growth.



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 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).

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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About BME

The BME is the German Association for Supply Chain Management, Procurement and Logistics. Founded in 1954 it provides services for around 9750 individual and corporate members, including small and medium-sized businesses as well as Germany's top 200 companies. The BME liaises between businesses and academia, both on the demand and the supply side, by providing the necessary networks for communication and knowledge exchange. The association is open to all company types from any sector (industry, trade, banking/insurance, public sector, service providers, etc.).

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