

News Release

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S&P Global / BME Germany Manufacturing PMI®

Demand conditions remain challenging, but confidence grows as cost pressures subside

Key findings

PMI edges slightly higher to 47.3 in January

Input cost inflation sinks to 27-month low

Expectations turn positive for first time in almost a year

Declining inflows of new orders continued weigh on the performance of Germany's manufacturing sector in January, resulting in sustained – albeit only modest – downward pressure on production, latest PMI® survey data showed. However, there was renewed optimism among goods producers towards the year-ahead outlook, amid a rapid slowdown in input cost inflation and the alleviation of 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 47.3 in January, up from December's 47.1. The index has now risen in each of the past three months, although its latest reading was still below the 50.0 threshold that separates growth from contraction.

The main drag on the headline index once again came from the new orders sub-component. Indeed, latest data showed a continued steep decline in inflows of new work received by German manufacturers. High stock levels among customers, elevated prices and investment reticence were all factors contributing to the downturn, anecdotal evidence showed. The rate of decline did however ease for a third straight month to the weakest since May last year. New exports orders, which firms indicated were impacted in part by weaker demand from China, showed a similar trend.

Output levels likewise remained under pressure at the start of the year. However, the rate of contraction in production was unchanged from the modest pace seen in December and considerably slower than that of new orders.

Manufacturers made further inroads into their backlogs of work during January. The result partly reflected a further expansion in the manufacturing workforce, with factory employment levels rising for a twenty-third straight month. That said, having slowed for the seventh time in the past eight months, the rate of job creation was the weakest in the aforementioned sequence.

On the supply-side, latest data showed a further alleviation of pressures, with supplier delivery times improving for a third

Germany Manufacturing PMI

sa, >50 = growth since previous month



Source: S&P Global.

Data were collected 12-24 January 2023.

Comment

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

"The survey's new orders index has recovered somewhat from last October's low, but it nevertheless remains far enough below the neutral 50.0 level to continue to raise concerns about the current picture of demand across the manufacturing sector.

"There was sustained downward pressure on output levels at start of the year, particularly across the intermediate goods sector, which has felt the effects of a sharp reduction in demand for inputs. Still, production levels continued to be supported by the completion of backlogs of work, which has in turn been helped by the easing of supply bottlenecks.

"The reduction in supply-chain constraints, as evidenced by improving leads times on materials and components in recent months, is such that firms no longer feel the need to keep building up safety stocks of inputs, which were broadly unchanged in January after 15 months of growth.

"At the same time, we're seeing a welcome sharp cooling of the rate of manufacturing cost inflation, down to a 27-month low in January, as the imbalances between supply and demand continue to ease.

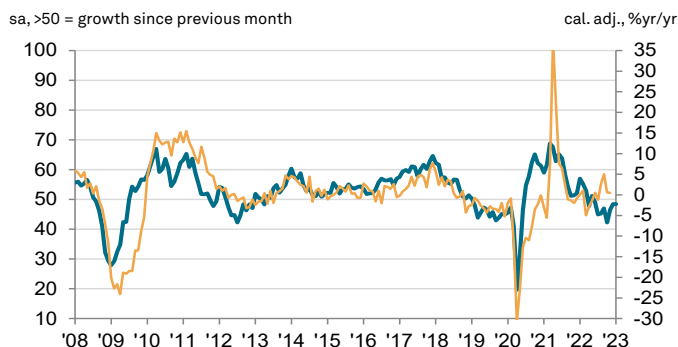
"After showing serious concern about the outlook only a few months ago, German manufacturers are now cautiously optimistic towards growth prospects over the coming year, with more firms expecting a rise in output than a decline for the first time since before Russia's invasion of Ukraine. Expectations nevertheless remain historically subdued, amid a backdrop of still-high inflation and economic uncertainty."

straight month and the rate of input cost inflation maintaining its recent decline to register at a 27-month low in January. Despite this, however, average prices charged showed a sharp and slightly accelerated rise, with the rate of inflation ticking up for the first time in five months and continuing to outstrip its historical series average.

The cooling of underlying cost pressures in January coincided with a sustained decline in manufacturers' purchasing activity. The decision to scale back buying levels often reflected not only lower output requirements, but also growing caution towards excess inventories. Stocks of purchases held broadly steady in January after having increased in each of the previous 15 months, while post-production inventories recorded their first – albeit marginal – decline since last April.

Looking ahead, German manufacturers showed renewed optimism towards growth prospects in the coming year. Expectations turned positive for the first time since February 2022, having improved notably for a third straight month. That said, the degree of confidence was still subdued compared to the situation immediately prior to Russia's invasion of Ukraine, with firms continuing to show some concern towards high inflation and ongoing headwinds to investment.

■ 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 94% 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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