

IHS Markit / BME Germany Manufacturing PMI®

Manufacturing PMI climbs to 26-month high, showing recovery still firmly on course

Key findings

Sharp increases in output and new orders at end of third quarter

Job shedding slows, but stocks show further steep declines

Output expectations improve to highest since January 2018

Data were collected 11-23 September

September's PMI® survey showed more signs of improvement across the German manufacturing sector, including stronger rates of growth in output and new orders as well as a slowdown in the pace of job cuts. Business expectations also strengthened, although the impact of the coronavirus disease 2019 (COVID-19) continued to be seen in falling stock of purchases as firms looked to increase liquidity.

The headline IHS Markit/BME Germany Manufacturing PMI® – a single-figure snapshot of overall business conditions – remained on a steep upward trajectory in September, climbing from 52.2 in August to a 26-month high of 56.4. Underlying data showed operating conditions improving across each of the three main industrial groupings – consumer, intermediate and investment.

The main highlight of the survey was a steep and accelerated increase in new orders. Growth was among the strongest recorded since data collection began in 1996. Supporting the upturn was a sharp rise in new export orders, which posted the largest increase since December 2017 amid reports of improved demand across Europe, China and Turkey.

Production was ramped up accordingly in September, with the rate of growth accelerating to the quickest in more than two-and-a-half years. Even so, data showed a marked increase in backlogs of work across the manufacturing sector at the end of the third quarter.

Factory payroll numbers fell again in September. However, rising workloads helped to slow the rate of job shedding for the second month in a row, with employment recording the smallest decline since before the COVID-19 shutdowns in March.

September saw a strong increase manufacturers' purchasing activity. However, while the rate of growth in the quantity of purchases was the fastest seen since February 2018, it was still

continued...

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



Source: IHS Markit.

Comment

Commenting on the latest survey results, Phil Smith, Associate Economics Director at IHS Markit, said:

"The recovery in the manufacturing sector continued with good momentum in September, with the PMI climbing unabated to its highest since mid-2018.

"Encouragingly, order books and output are rising all across the manufacturing sector, supported by a general upturn in export demand. Even investment goods producers, who have generally underperformed in the recovery up to now, enjoyed a much better month in September.

"Still, firms are under financial strain, as highlighted by another round of job cuts and the running down of stocks as they look to increase their liquidity.

"The worst of the factory job losses seem to be behind us, at least for now, with the rate of staff cuts back in line with that seen before the pandemic struck. Furthermore, as manufacturers' optimism improves, there is a greater chance of more jobs being saved."

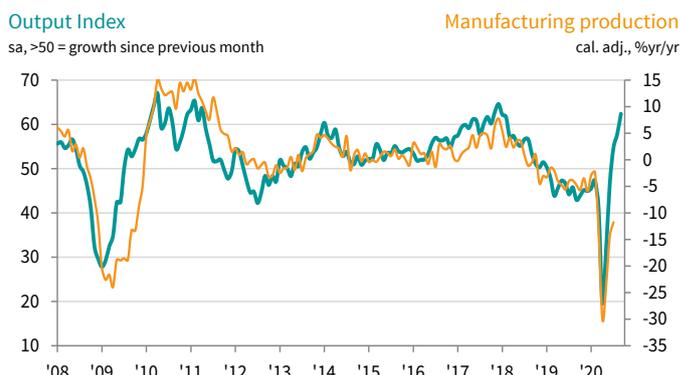
somewhat slower than the increases in both output and new orders. This partly reflected the efforts of some firms to use up stocks as they looked to increase liquidity. Post-production inventories likewise fell markedly, down for the fourth month in a row.

Greater demand for raw materials and semi-manufactured goods, allied with reports of disruption from short-time work schedules among suppliers, led to an increase in lead times on inputs in September. The deterioration in vendor performance was the worst since May, although there remained far fewer delays than seen during peak lockdown in the spring.

Average prices paid for inputs meanwhile fell for the seventeenth month in a row. Following August's relative mild decrease, which was the second-weakest in the current sequence, the rate of decline accelerated slightly in September. Reports from surveyed firms highlighted that a stronger euro had reduced the cost of imported goods, while others also commented on lower market prices for commodities such as steel.

Strong competition for new work maintained downward pressure on factory gate prices in September. Though the rate of decline quickened slightly for the second month in a row, it remained only modest overall and much slower than seen during the second quarter.

Lastly, latest data showed a further improvement in manufacturers' expectations towards output over the next 12 months. Optimism reached the highest since January 2018, amid signs of clients upping spending and growing hopes of a post COVID-19 recovery in market demand.



Sources: IHS Markit, Bundesbank.

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Survey methodology

The IHS Markit / BME Germany Manufacturing PMI® is compiled by IHS Markit from responses to questionnaires sent to purchasing managers in a panel of around 400 manufacturers. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP.

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.

Survey dates and history

September data were collected 11-23 September 2020.

Survey data were first collected April 1996.

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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