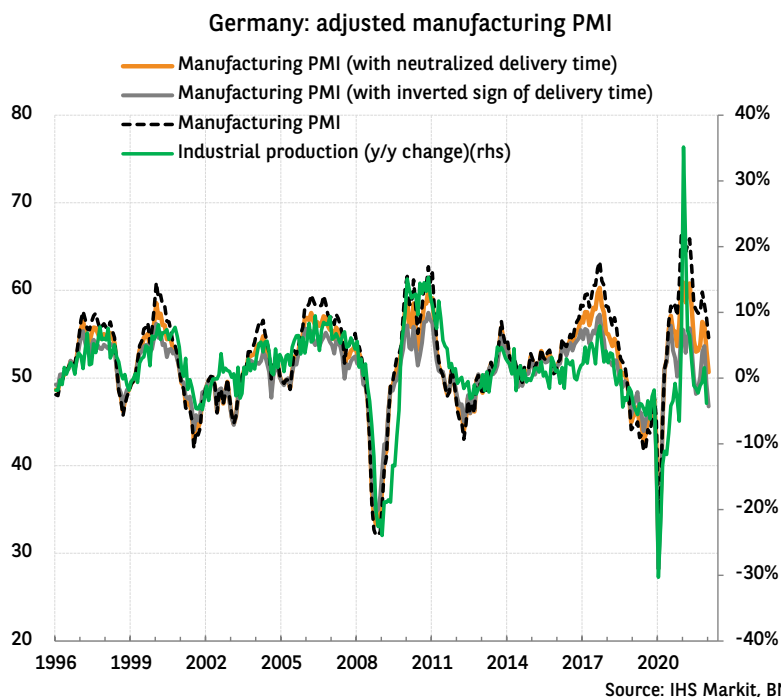


18 May 2022

ON THE NEED TO RESTATE MANUFACTURING PMI IN ORDER TO UNDERSTAND THE SHOCK TO GERMAN INDUSTRY

Anthony Morlet-Lavidalie



The resilience of Manufacturing PMI through to April was surprising, given the extent to which constraints on supply and pressure on input prices have increased since the beginning of the conflict in Ukraine on 24 February. This is particularly true in Germany where, despite an industrial sector with considerable exposure to the shock, Manufacturing PMI remained well above 50 (54.6 in April 2022). This suggests that activity in the sector remained comfortably in the expansion zone, whereas industrial production contracted by 4.4% between January and March 2022.

This conflicting message is due mainly to a methodological bias: the inclusion of delivery lags in the aggregate PMI index. This bias may be an issue when the PMI is used as a nowcast for industrial production or GDP growth.

The construction of the German Manufacturing PMI figure is based on the following weightings of the five sub-balances of Markit's survey: 30% for manufacturing output, 25% for new orders, 20% for employment, 15% for suppliers' delivery times, and 10% for stocks of purchases. Aggregating this way, an increase in delivery times makes a positive contribution to Manufacturing PMI, the underlying idea being that longer delivery times reflect a positive demand shock that has not been anticipated by companies. In such circumstances, it makes sense that Manufacturing PMI should increase because industrial production will increase at the same time. However, this relationship does not hold when the economy is affected by a supply disruption: in this case, the increase in delivery times will increase Manufacturing PMI, by construction, but this sends the wrong signal considering that production will be constrained by longer delivery lags.

To adjust German Manufacturing PMI for this methodological bias, one could either neutralise the contribution from delivery times (setting the figure at 50 throughout the period), or reverse its sign in the calculation of Manufacturing PMI in order to change the economic sense of an increase in delivery times. The latter approach requires some judgment as one needs to assess whether longer delivery times are demand or supply led. This may be a challenge when going back in time. With these corrections, Manufacturing PMI gives a much better reflection of recent trends in German manufacturing production. In April 2022, Manufacturing PMI with the sign reversed would have been 46.8, accurately reflecting the contraction in production.

anthony.morletlavidalie@bnpparibas.com

ECONOMIC RESEARCH



BNP PARIBAS

The bank
for a changing
world



CONJONCTURE

Structural or thematic topics.



EMERGING

Analyses and forecasts for a selection of emerging economies.



PERSPECTIVES

Analyses and forecasts with a focus on developed countries.



ECOFASH

Data releases, major economic events.



ECOWEEK

Recent economic and policy developments, data comments, economic calendar, forecasts.



ECOTV

A monthly video with interviews of our economists.



ECOTV WEEK

A weekly video discussing the main event of the week.



MACROWAVES

Our economic podcast.

HOW TO RECEIVE OUR PUBLICATIONS

SUBSCRIBE ON OUR WEBSITE
see the Economic Research website



FOLLOW US ON LINKEDIN
see the Economic Research linkedin page

OR TWITTER
see the Economic Research Twitter page



Published by BNP PARIBAS Economic Research
Head office: 16 boulevard des Italiens - 75009 Paris France / Phone : +33 (0) 1.42.98.12.34
Internet: www.group.bnpparibas.com - www.economic-research.bnpparibas.com
Head of publication : Jean Lemierre / Chief editor: William De Vijlder

The information and opinions contained in this report have been obtained from, or are based on, public sources believed to be reliable, but no representation or warranty, express or implied, is made that such information is accurate, complete or up to date and it should not be relied upon as such. This report does not constitute an offer or solicitation to buy or sell any securities or other investment. It does not constitute investment advice, nor financial research or analysis. Information and opinions contained in the report are not to be relied upon as authoritative or taken in substitution for the exercise of judgement by any recipient; they are subject to change without notice and not intended to provide the sole basis of any evaluation of the instruments discussed herein. Any reference to past performance should not be taken as an indication of future performance. To the fullest extent permitted by law, no BNP Paribas group company accepts any liability whatsoever (including in negligence) for any direct or consequential loss arising from any use of or reliance on material contained in this report. All estimates and opinions included in this report are made as of the date of this report. Unless otherwise indicated in this report there is no intention to update this report. BNP Paribas SA and its affiliates (collectively "BNP Paribas") may make a market in, or may, as principal or agent, buy or sell securities of any issuer or person mentioned in this report or derivatives thereon. BNP Paribas may have a financial interest in any issuer or person mentioned in this report, including a long or short position in their securities and/or options, futures or other derivative instruments based thereon. Prices, yields and other similar information included in this report are included for information purposes. Numerous factors will affect market pricing and there is no certainty that transactions could be executed at these prices. BNP Paribas, including its officers and employees may serve or have served as an officer, director or in an advisory capacity for any person mentioned in this report. BNP Paribas may, from time to time, solicit, perform or have performed investment banking, underwriting or other services (including acting as adviser, manager, underwriter or lender) within the last 12 months for any person referred to in this report. BNP Paribas may be a party to an agreement with any person relating to the production of this report. BNP Paribas, may to the extent permitted by law, have acted upon or used the information contained herein, or the research or analysis on which it was based, before its publication. BNP Paribas may receive or intend to seek compensation for investment banking services in the next three months from or in relation to any person mentioned in this report. Any person mentioned in this report may have been provided with sections of this report prior to its publication in order to verify its factual accuracy.

BNP Paribas is incorporated in France with limited liability. Registered Office 16 Boulevard des Italiens, 75009 Paris. This report was produced by a BNP Paribas group company. This report is for the use of intended recipients and may not be reproduced (in whole or in part) or delivered or transmitted to any other person without the prior written consent of BNP Paribas. By accepting this document you agree to be bound by the foregoing limitations.

Certain countries within the European Economic Area:

This report has been approved for publication in the United Kingdom by BNP Paribas London Branch. BNP Paribas London Branch is authorised and supervised by the Autorité de Contrôle Prudentiel and authorised and subject to limited regulation by the Financial Services Authority. Details of the extent of our authorisation and regulation by the Financial Services Authority are available from us on request.

This report has been approved for publication in France by BNP Paribas SA. BNP Paribas SA is incorporated in France with limited liability and is authorised by the Autorité de Contrôle Prudentiel (ACP) and regulated by the Autorité des Marchés Financiers (AMF). Its head office is 16, boulevard des Italiens 75009 Paris, France.

This report is being distributed in Germany either by BNP Paribas London Branch or by BNP Paribas Niederlassung Frankfurt am Main, a branch of BNP Paribas S.A. whose head office is in Paris, France. BNP Paribas S.A. - Niederlassung Frankfurt am Main, Europa Allee 12, 60327 Frankfurt is authorised and supervised by the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin).

United States: This report is being distributed to US persons by BNP Paribas Securities Corp., or by a subsidiary or affiliate of BNP Paribas that is not registered as a US broker-dealer. BNP Paribas Securities Corp., a subsidiary of BNP Paribas, is a broker-dealer registered with the U.S. Securities and Exchange Commission and a member of the Financial Industry Regulatory Authority and other principal exchanges. BNP Paribas Securities Corp. accepts responsibility for the content of a report prepared by another non-U.S. affiliate only when distributed to U.S. persons by BNP Paribas Securities Corp.

Japan: This report is being distributed in Japan by BNP Paribas Securities (Japan) Limited or by a subsidiary or affiliate of BNP Paribas not registered as a financial instruments firm in Japan, to certain financial institutions defined by article 17-3, item 1 of the Financial Instruments and Exchange Law Enforcement Order. BNP Paribas Securities (Japan) Limited is a financial instruments firm registered according to the Financial Instruments and Exchange Law of Japan and a member of the Japan Securities Dealers Association and the Financial Futures Association of Japan. BNP Paribas Securities (Japan) Limited accepts responsibility for the content of a report prepared by another non-Japan affiliate only when distributed to Japanese based firms by BNP Paribas Securities (Japan) Limited. Some of the foreign securities stated on this report are not disclosed according to the Financial Instruments and Exchange Law of Japan.

Hong Kong: This report is being distributed in Hong Kong by BNP Paribas Hong Kong Branch, a branch of BNP Paribas whose head office is in Paris, France. BNP Paribas Hong Kong Branch is registered as a Licensed Bank under the Banking Ordinance and regulated by the Hong Kong Monetary Authority. BNP Paribas Hong Kong Branch is also a Registered Institution regulated by the Securities and Futures Commission for the conduct of Regulated Activity Types 1, 4 and 6 under the Securities and Futures Ordinance.

Some or all the information reported in this document may already have been published on <https://globalmarkets.bnpparibas.com>

© BNP Paribas (2015). All rights reserved.



BNP PARIBAS

The bank
for a changing
world