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Swiss Economics

Manufacturing defying the second wave of Covid

Swiss PMI | 01/02/2021, 08:30, UTC

The procure.ch Purchasing Managers' Index (PMI) suggests that the recovery in manufacturing industry is continuing at present. Furthermore, the second wave of coronavirus is having less of an impact on investment behaviour than the first, as our special survey this month shows. A narrow majority of industrial companies anticipates a return to normality by the end of March.

While the service sector, which has a greater focus on domestic consumption, is experiencing a slowdown, there is no indication as yet of the kind of slump we saw in spring 2020. It is worth noting that while the survey was conducted after the measures were stepped up in Switzerland in mid-January (the polling period was 23 to 26 January 2021), the latest results will not yet reflect the full impact of the restrictions.

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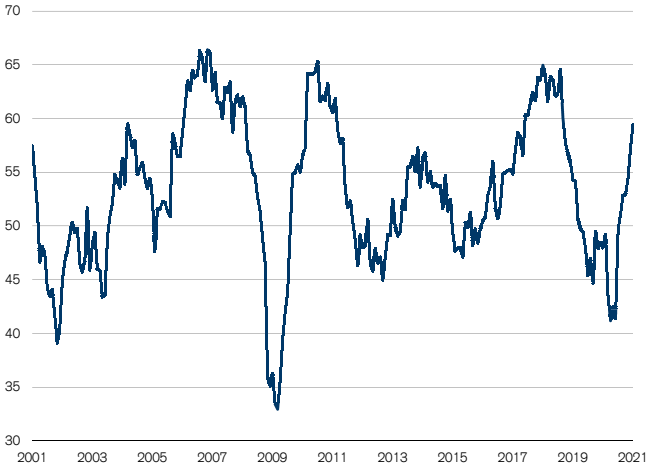
Head of Swiss Macro Analysis & Strategy

A joint project with the Professional Association for Procurement and Supply Management:

procure.ch

PMI (manufacturing)

Figure 1: Manufacturing PMI comfortably above the growth threshold
Growth threshold = 50



Source: procure.ch, Credit Suisse

Index level in January 2021: 59.4 (December [revised]: 57.3)

Month-on-month change: +2.1 index points

Year-on-year change: +11.5 index points

The procure.ch Purchasing Managers' Index (PMI) hit 59.4 points in January 2021, which was 2.1 points higher than its level in December 2020 (see figure 1). When comparing the latest reading with that of the prior month, we should bear in mind that the seasonal adjustment factors are recalculated at the start of the year. As a result, the time series has been revised slightly. Be that as it may, not only is the rally in manufacturing continuing, it has actually broadened further – despite the second wave of Covid-19 and the tightening of restrictions to contain the virus.

Signs of scarcity despite brisk production

There has been a broad-based increase in output, and the order backlog has also climbed; the corresponding subindices of the PMI survey are well inside growth territory at levels last seen in late summer 2018. At the same time, inventories of both intermediate and finished goods have contracted despite higher purchase volumes and increased output. The changes in inventories point to surprisingly strong demand. Furthermore, the fact that manufacturing companies added headcount for the second month in succession, while delivery times have lengthened in many areas, suggests that capacity utilisation has improved. At the same time, take-up of short-time working has remained stable at a level of around 10%, which is considerably lower than at its peak in May last year (28%). In contrast, there has been an increase in working from home. At 45%, this has reached a new record high (previous record: 37% in March 2020).

In contrast to the first wave, during which delivery times lengthened because supply chains were disrupted, the rise in the corresponding subindex by 10.1 to 77.7 points can now be viewed as a genuinely positive sign. The renewed rise in purchase prices also points to growing scarcity. The corresponding subindex climbed for the third month in succession and is now back above the growth threshold once again.

Second wave of Covid-19 having relatively little impact on investment

In the January survey we asked manufacturing businesses about the impact of the coronavirus crisis on their original investment plans, as we did in our survey last June. According to 60% of the manufacturing businesses surveyed, the second wave of the pandemic has not had any impact on planned capital expenditure. This is in contrast to the first wave of the virus, which impacted the investment plans of more than two in every three industrial firms. A quarter are now investing less than originally planned due to coronavirus, whereas in June every second company indicated plans to scale back investments. Halting investment completely was not an issue in either the first or second waves, while the proportion of companies that are investing more as a result of Covid-19 is also low.

There are various reasons why the manufacturing sector is resilient in the face of the second wave of coronavirus. Firstly, unlike in spring supply chains are now running smoothly. Secondly, north Asia in particular – i.e. China, but also Japan and South Korea – have got the pandemic under control. Swiss industry not only benefits directly from demand out of Asia, but also indirectly, for example as a supplier to the German automotive industry. Thirdly, companies assume that an end is in sight for the current exceptional circumstances.

Situation set to normalise at the end of the first quarter

In an additional special survey, we asked companies when they expect investment, supply chains, short-time working, production and working from home to normalise. A slim majority sees output, investment and the use of short-time working returning to normal levels at the end of March. By contrast, the normalisation process is likely to take longer for supply chains and office working. However, around 80% of companies expect normality to be restored in the areas covered by our survey no later than the end of September.

Evolution of the PMI (manufacturing)

		PMI	PMI (s)
2019	Aug.	44.7	46.9
	Sep.	43.4	44.7
	Oct.	49.0	49.5
	Nov.	48.8	47.9
	Dec.	47.1	48.4
2020	Jan.	47.6	48.0
	Feb.	52.0	49.2
	Mar.	44.7	43.5
	April	42.1	41.2
	May	41.9	42.5
	June	42.7	41.4
	July	48.9	49.6
	Aug.	48.7	51.0
	Sep.	51.2	52.8
	Oct.	52.3	52.9
	Nov.	55.7	54.5
	Dec.	56.0	57.3
2021	Jan.	58.9	59.4

Source: procure.ch, Credit Suisse

PMI (manufacturing) subindices

	higher	same	lower	Index	+/–	Index	+/–
	(%)	(%)	(%)			(s)	(s)
Output	46	27	28	59.1	-0.1	60.3	1.1
Backlog of orders	46	30	24	61.0	5.3	58.2	1.5
Quantity of purchases	43	34	23	60.2	3.6	58.8	0.7
Purchase prices	40	55	4	67.9	8.7	65.6	5.4
Suppliers' delivery times	1	52	47	72.9	5.9	77.7	10.1
Stocks of purchases	19	54	26	46.5	2.0	48.1	-2.0
Stocks of finished goods	15	56	29	43.3	-3.0	46.1	-5.7
Employment	15	72	13	51.3	1.6	52.2	0.4

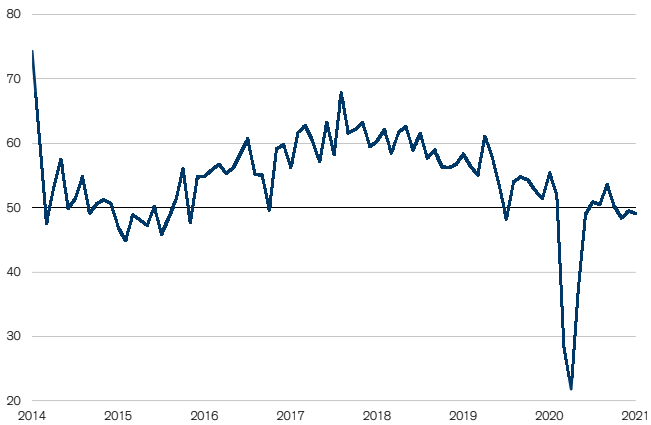
The table summarises the results of the latest survey. For each subindex, the table shows the percentage of each response which is "higher than", the "same as" or "lower than" the previous month. The current level of the index is also indicated. The level of each subindex is the sum of the percentage of "higher" responses plus half of the percentage of "same" responses. The PMI is the weighted average (weights in brackets) of the following subindices: "output" (0.25), "backlog of orders" (0.30), "suppliers' delivery times" (0.15), "stocks of purchases" (0.10) and "employment" (0.20). If the PMI or a subindex is above the 50 mark this indicates growth, while an index below 50 indicates contraction.
Source: procure.ch, Credit Suisse

Purchasing managers' index (PMI) survey

The procure.ch Purchasing Managers' Index (PMI) is a collaborative undertaking of the Swiss Trade Association for Purchasing and Supply Management procure.ch and Credit Suisse. It is based on a monthly survey of procure.ch members. The survey and its evaluation are undertaken in accordance with the guidelines of the International Federation of Purchasing and Supply Management, which have been tried and tested in the United States for decades. The association procure.ch carries out the survey while Credit Suisse evaluates and publishes the results.

PMI (services)

Figure 2: Service PMI marginally below the growth threshold
Growth threshold = 50



Source: procure.ch, Credit Suisse

Index level in January 2021: 49.1 (December [revised]: 49.5)

Month-on-month change: –0.4 index points

Year-on-year change: –6.3 index points

Slowdown, but no slump

The PMI for the service sector came in below the growth threshold again in January (see figure 2). However, after seasonal adjustments, it was practically unchanged versus the previous month (-0.4 points). As the service PMI fluctuates significantly and the time series is shorter, the effect of the revision to seasonal adjustment factors is considerably greater than on the manufacturing PMI. Overall, however, the results seem to confirm the trend of the service sector suffering more acutely from the second wave of coronavirus than the manufacturing industry. That said, the decline in services is also much less pronounced than in the first wave. It is worth noting that while the survey was conducted after the measures were stepped up in Switzerland in mid-January (the polling period was 23 to 26 January), the latest results will not yet reflect the full impact of the restrictions. It is already apparent that companies are complying with the requirement to work from home, with almost two-thirds of employees currently doing so, which is significantly more than in the first wave (when around half were working from home).

Job cuts and rising prices

The situation has not changed appreciably compared to the prior month. Business activity – the counterpart to output in the manufacturing sector – is still rising moderately, albeit at a reduced pace. New orders are stagnant and the order backlog is gradually shrinking, which points to a further slowdown in business activity over the months ahead. Job cuts are continuing (albeit still at a subdued pace), although the additional poll shows that there has been no further increase in the use of short-time working at least.

As in the manufacturing sector, purchase prices have climbed on a broad scale in January, while sale prices have risen again for the second consecutive month since September 2019.

Later return to normality expected

The fact that service providers have been hit harder by the second wave than the manufacturing sector is also reflected by the additional questions on investment behaviour and the length of the exceptional circumstances. Every third company in the service sector (compared to every fourth in manufacturing) is currently cutting back on investing. Moreover, business activity and investment are expected to see normality restored at a later date than in the manufacturing sector, with the majority of service firms anticipating a return to normal at the end of June, compared to the end of March in manufacturing.

Evolution of the PMI (services)

		PMI	PMI (s)
2019	Aug.	50.8	54.1
	Sep.	56.3	54.8
	Oct.	56.0	54.3
	Nov.	57.6	52.7
	Dec.	50.1	51.4
2020	Jan.	53.6	55.4
	Feb.	52.4	52.0
	Mar.	29.2	28.4
	April	22.1	21.8
	May	37.2	37.4
	June	48.1	49.0
	July	46.3	50.9
	Aug.	47.6	50.5
	Sep.	55.6	53.6
	Oct.	51.9	50.3
	Nov.	52.4	48.4
	Dec.	48.1	49.5
2021	Jan.	47.5	49.1

Source: procure.ch, Credit Suisse

PMI (services) subindices

	higher	same	lower	Index	+/–	Index	+/–
	(%)	(%)	(%)			(s)	(s)
Business activity	29	39	32	48.4	-4.6	51.1	-2.8
New orders	35	30	34	50.5	2.9	50.4	0.6
Backlog of orders	26	41	33	46.2	1.2	48.4	1.6
Purchase prices	36	60	4	65.6	5.6	61.1	0.6
Sale prices	19	73	8	55.7	2.6	52.9	0.6
Employment	4	80	15	44.6	-2.4	46.0	-1.8

The table summarises the results of the latest survey. For each subindex, the table shows the percentage of each response which is "higher than", the "same as" or "lower than" the previous month. The current level of the index is also indicated. The level of each subindex is the sum of the percentage of "higher" responses plus half of the percentage of "same" responses. The PMI corresponds to the weighted average (weights in brackets) of the following subindices: "business activity" (0.25), "new orders" (0.25), "backlog of orders" (0.3) and "employment" (0.20). If the PMI or a subindex is above the 50 mark this indicates growth, while an index below 50 indicates contraction.

Source: procure.ch, Credit Suisse

(27/01/2021)

PMI (manufacturing) and subindices (seasonally adjusted)

		PMI	Output	Backlog of orders	Quantity of purchases	Purchase prices	Suppliers' delivery times	Stocks of purchases	Stocks of finished goods	Employment
2019	Aug.	46.9	47.0	45.0	40.8	49.5	47.4	48.0	47.7	48.7
	Sep.	44.7	45.2	40.3	38.1	45.2	46.3	44.2	47.4	49.7
	Oct.	49.5	50.9	49.0	45.8	49.1	45.9	46.8	45.6	52.3
	Nov.	47.9	48.5	45.2	43.4	49.0	46.7	48.7	46.6	51.8
	Dec.	48.4	48.4	50.6	41.3	46.1	47.3	44.3	44.8	48.2
2020	Jan.	48.0	46.9	46.4	39.8	46.3	49.0	46.8	48.4	51.6
	Feb.	49.2	48.9	46.3	40.2	46.0	54.4	48.9	49.4	50.4
	Mar.	43.5	34.5	33.8	38.5	46.8	74.3	52.0	48.2	42.1
	April	41.2	29.0	33.8	36.5	46.1	70.9	50.0	49.1	40.8
	May	42.5	39.1	36.4	33.9	47.0	55.9	48.6	54.5	42.6
	June	41.4	38.4	38.0	37.0	47.4	49.6	50.5	48.7	39.4
	July	49.6	55.1	47.2	49.1	50.0	52.3	46.4	44.7	46.1
	Aug.	51.0	55.9	50.5	47.0	49.5	52.5	49.2	47.9	45.7
	Sep.	52.8	56.6	52.8	45.8	50.6	55.7	50.6	46.3	47.1
	Oct.	52.9	56.8	53.0	49.6	50.4	60.8	47.0	45.3	45.0
	Nov.	54.5	56.5	56.7	49.2	55.9	63.1	42.7	42.0	47.9
	Dec.	57.3	59.2	56.7	58.0	60.2	67.5	50.1	51.7	51.8
2021	Jan.	59.4	60.3	58.2	58.8	65.6	77.7	48.1	46.1	52.2

Source: procure.ch, Credit Suisse

PMI (services) and subindices (seasonally adjusted)

		PMI	Business activity	New orders	Backlog of orders	Purchase prices	Sale prices	Employment
2019	Aug.	54.1	56.4	54.9	53.0	50.4	49.3	51.6
	Sep.	54.8	59.0	56.8	51.5	51.4	50.4	51.9
	Oct.	54.3	56.2	56.1	51.7	49.9	49.5	53.7
	Nov.	52.7	57.0	54.4	51.3	48.2	49.9	47.1
	Dec.	51.4	55.9	51.6	49.2	47.3	47.2	49.0
2020	Jan.	55.4	59.7	55.2	52.3	48.3	47.5	54.7
	Feb.	52.0	54.0	49.5	51.8	46.5	46.5	52.9
	Mar.	28.4	21.9	23.4	25.9	54.7	44.8	46.3
	April	21.8	18.1	15.5	16.9	51.4	46.2	41.8
	May	37.4	42.8	38.6	32.4	47.3	40.6	36.8
	June	49.0	54.2	52.4	47.3	50.3	44.7	40.8
	July	50.9	60.9	47.7	49.9	49.9	45.3	43.9
	Aug.	50.5	57.2	51.6	48.4	53.6	47.6	43.9
	Sep.	53.6	59.0	58.3	51.1	53.4	47.1	45.0
	Oct.	50.3	54.3	51.7	49.0	52.7	45.1	45.5
	Nov.	48.4	51.4	48.9	46.3	55.5	46.8	47.1
	Dec.	49.5	53.9	49.8	46.8	60.5	52.3	47.8
2021	Jan.	49.1	51.1	50.4	48.4	61.1	52.9	46.0

Source: procure.ch, Credit Suisse

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P.O. Box 300, CH-8070 Zürich

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