News Release

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S&P Global Czech Republic Manufacturing PMI®

July PMI drops to lowest for over two years amid weak demand conditions

Key findings

Faster declines in output and new orders

Inflationary pressures remain historically marked but soften

Expectations slump to lowest in 26-month sequence of optimism

July PMI® data from S&P Global signalled a further deterioration in operating conditions across the Czech manufacturing sector. Driving the decline in the sector's health were faster contractions in output and new orders, as client demand slumped following hikes in prices and strain on purchasing power. Weak domestic demand conditions were reflected externally also, as new export orders fell markedly. In line with subdued demand, firms noted weaker expectations for production growth over the coming year. At the same time, lower output requirements underpinned spare capacity, which coupled with cost-cutting efforts led to stronger job shedding.

Meanwhile, rates of input price and output charge inflation eased to the slowest since January and May 2021 respectively. Although still historically marked, price hikes were far softer than earlier in the year.

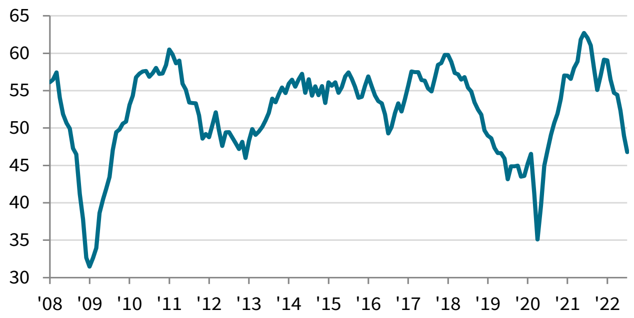
The seasonally adjusted S&P Global Czech Republic Manufacturing Purchasing Managers' Index® (PMI®) posted 46.8 in July, down from 49.0 in June to signal the fastest decline in the health of the Czech manufacturing sector since June 2020.

The overall downturn partially stemmed from lower levels of production during July. The fall in output was sharp overall and the quickest in over two years. Where a decrease was reported, firms stated that this was due to weak client demand and reduced customer spending amid stark inflationary pressures.

Concurrently, new orders declined steeply and at the fastest rate since May 2020. A reduction in purchasing power at customers reportedly dampened demand conditions, with some companies also highlighting the postponement of orders by certain clients. At the same time, new export orders fell for the fifth month running and at a marked pace. Firms stated that challenging economic conditions in key export destinations stymied new export sales.

Czech Republic Manufacturing PMI

sa, >50 = growth since previous month



Source: S&P Global.

Data were collected 12-21 July 2022.

Comment

Siân Jones, Senior Economist at S&P Global Market Intelligence, said:

"Czech manufacturing firms signalled a downbeat start to the third quarter as output and new orders contracted at sharper rates. Weak client demand and a drop in purchasing power among clients due to severe inflationary pressures weighed on spending, with reports of order postponements emerging.

"Companies continued to mention that hikes in fuel, energy and material costs drove inflation during July, with rates of increase in input prices and output charges remaining historically elevated. That said, cost pressures may have already peaked as the pace of input price inflation eased for the fourth successive month.

"Weak client demand and the war in Ukraine dampened output expectations, which only just stayed in positive territory. Subsequently, firms stepped up their efforts to cut costs, with employment down at the fastest pace since August 2020.

"We currently forecast industrial production to rise just 1% during 2022 as headwinds to growth exert strain on output and operating conditions in the sector."

PMI® by S&P Global

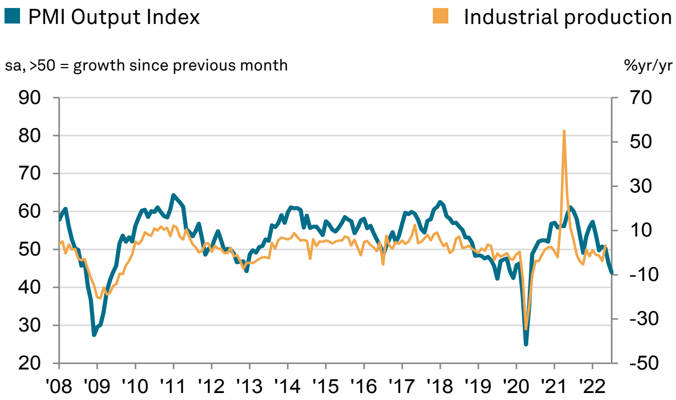
On the price front, input costs faced by Czech manufacturing firms increased at the slowest pace since January 2021. The rate of inflation was historically elevated, however, as firms linked the rise to hikes in fuel, energy and material prices.

In turn, manufacturers raised their selling prices at a softer rate during July. Increases in output charges were often attributed to the pass-through of higher costs to clients. The pace of charge inflation was the slowest since May 2021, but faster than those seen before this.

Improved availability for a few inputs was also reported by some companies as a reason behind softer price pressures, with supplier delays the least marked since October 2020. Nonetheless, firms continued to reduce their buying activity amid weak demand, a decrease in new orders and sufficient stocks. Both pre- and post-production inventories increased, however, as firms noted lower production requirements, logistical challenges and delayed shipments.

Meanwhile, output expectations regarding the year-ahead outlook slumped to the lowest in the current 26-month sequence of optimism. Concerns regarding the impact of inflation on customer spending and the war in Ukraine weighed on sentiment.

Finally, employment contracted at the sharpest pace since August 2020 amid spare capacity and efforts to cut costs. Although only marginal, the decrease in work-in-hand was the quickest since September 2020.



Sources: S&P Global, CZSO.

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Survey methodology

The S&P Global Czech Republic Manufacturing PMI® is compiled by S&P Global from responses to questionnaires sent to purchasing managers in a panel of around 300 manufacturers. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP. Data collection began in June 2001.

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.

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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