News Release

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S&P Global Czech Republic Manufacturing PMI®

Output contracts at fastest pace since May 2020 amid further fall in demand

Key findings

Marked declines in production and new orders

Input cost pressures ease amid lower input buying

Firms remain pessimistic regarding the outlook for output

November PMI® data from S&P Global indicated a marked deterioration in operating conditions across the Czech manufacturing sector. The overall decline stemmed from steep contractions in output and new orders. Challenging demand conditions were apparent in domestic and external markets, as new export sales fell further. Meanwhile, firms remained pessimistic regarding the outlook for output over the coming year. Lower new order inflows also led to a reduction in workforce numbers midway through the fourth quarter, with cost-cutting efforts and a fall in backlogs of work often mentioned.

At the same time, a drop in demand for inputs led to a less marked deterioration in supplier performance. Subsequently, the rate of cost inflation softened to the slowest for two years. Firms also signalled a softer uptick in output charges.

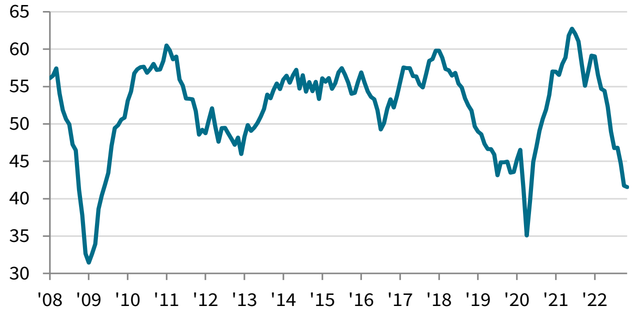
The seasonally adjusted S&P Global Czech Republic Manufacturing Purchasing Managers' Index® (PMI®) posted 41.6 in November, little-changed from 41.7 in October. The latest headline reading signalled a substantial decline in the health of the Czech manufacturing sector, and one that was the fastest in two-and-a-half years.

Production levels at Czech manufacturers fell for the sixth month running in November, and the pace of decline quickened. Panellists stated that lower output was due to weak demand conditions and a further reduction in new order inflows. The marked decrease in output was the sharpest since May 2020.

Although falling at a slightly slower pace, new orders contracted at a substantial rate that was among the fastest on record. New sales decreased as the impact of inflation and greater energy costs weighed on domestic and external demand conditions. In line with a fall in total new orders, new business from abroad declined markedly and at the third-fastest rate since March 2009. Economic uncertainty dampened foreign client demand, especially across Europe.

Czech Republic Manufacturing PMI

sa, >50 = growth since previous month



Source: S&P Global.

Data were collected 11-22 November 2022.

Comment

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

"The Czech manufacturing sector signalled further gloom in November, as contractions in output, employment, new export orders and input buying gathered pace. Although easing from October, the rate of decline in total new orders remained marked, as demand conditions faltered and cancellations and postponements grew more commonplace.

"Inflationary pressures eased, however, with input costs rising at a notably softer pace. Lower prices for some key inputs were reflected in firms' ability to offer concessions and discounts to customers in an effort to drive new sales.

"The impact of energy cost hikes, alongside domestic and global economic uncertainty weighed heavily on business confidence and the outlook for output over the coming year. Industrial production is expected to rise 2.0% in 2022, but contract 0.9% in 2023."

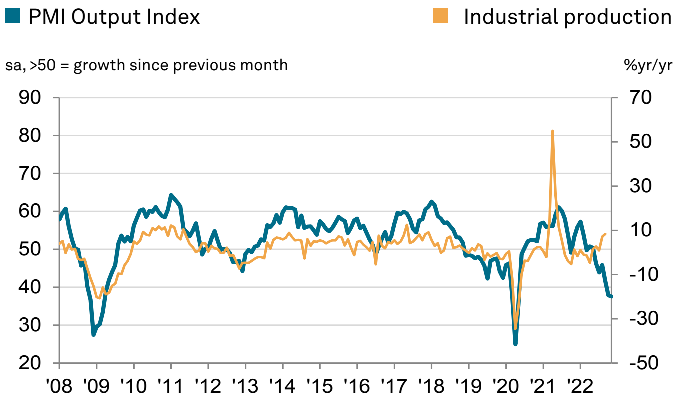
On the price front, input costs continued to rise at a sharp pace in November. Higher prices for energy and transportation pushed up operating expenses. That said, the rate of inflation eased to the slowest in two years amid reports of reductions in costs for key inputs.

Czech manufacturers signalled a softer rise in factory gate charges midway through the fourth quarter. The rate of charge inflation was well above the series average as several firms sought to pass through hikes in energy costs, but softened to the slowest since March 2021 amid sales-boosting initiatives among some companies.

Lower input costs in part stemmed from a less marked deterioration in supplier performance and a reduction in demand for inputs. Lead times lengthened to the least extent since September 2020 as input buying fell at one of the sharpest rates since data collection started in June 2001. At the same time, stocks of purchases and finished goods were depleted.

Czech manufacturing firms remained pessimistic regarding the outlook for output over the next year in November. Economic uncertainty and weak demand due to hikes in energy costs weighed on confidence. Although higher than in October, the level of sentiment was the second-lowest since April 2020.

Finally, lower new order inflows led to another monthly reduction in backlogs of work. In turn, firms lowered their workforce numbers at a quicker rate in an effort to cut costs and amid falling output and new orders.



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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