News Release

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S&P Global Czech Republic Manufacturing PMI®

Sharp decline in operating conditions amid weak client demand

Key findings

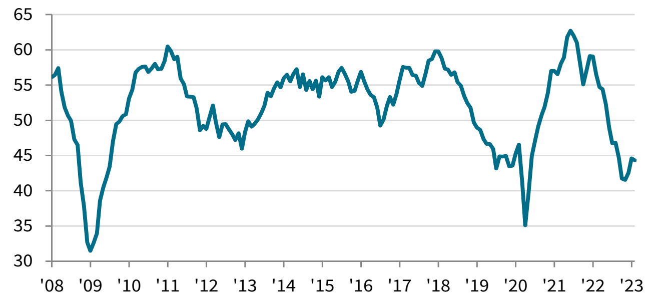
Steeper fall in new orders spurs contraction in output

Inflationary pressures soften

Employment falls at fastest rate since July 2020

Czech Republic Manufacturing PMI

sa, >50 = growth since previous month



Source: S&P Global.

Data were collected 10-20 February 2023.

February PMI® data from S&P Global indicated a further sharp deterioration in operating conditions across the Czech manufacturing sector. The health of the sector declined following another monthly fall in output and a steeper contraction in new orders. High inflation and sufficient stocks at customers weighed on demand conditions. Consequently, manufacturers sought to reduce costs and cut their workforce numbers at the fastest rate since July 2020. Business confidence improved, though the degree of confidence was muted in the context of the series history. Meanwhile, firms reduced their input buying at a marked rate as pre-production stocks were depleted.

At the same time, inflationary pressures eased. Rates of input cost and output charge inflation slowed further amid reports of lower prices for some raw materials.

The seasonally adjusted S&P Global Czech Republic Manufacturing Purchasing Managers' Index® (PMI®) posted 44.3 in February, down slightly from 44.6 in January. The latest reading signalled a ninth successive deterioration in the health of the Czech manufacturing sector and one that was steep.

Production levels across the Czech manufacturing sector continued to contract during February. The rate of decline was sharp overall, with firms linking the decrease to weak client demand and order postponements by customers. The pace of the downturn was the slowest since last August, however.

Contributing to the decline in output was a faster fall in new orders midway through the first quarter. The marked decrease in new sales was attributed to sufficient stocks at customers and high inflation, which dampened client spending once again. Challenging demand conditions were also reported in external markets, as new export orders fell steeply.

Comment

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

"Czech manufacturing firms struggled again in February, as demand conditions worsened and output remained sluggish. Domestic and foreign client demand continued to contract amid pressure on spending from energy costs, inflation and economic uncertainty.

"Further reports of postponements and post-production inventories rising due to orders left uncollected drove subdued confidence in the outlook for output over the coming year and contributed towards cuts to employment. The latest forecast from S&P Global Market Intelligence expects industrial production to stagnate in 2023.

"On a more positive note, inflationary pressures softened notably, as rates of increase in input costs and selling prices eased to the slowest since September 2020 and February 2021, respectively. Less marked hikes in prices support the CNB's latest action to keep interest rates stable, with no alterations expected in the first half of 2023."

PMI® by S&P Global

Czech manufacturing firms registered a softer rise in cost burdens during February. Although some panellists noted hikes in supplier, energy and material prices, others stated that costs for some items had fallen. The rate of cost inflation was strong overall but slowed to the weakest since September 2020.

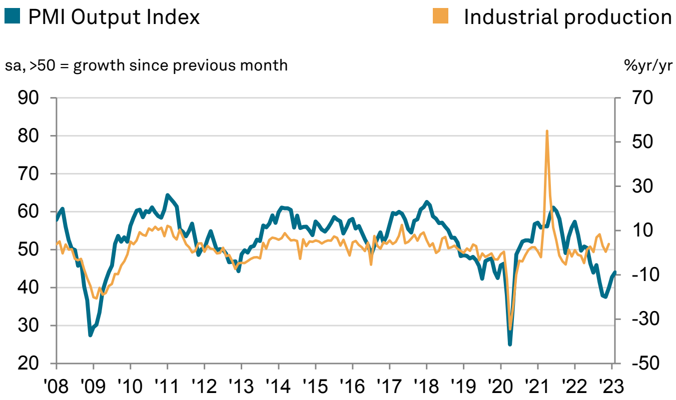
Less marked upticks in cost burdens led to a slower increase in output charges at Czech goods producers. Despite reports of the passing-through of higher input prices to clients, efforts to boost sales at other units resulted in the softest overall rise in selling prices for two years.

Meanwhile, employment at Czech manufacturing firms contracted sharply. The rate of job shedding quickened to the fastest since July 2020 as firms sought to trim costs amid reduced production requirements and subdued client demand.

Backlogs of work at Czech goods producers continued to decline in February amid a further contraction in new orders. The fall was solid overall, and the slowest since last September.

Despite a marked contraction in input buying across the Czech manufacturing sector, suppliers' delivery times continued to worsen. Lead times lengthened modestly but to a greater extent than in January amid input shortages. Lower purchasing activity was in part driven by lower demand and efforts to deplete stocks built through 2022. Pre-production inventories fell strongly, whilst delays and postponements in the delivery of finished goods led to a fractional rise in post-production inventories.

Business confidence improved in February, with Czech manufacturing firms upbeat in the outlook for output over the coming year for the second month running.



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.

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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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