

News Release

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S&P Global Czech Republic Manufacturing PMI®

May PMI lowest since October 2020 amid strong fall in new orders

Key findings

Output grows only fractionally as new orders fall further

Inflationary pressures remain marked

Employment rises at slowest pace since October 2021

May PMI® data from S&P Global signalled a modest improvement in operating conditions across the Czech manufacturing sector. The upturn was the slowest since October 2020, as output expanded only marginally and new orders fell for the third month running. At the same time, inflationary pressures remained among the strongest on record despite the rates of increase easing from April. Hikes in cost burdens and material shortages weighed on demand and purchasing, as delivery times worsened again. Meanwhile, weak client demand resulted in the slowest uptick in employment since October 2021. Although input shortages pushed backlogs of work up, the pace of growth was only marginal overall.

The seasonally adjusted S&P Global Czech Republic Manufacturing Purchasing Managers' Index® (PMI®) posted 52.3 in May, down from 54.4 in April. The latest headline reading signalled only a moderate upturn in the health of the Czech manufacturing sector and one that was the slowest for 19 months.

Contributing to the slower overall upturn in operating conditions was a fractional and softer rise in output at Czech manufacturers in May. Production growth was reportedly weighed down by weak client demand and some reports of cancellations due to poor solvency at customers and a lack of raw materials.

Subdued client demand was reflected in a third successive monthly decline in new orders in May. The drop in new sales quickened and was the fastest since June 2020. Firms stated that new orders fell due to challenges in the automotive industry and uncertainty among clients amid the Russia-Ukraine war.

New export orders also contracted strongly midway through the second quarter, and at the sharpest pace for almost two years. The decrease in new orders from abroad was linked to weaker demand from key export markets.

Czech Republic Manufacturing PMI
sa, >50 = growth since previous month



Source: S&P Global.
Data were collected 12-23 May 2022.

Comment

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

"Czech manufacturers signalled another loss of growth momentum in May, as output rose only fractionally and new orders fell further. Weak demand from domestic and foreign clients reflected ongoing material shortages, but more broadly, the biting effect of inflation on customer spending.

"Although the rate of cost inflation eased for the second month running, it remained historically marked. Hikes in fuel, energy, steel, transportation and other key inputs were again passed through to clients as firms struggled to absorb soaring costs.

"Amid some signs that inflation may be peaking, it is hoped that recent hikes in interest rates by the Czech National Bank will help inflationary pressures abate. That said, Czech manufacturers face substantial headwinds through the rest of 2022 which are likely to dent growth momentum further. Prices continue to rise markedly, dampening client demand and reducing scope for investment, while uncertainty regarding the Russia-Ukraine war remains heightened."

PMI®

by S&P Global

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At the same time, inflationary pressures remained substantial overall despite rates of increase softening slightly from April's highs. Cost burdens rose at one of the fastest paces on record, as hikes in fuel, energy, transportation, steel and packaging prices drove inflation. The rate of increase was the slowest for three months, however.

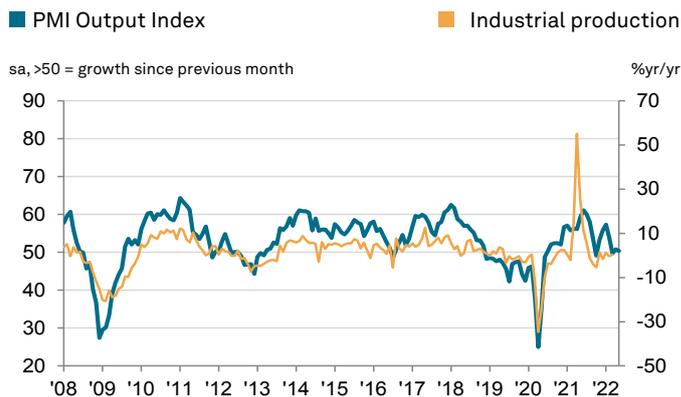
Firms continued their efforts to pass on higher costs to clients in May, as output charges rose markedly. Although softer than in April, the rate of inflation was the third-sharpest on record.

Input prices were partially driven higher by material shortages, as vendor performance deteriorated further in May. Lead times lengthened to the least extent since January 2021, but difficulties sourcing inputs continued to hamper output growth and increase backlogs of work.

That said, weak demand conditions led to the softest rise in employment for seven months. The modest upturn in workforce numbers helped ease pressure on capacity. However, work-in-hand increased for the nineteenth successive month.

Meanwhile, the rate of expansion in input buying slowed notably from April, as purchasing rose only marginally. Nonetheless, stocks of finished goods grew for the first time for two years as delayed shipments pushed inventories up. Efforts to stockpile inputs amid shortages led to a strong rise in pre-production inventories.

Finally, output expectations towards the year ahead remained upbeat. Concerns regarding unstable supply chains and the war in Ukraine hampered optimism, however.



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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