News Release

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S&P Global Czech Republic Manufacturing PMI®

Marked deterioration in operating conditions as demand conditions worsen further in December

Key findings

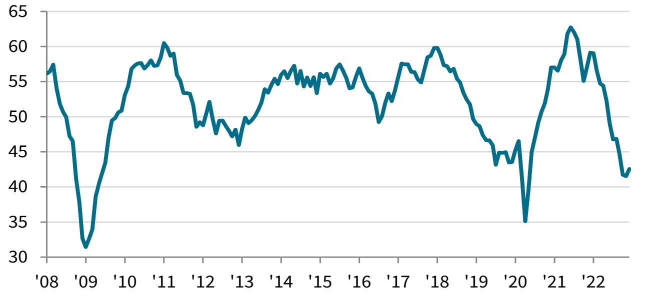
Further substantial contractions in production and new orders

Input price inflation accelerates

Strong decline in employment

Czech Republic Manufacturing PMI

sa, >50 = growth since previous month



Source: S&P Global.
Data were collected 06-15 December 2022.

December PMI® data from S&P Global signalled a marked decline in operating conditions across the Czech manufacturing sector. Although slightly softer than in November, the deterioration stemmed from substantial drops in output and new orders as client demand waned. Domestic and external demand conditions weakened further as the impact of elevated energy costs on spending remained evident. As such, manufacturers downwardly adjusted employment levels, with workforce numbers falling strongly. Subdued business sentiment regarding the outlook was also reflected in worsening output expectations. The degree of negativity was the second-worst since April 2020.

Meanwhile, input price inflation regained momentum in December, with cost burdens rising at a sharper pace. This was not mirrored in the trend for output charges, however, which rose at the slowest rate since March 2021.

The seasonally adjusted S&P Global Czech Republic Manufacturing Purchasing Managers' Index® (PMI®) posted 42.6 in December, up from 41.6 in November but still signalling a marked deterioration in the health of the Czech manufacturing sector. The downturn was the slowest for three months, albeit among the sharpest since mid-2009.

Contributing to another severe decline in manufacturing performance was a further marked fall in production during December. Output levels decreased following weak client demand and lower new order inflows. Although the softest since September, the rate of contraction was among the fastest since the global financial crisis.

The decline in new orders continued to outpace that of output, as the impact of energy and material price hikes dampened customer spending and broader client demand. Total new sales were weighed down further by another monthly downturn in foreign client demand. New export orders decreased markedly amid substantial inflationary pressures in key export markets.

Comment

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

"Czech manufacturing firms signalled a challenging end to 2022, as demand conditions remained weak and the impact of energy price hikes and inflation hit operations. Customer spending dwindled further, as both total and external new orders contracted markedly.

"Lower output requirements led to reductions in employment, purchasing and stock levels in December. Some firms also sought to rein in costs by utilising current holdings of inputs. This was pertinent in a month where input price inflation accelerated. Firms were cautious to have this impact passed through to customers, with selling price hikes limited in efforts to drive new business.

"The outlook among manufacturers remained bleak, with negative sentiment intensifying. Heightened inflationary pressures and muted customer demand are expected to remain key themes going into 2023. We forecast industrial production to contract by 0.7% on the year in 2023."

Cost pressures at Czech manufacturing firms picked up again at the end of the fourth quarter, with the rate of input price inflation accelerating. Although the second-slowest for just over two years, the pace of increase was marked and quicker than the series average. Higher prices were commonly linked to hikes in energy and material costs.

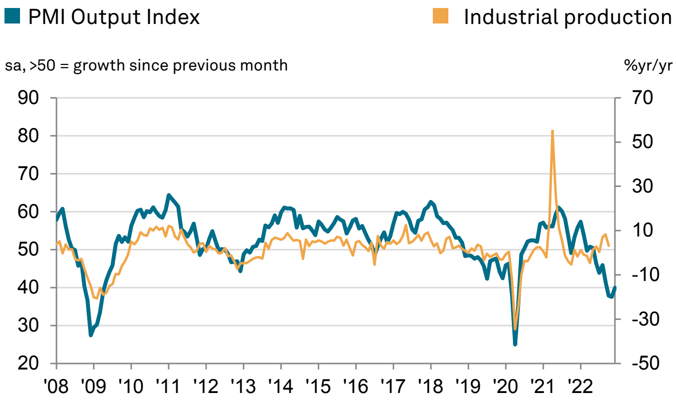
That said, output charges increased at a softer pace in December. The rate of selling price inflation eased to the slowest since March 2021. Any cost savings made over the month were reportedly passed on to customers in an effort to drive new sales.

Reduced production requirements and higher cost burdens were often driving factors behind another substantial decline in purchasing activity. Input buying fell for the seventh month running as firms chose to work through safety stocks amid weak demand. Similarly, sales were often made from stocks, as holdings of finished goods fell at a faster pace in December.

At the same time, Czech goods producers trimmed workforce numbers at the end of the year. Employment levels fell strongly and at the steepest rate since August 2020 as reduced capacity pressures led to layoffs.

December data continued to point to spare capacity among Czech goods producers, with backlogs of work falling at the sharpest rate since June 2020.

Output expectations remained pessimistic in December, as concerns regarding future demand and prices deepened. Sentiment was at its second-lowest level since April 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.

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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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