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IHS MARKIT CZECH REPUBLIC MANUFACTURING PMI®

Production contracts at fastest pace in series history amid COVID-19 impact

KEY FINDINGS

Output and new orders fall at sharpest rates since data collection began in mid-2001

Employment declines at fastest pace since July 2009

Expectations drop to fresh series low

Data were collected 7-22 April 2020.

April data indicated the sharpest contractions in production and new orders across the Czech manufacturing sector since data collection began in June 2001. The reduction in client demand was largely linked to the outbreak of coronavirus disease 2019 (COVID-19) and the resulting emergency public health measures, including lockdowns. Such restrictions also dented foreign demand, with new export orders falling markedly. The decrease in demand meanwhile drove the fastest fall in employment since the depths of the financial crisis in 2009, with business confidence slumping to a series low (since July 2012).

On the price front, supplier shortages pushed input costs higher. Nonetheless, efforts to remain competitive amid unprecedented demand challenges led to a further cut in output charges.

The headline IHS Markit Czech Republic Manufacturing PMI® is a composite single-figure measure of manufacturing performance. It is derived from indicators for new orders, output, employment, suppliers' delivery times and stocks of purchases. Any figure below 50.0 indicates overall deterioration in the sector.

The headline PMI posted 35.1 in April, down from 41.3 in March and signalling a marked decline in the health of the Czech manufacturing sector at the start of the second quarter. The latest reading was the lowest since March 2009. The index was buoyed slightly by longer supplier delivery times (ordinarily a sign of improving manufacturing performance).

Czech Republic Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

The headline figure was driven down further by the quickest contraction in production since the survey began almost 19 years ago. The decrease in output stemmed from weak demand conditions, with new orders also dropping at a historically marked pace. The downturns were almost entirely linked by panellists to the COVID-19 pandemic and subsequent lockdowns and factory closures. The global nature of the outbreak also led to a sharp decline in new export orders.

In line with lower client demand, firms cut their workforce numbers at the fastest pace since the depths of the financial crisis. A number noted that much of the reduction was made up of temporary or agency staff. Meanwhile, backlogs of work fell at the quickest rate since this particular series began in January 2003 amid burgeoning spare capacity.

Business expectations slumped to a new series low in April, down from the previous record in March, as firms expressed concern regarding the longevity of lockdowns and the path of the recovery. Companies also highlighted worries surrounding the impact on wider industries as demand stalled.

Firms endeavoured to remain competitive in April and dropped their output charges further despite a sharper rise in input costs. Supplier delays and shortages drove input prices higher, although purchasing activity among manufacturers fell markedly.

COMMENT

Siân Jones, Economist at IHS Markit, which compiles the Czech Republic Manufacturing PMI survey, commented:

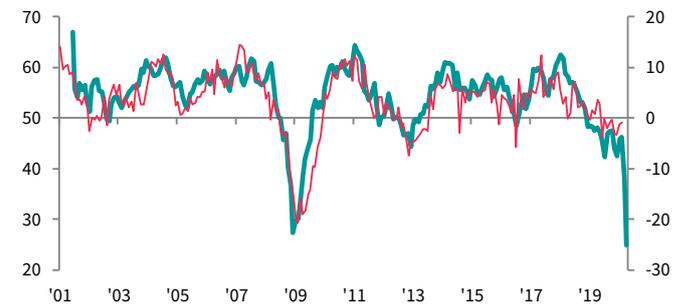
"The effects of the COVID-19 pandemic and emergency public health measures took hold across the Czech manufacturing sector in April. Output and new orders fell at historically sharp rates that even outpaced those seen during the financial crisis, as domestic and foreign demand stalled.

"Despite efforts to furlough staff, some firms stated that the sharp drops in revenue and demand left them with no choice but to make redundancies. The cuts to employment were the most marked since the depths of the financial crisis.

"Although restriction across the Czech Republic have been slowly easing, companies expect output to fall over the coming year as worries surrounding the longevity of lockdowns, the timespan of any recovery and fears of a potential drop in investment drag confidence down."

Output Index

sa, >50 = growth since previous month



Source: IHS Markit, CSO.

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Methodology

The Czech Republic Manufacturing PMI® is compiled by IHS Markit 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.

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.

April 2020 data were collected 7-22 April 2020.

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.

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