

IHS Markit Czech Republic Manufacturing PMI®

First improvement in manufacturing operating conditions since November 2018

Key findings

Expansion in output and renewed rise in new orders drive sector growth

Employment falls at slowest pace since June 2019

Cost pressures weaken notably

September data were collected 11-22 September 2020.

September PMI® data signalled a renewed improvement in operating conditions across the Czech manufacturing sector. Growth was largely driven by a faster increase in production and a return to expansion in new orders, as foreign client demand also picked up. Signs of sufficient capacity led to a further fall in employment, albeit with the rate of job shedding easing to the slowest since June 2019 amid greater new business inflows. As such, output expectations improved to the highest since October 2018 amid hopes of a further strengthening of client demand.

Meanwhile, cost pressures softened substantially in September, as supplier competition weighed on price rises. Firms continued to reduce factory gate charges in an effort to boost sales.

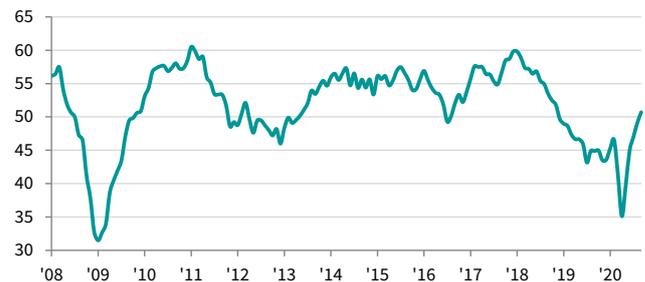
The headline seasonally adjusted IHS Markit Czech Republic Manufacturing PMI® registered 50.7 in September, up from 49.1 midway through the third quarter. The index rose for the fifth successive month away from April's recent low and posted above the 50.0 neutral mark for the first time since November 2018. That said, the improvement in operating conditions was only marginal overall.

Contributing towards overall growth was a quicker expansion in output at Czech manufacturing firms. Although only modest, the pace of increase was the fastest since October 2018. Companies largely linked the rise in production to the resumption of operations at clients and a renewed upturn in new orders.

September data indicated an end to a near two-year sequence of contraction in new sales at Czech goods producers. Total

continued...

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



Source: IHS Markit.

Comment

Commenting on the latest survey results, Sian Jones, Economist at IHS Markit, said:

"The Czech manufacturing sector registered a renewed improvement in operating conditions in September, as the resumption of business at clients provided a boost to sales. The latest data signalled a stronger end to the third quarter, as the sector continues to recover from the virus's shock to demand.

"Although growth in new orders returned and output expectations for the year ahead were buoyed by hopes of strengthening demand, firms continued to shed workers as spare capacity remained evident. That said, the pace of decline in employment was the slowest since June 2019.

"Discounting sparked by subdued demand and competition continued in September, as selling prices fell again. Pressure on margins was softened, however, as input prices rose only fractionally.

"Despite an uptick in the overall performance of the manufacturing sector, the third quarter is set to see a further decline in overall industrial production from a year earlier. Year-on-year growth isn't expected to return until the opening quarter of 2021, as uncertainty in the global economy looks set to weigh on demand conditions."

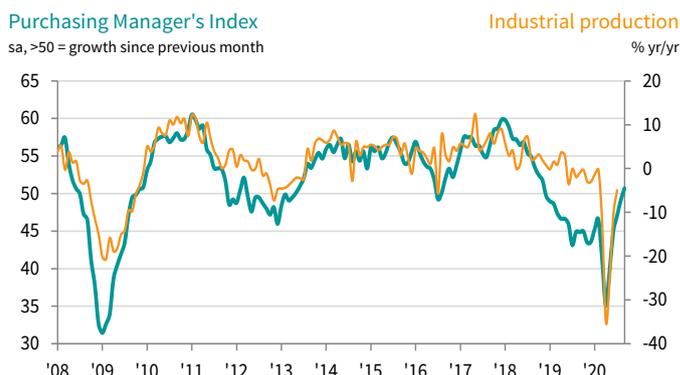
new order inflows were boosted by a renewed rise in new export orders. The upturn was only fractional, however, as some firms noted demand from clients in Asia and Europe.

Backlogs of work continued to decrease in September, as firms exhibited signs of spare capacity. As a result, manufacturers reduced their workforce numbers further. That said, a renewed increase in new orders led to a softer pace of job shedding, with employment falling at the slowest rate since June 2019.

Greater client demand also helped to buoy business confidence regarding the outlook for output over the coming year. The degree of optimism rose to the highest since October 2018 amid hopes of further new client wins and a stabilisation in economic performance. The level of positive sentiment was below the series average, however.

Input prices rose further in September, although the rate of inflation slowed notably to the softest in the current eight-month sequence of increase. The pace of inflation was only fractional as firms stated that supplier competition led to weaker increases in costs. At the same time, goods producers continued to reduce their selling prices in an effort to further boost sales.

Finally, manufacturers registered the first increase in purchasing activity since November 2018 amid an upturn in new order inflows. Inventories continued to be depleted, however, as stocks of purchases and finished goods were used to support sales and production requirements.



Sources: IHS Markit, CSO.

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Survey methodology

The IHS Markit 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.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

Survey dates and history

September data were collected 11-22 September 2020.

Survey data were first collected June 2001.

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