News Release

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S&P Global Czech Republic Manufacturing PMI®

Output contracts amid weak client demand, but inflation eases in June

Key findings

Renewed decline in output as fall in orders gains momentum

Rate of cost inflation softens to 16-month low

Employment decreases for first time since September 2020

June PMI® data from S&P Global signalled a deterioration in operating conditions across the Czech manufacturing sector. The fall was only marginal overall, but was driven by a renewed decrease in output and a faster decline in new orders. Weak client demand stemmed from the impact of inflationary pressures on customer spending, with firms also cutting their workforce numbers as backlogs of work fell for the first time since October 2020. Output expectations also slipped, as inflation concerns weighed on business confidence.

Although still marked and historically elevated, rates of input price and output charge inflation eased. The pace of increase in cost burdens was the softest since February 2021, despite being sharper than any period before this.

The seasonally adjusted S&P Global Czech Republic Manufacturing Purchasing Managers' Index® (PMI®) posted 49.0 in June, down from 52.3 in May. Operating conditions across the Czech manufacturing sector declined for the first time since August 2020, albeit only marginally.

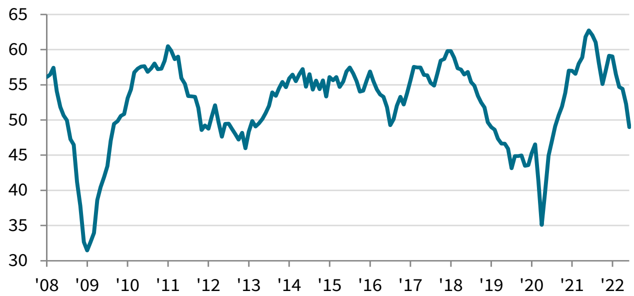
Contributing to the lower headline figure was a renewed fall in production during June. Czech manufacturers recorded a solid decline in output that was the fastest since May 2020. Where a decrease was reported, firms linked this to lower new orders amid inflationary pressures and a drop in customer confidence in the outlook.

Supply-chain disruption also dampened client demand midway through 2022, as firms noted that customers sought to prioritise essential goods in times of soaring cost burdens. New orders contracted for the fourth successive month, with the decline gaining momentum. The rate of decrease was sharp overall and the quickest for two years.

At the same time, foreign client demand remained subdued. New export orders fell solidly as inflation in key export markets hampered customer purchases.

Czech Republic Manufacturing PMI

sa, >50 = growth since previous month



Source: S&P Global.
Data were collected 13-22 June 2022.

Comment

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

"The Czech manufacturing sector signalled a contraction in operating conditions in June, as output fell and new orders tumbled. Client demand decreased sharply and at a pace not seen since the depths of the initial pandemic lockdown, as inflation and supplier delays weighed further on purchases.

"Rates of inflation remained historically marked, but eased again, suggesting that rates of increase may have already peaked. Energy, fuel, material and supplier price hikes continued to be highlighted as the key drivers of inflation. In an effort to spur on new orders and in line with softer increases in costs, output charges rose at the softest pace for a year.

"Downside risks to manufacturing growth remain numerous, key among these for panellists was the impact of inflation on customer and investor spending. Output expectations dipped, with our latest forecast expecting a 0.9% increase in industrial production in 2022."

PMI® by S&P Global

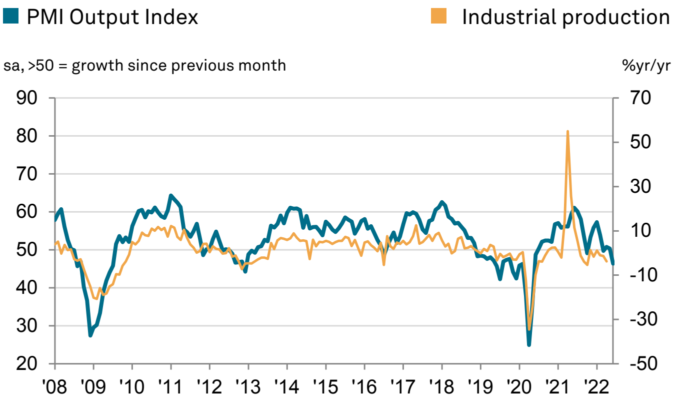
On the price front, the rate of input cost inflation remained historically elevated in June. The pace of increase was quicker than at any period before March 2021, but the slowest in the 16-month sequence of marked inflation seen since then. Nonetheless, firms stated that hikes in supplier, material, fuel, energy and transportation costs drove inflation.

In line with softer increases in cost burdens, firms registered a slower rise in output charges in June. The rate of charge inflation was the softest in a year, despite firms continuing to state that higher input prices were being passed through to clients.

Although vendor performance continued to deteriorate, the extent to which lead times lengthened was the least marked since October 2020. That said, inflationary pressures and a drop in new orders led firms to reduce their input buying in June. There were also fewer incentives to stockbuilding, as the rate of expansion in pre-production inventories slowed and holdings of finished goods declined.

Meanwhile, lower new order volumes led to the first fall in workforce numbers since September 2020. Panellists suggested that cost-cutting measures led to the non-replacement of leavers and some reports of redundancies. At the same time, pressure on capacity fell, with backlogs of work decreasing for the first time in 20 months.

Lastly, output expectations regarding the year-ahead outlook slipped to the second-lowest in two years in June. Although optimistic overall, firms expressed greater concern towards the further impact of inflation on customer and investor spending.



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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