News Release

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S&P Global Czech Republic Manufacturing PMI®

Further sharp contraction in production in January, but cost pressures soften

Key findings

Output and new orders fall at steep rates

Cost burdens rise at softer rate, but charge inflation quickens

Renewed optimism in the year-ahead outlook for output

January PMI® data from S&P Global signalled a further sharp deterioration in operating conditions across the Czech manufacturing sector. The start of the new year continued to indicate weak domestic and external demand conditions, as new orders and international sales contracted again. Manufacturers responded by cutting their employment numbers, purchasing activity and pre-production inventories. Nonetheless, firms registered a renewed optimism in their output expectations for the coming 12 months, ending a four-month sequence of pessimism.

On the price front, cost pressures eased and were among the least marked since November 2020. That said, hikes in energy costs especially, drove an acceleration in output charge inflation.

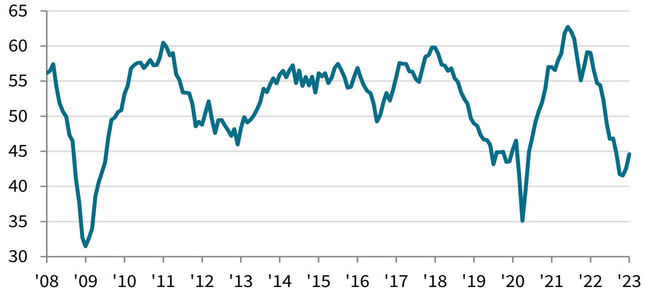
The seasonally adjusted S&P Global Czech Republic Manufacturing Purchasing Managers' Index® (PMI®) posted 44.6 in January, up from 42.6 in December. The latest data indicated a sharp, but softer, decline in the overall health of the Czech manufacturing sector. The deterioration was the slowest since last September, albeit one of the strongest since May 2020.

Contributing to the overall downturn was a further steep decline in production at Czech goods producers in January. Client hesitancy and lower new order inflows reportedly drove the contraction. The fall was the weakest since last August, however.

The latest decrease in new orders stemmed from weak domestic and external demand conditions amid pressure on customer purchasing power and rising costs. Total new sales fell for the eleventh successive month and at a sharp rate in January. The pace of decline slowed from those seen towards the end of 2022, but demand remained historically subdued. Similarly, new export orders contracted steeply, but at the softest pace since mid-2022.

Czech Republic Manufacturing PMI

sa, >50 = growth since previous month



Source: S&P Global.

Data were collected 12-23 January 2023.

Comment

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

"Czech manufacturers signalled a subdued start to 2023, with sharp contractions in output and new orders persisting. Although rates of decline eased during January, domestic and external demand conditions remained weak. In response to reduced new order inflows, goods producers cut input buying, employment and pre-production inventories further.

"Weighing on customer spending was another marked and historically elevated hike in prices. Output charges increased at a steeper pace as firms sought to pass-through higher energy costs, especially. Cost pressures eased, however.

"Encouragingly, optimism regarding the outlook for output at Czech manufacturers returned at the start of the year. Our latest forecast for industrial production expects the sector's output to stagnate in 2023, however."

Input prices faced by Czech manufacturing firms increased markedly at the start of 2023. Panellists commonly highlighted that hikes in material and energy costs drove inflation. Although quicker than the series trend, the rate of increase in input costs softened to the second-slowest since November 2020.

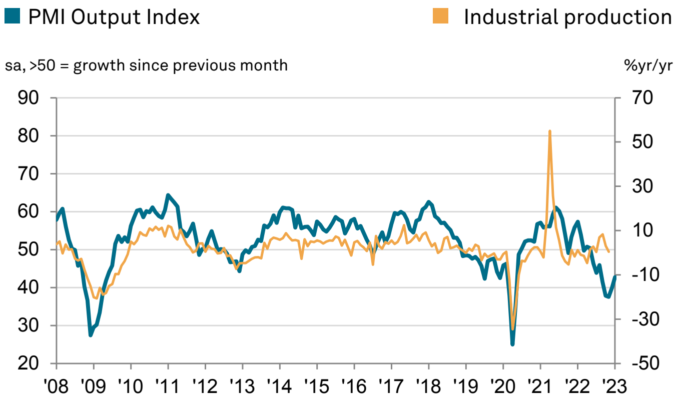
Despite challenging demand conditions, Czech manufacturers passed on higher costs to clients through hikes in output charges during January. Many noted that energy costs in particular contributed to the uptick in selling prices. The marked rise in output charges was the sharpest since last October.

Weighing on cost inflation was a drop in demand for inputs. Goods producers reduced their input buying sharply and worked through stocks of purchases when necessary to fulfil new order requirements.

Concurrently, suppliers' delivery times lengthened to the smallest extent since September 2020 as firms noted that spare capacity at vendors allowed for more timely deliveries of inputs.

In line with lower new order inflows, backlogs of work fell for the eighth month running and at a solid rate in January. Reduced production requirements were also reflected in another monthly fall in employment.

Finally, Czech goods producers registered stronger sentiment regarding the outlook for output over the coming year. Expectations turned positive for the first time since August 2022 and were at their strongest in seven months. Optimism was pinned on hopes of an uptick in demand, the acquisition of new clients and new product launches.



Sources: S&P Global, CZSO.

Contact

Siân Jones
Senior Economist
S&P Global Market Intelligence
T: +44-1491-461-017
sian.jones@spglobal.com

Sabrina Mayeen
Corporate Communications
S&P Global Market Intelligence
T: +44 (0)-7967-447030
sabrina.mayeen@spglobal.com

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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