

News Release

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S&P Global Czech Republic Manufacturing PMI®

Manufacturing downturn worsens in July

Key findings

Quicker drops in output and new orders

Sharpest rise in input costs since January 2023...

...but output prices broadly stagnate

Czech manufacturing firms continued to record a downturn in operating conditions during July as the rate of decline accelerated to the fastest for six months, according to the latest PMI® data from S&P Global. Weighing on the sector's performance were sharper contractions in output and new orders, with production levels falling at the quickest pace since November 2022. Subsequently, companies registered further declines in input buying and employment, with business confidence waning.

Increasing sea freight costs and higher raw material prices led to a sharper uptick in operating expenses. Moreover, the pace of cost inflation was the quickest since January 2023. That said, weak demand conditions dampened potential increases in output charges, as selling prices broadly stagnated.

The seasonally adjusted S&P Global Czech Republic Manufacturing Purchasing Managers' Index™ (PMI) posted 43.8 in July, down from 45.3 in June to signal a further deterioration in the health of the goods-producing sector. The decline in operating conditions was the fastest since January and sharp overall.

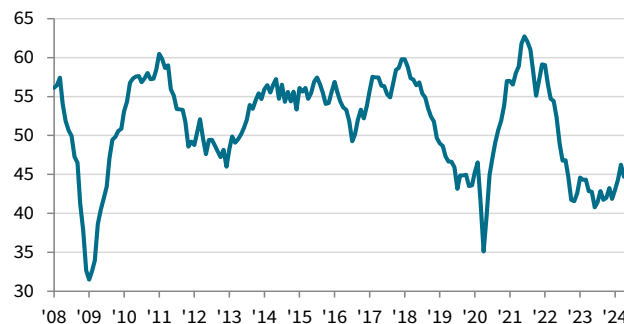
As has been the case for just over two years, Czech manufacturers recorded a further decrease in production during July. The fall gathered pace, with output contracting at the sharpest rate since November 2022. Lower new order intakes, alongside weak client demand reportedly drove the downturn.

New orders at Czech manufacturing firms fell again at the start of the third quarter. The rate of decline quickened to the fastest since February amid anecdotal reports of muted demand conditions and fewer referrals from clients.

Contributing to the drop in total new sales was a sharper fall in new export orders during July. The pace of decline was the steepest for three months, as firms noted that demand from key export partners including Germany and France remained

Czech Republic Manufacturing PMI

sa, >50 = growth since previous month



Source: S&P Global PMI.

Data were collected 11-23 July 2024.

Comment

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

"The opening month of the second half of 2024 brought further downward momentum across the Czech manufacturing sector, as operating conditions deteriorated at a faster pace. Sharper contractions in output and new orders weighed on the health of the sector, with demand from key industries and export partners waning.

"Firms sought to absorb price hikes, as the impact of higher sea freight costs partly led to a faster rise in input prices but output charges were left broadly unchanged on the month. The hit to margins was deemed worthwhile if new sales could be gained.

"Output expectations took another hit, as muted confidence in the near-term drove firms to cut staffing levels markedly again. Although still foreseeing a rise in production, business confidence was the lowest since February."

PMI®

by S&P Global

muted.

Meanwhile, operating expenses at Czech goods producers rose at a quicker pace. Panellists often stated that higher sea freight, energy and raw material costs drove inflation during July. Moreover, the rate of increase accelerated for the second month running to the fastest since January 2023.

Despite a sharper uptick in cost burdens, firms recorded broadly unchanged selling prices at the start of the third quarter. The near-stagnation in output charges followed three successive months of inflation. Companies commonly noted that competition and weak demand led to them to offer discounts or hold prices stable in a bid to drive new sales.

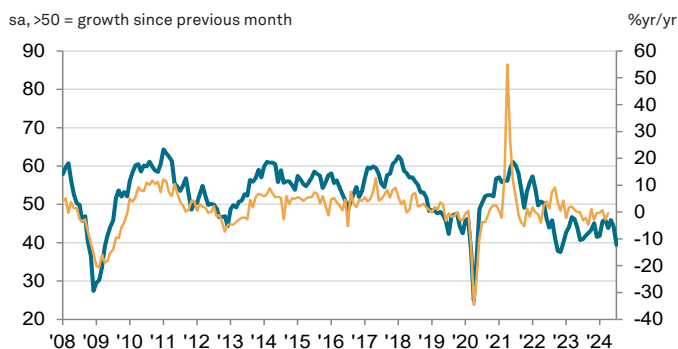
Issues and disruption relating to sea freight not only pushed transportation costs up, but also led to longer delivery times for inputs in July. Lead times lengthened for the first time in three months, and to the greatest extent since February 2023.

In line with lower new order intakes, employment continued to fall in July. The pace of job shedding softened slightly from June, but was marked nonetheless. At the same time, backlogs of work fell for the twenty-sixth consecutive month.

A sustained period of subdued demand conditions and reduced production requirements weighed on business confidence. Although on average manufacturers still expect output to rise in the coming year, the overall degree of optimism dipped to a five-month low.

Finally, firms cut back on their input buying to the greatest degree in 2024 to date as new orders fell again. Cost-cutting initiatives, alongside the use of stocks to fulfil new sales led to modest decreases in both pre- and post-production inventories.

■ PMI Output Index ■ Industrial production



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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@spglobal.com.

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