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IHS MARKIT CZECH REPUBLIC MANUFACTURING PMI®

Sharpest fall in production since July

KEY FINDINGS

Marked deterioration in operating conditions amid stronger drop in output

New orders fall steeply

Fastest decline in employment since September 2009

December PMI® survey data signalled a further deterioration in the health of the Czech manufacturing sector. The overall contraction was sharp and among the strongest for over a decade. The decline was partially driven by a marked fall in production, which stemmed from weaker domestic and foreign client demand. As such, manufacturers reduced their workforce numbers at the sharpest rate since September 2009, with business confidence also remaining historically muted. Meanwhile, although input prices continued to fall, firms were able to increase their factory gate charges for the third month running.

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 greater than 50.0 indicates overall improvement in the sector.

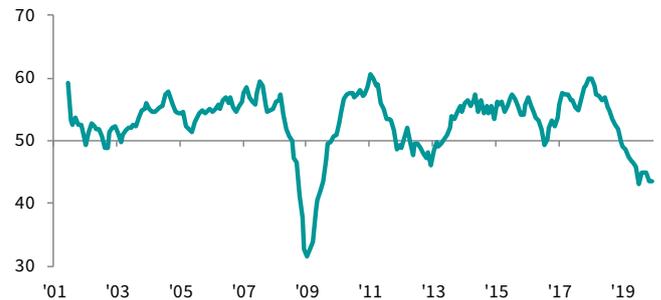
The headline PMI rose slightly in December to 43.6, from 43.5 in November. That said, the latest figure indicated a marked deterioration in operating conditions that was among the sharpest since 2009.

Production across the Czech manufacturing sector decreased for the thirteenth month running at the end of 2019. The drop in output was linked to a slump in new order volumes and weaker client demand. The fall was the fastest since July and marked overall.

Similarly, new orders fell sharply in December. Although the rate of contraction softened, it remained one of the strongest

Czech Republic Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

for a decade. Foreign client demand was also subdued, with new export orders falling strongly. The rate of decrease in new business from abroad eased, however, to the slowest since May.

Manufacturers cut their workforce numbers steeply. Although some noted that the decline in employment stemmed from the non-replacement of voluntary leavers, others stated that they shed jobs amid lower client demand. Firms also continued to reduce their backlogs of work.

Meanwhile, firms remained strongly pessimistic towards output over the coming year. The degree of confidence was the second-lowest since data collection for the series began in April 2012 amid ongoing turbulence in the global economy.

On the price front, cost burdens fell - albeit only fractionally - for the second month running amid a further drop in input purchasing. Nevertheless, companies were able to pass on costs to clients through a marginal rise in factory gate charges.

Finally, firms reportedly used current stocks to fulfill new orders, with both pre- and post-production inventories falling at the end of the year. A drop in input buying also reduced pressure on suppliers, with vendor performance improving for the ninth month running.

COMMENT

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

"December PMI data signalled a challenging end to a difficult year for Czech manufacturers, with turbulent global economic conditions denting growth prospects further. Domestic and foreign client demand continued to be sluggish, weighing on expectations across the manufacturing sector which remained pessimistic."

"Meanwhile, goods producers cut workforce numbers sharply as an increasing number of panellists highlighted greater layoffs as demand struggled to gain momentum. Official data has also pointed towards a contraction in staffing numbers in October, with substantial downside risks for production in 2020 likely to have a knock-on effect across the labour market and for wages."

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.

December 2019 data were collected 5-13 December 2019.

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

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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. To learn more go to [ihsmarkit.com/products/pmi.html](https://www.ihsmarkit.com/products/pmi.html).