July PMI rises to 16-month high, but still signals solid deterioration in operating conditions

Key findings

Output rises for the first time since November 2018

Contraction in new orders softens to slowest since January 2019

Business confidence highest since October 2018

July data were collected 13-23 July 2020.

July PMI® data indicated a further deterioration in operating conditions across the Czech manufacturing sector. That said, the decline was the slowest since March 2019 amid a rise in production and a softer downturn in client demand. Despite being the slowest fall since January 2019, the decrease in new orders reportedly stemmed from further uncertainty surrounding the coronavirus disease 2019 (COVID-19) pandemic. Firms continued to cut their workforce numbers as spare capacity remained evident. Nonetheless, output expectations for the year ahead improved to the strongest since October 2018 amid hopes of a recovery following the reopening of many economies.

Meanwhile, price pressures picked up as raw material costs were hiked by suppliers. Firms still sought to attract new work through discounting, however, with selling prices falling slightly.

The headline seasonally adjusted IHS Markit Czech Republic Manufacturing PMI® rose from 44.9 at the end of the second quarter to 47.0 in July. Although the latest reading signalled a solid contraction in the Czech manufacturing sector, the decline was nevertheless the softest for over a year. Furthermore, the rate of deterioration was notably weaker than April’s nadir (35.1).

Contributing to the rise in the headline figure was the first increase in production since November 2018. The pace of the upturn was only fractional, however. Firms commonly stated that a stabilisation in client demand and renewed output from original equipment manufacturers (OEMs), especially in the automotive sector, drove the expansion.

Comment

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

“The Czech manufacturing PMI continued to move on an upward trajectory in July, despite registering a further decline in performance. Challenging demand conditions continued to weigh on new order inflows.

"July saw another round of job cuts across the sector as firms chose not renew employee contracts and made redundancies. That said, the rate of reduction in staffing numbers was the slowest since February.

"Manufacturers looked to cut costs through lower input buying and payrolls amid a reported hike in supplier prices. Nonetheless, firms still sought to reduce charges in an effort to attract new business.

“Our latest forecast indicates a 10.4% contraction in industrial production in 2020 on the year, improving to a 6.7% expansion in 2021. Firms expressed optimism once again in the outlook for the year ahead, amid hopes of a pick-up in demand. That said, any recovery to pre-pandemic output volumes is likely to be slow, as external demand struggles to build momentum.”

continued...
At the same time, the rate of decline in new order volumes eased to the slowest for a year-and-a-half. The pace of the downturn remained solid overall, but softened further from April’s historic low. Where a decrease in new sales inflows was reported, firms attributed this to ongoing uncertainty surrounding the COVID-19 pandemic. The rate of contraction in new export orders also slowed in July, and was the softest since February.

Meanwhile, business confidence picked up at the start of the third quarter, as firms reported hopes of a recovery in manufacturing sector growth. The degree of optimism reached the highest since October 2018, but remained below the series trend. Some companies also highlighted that the acquisition of new clients contributed to improved sentiment.

Manufacturers reduced their workforce numbers further in July. Although the rate of job shedding eased to the slowest since February, it was sharp nonetheless. The decrease was linked to excess capacity, redundancies and firms not renewing lapsed contracts.

On the price front, cost pressures strengthened in July as suppliers hiked the price of raw materials and essential components. The rate of input price inflation was the fastest since May 2019. Challenging demand conditions, however, meant that manufacturers continued to discount. That said, selling prices fell at a marginal rate that was the slowest in the current seven-month sequence of decline.

Finally, sufficient stocks and higher raw material prices led to a further steep drop in input buying, with many firms selling from current inventories.

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
July data were collected 13-23 July 2020.
Survey data were first collected June 2001.

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