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IHS Markit Czech Republic Manufacturing PMI®

Slower decline in production, but demand conditions remain challenging

Key findings

Marginal contraction in output, but new orders fall steeply

Job shedding remains marked

Business confidence positive for the first time

June data were collected 12-22 June 2020.

June PMI® data signalled a strong, albeit softer, deterioration in operating conditions across the Czech manufacturing sector. The rate of decline continued to ease from April's nadir, with slower decreases in output and new orders helping to ease the overall downturn. Although demand conditions remained historically weak, some firms stated that the reopening of factories had boosted production. Manufacturers continued to cut jobs at a sharp rate in June as spare capacity remained evident, with backlogs declining at a quicker rate. Lacklustre demand meant firms reduced selling prices further in a bid to boost sales, despite input prices rising at a faster pace.

The headline seasonally adjusted IHS Markit Czech Republic Manufacturing PMI® rose from 39.6 in May to 44.9 at the end of the second quarter. Although still indicating a sharp overall decline in operating conditions, the rate of contraction eased further from April's recent record and was the slowest since February, before the pandemic escalated.

Contributing to the slower overall decrease was a softer decline in production. The rate of contraction eased significantly as firms began to reopen factories and process unfinished work. The downturn in output was only marginal overall, as backlogs of work fell at a steep rate.

Demand conditions remained challenging for Czech manufacturers in June, however, with new orders falling at a sharp pace. A lack of investment in the automotive industry and the halting of construction projects were commonly seen as having stymied client demand. Although rates of decrease eased further from those seen in April, domestic and foreign client demand continued to drop steeply. Some

continued...

Czech Republic Manufacturing PMI
sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

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

"The Czech manufacturing sector showed signs of the downturn reversing in June, with the contraction in production easing notably as many factories reopened. That said, the boost to output seemed to come largely from the processing of backlogs, with client demand declining sharply. Firms highlighted troubles in the automotive sector as having hampered demand, as investment in traditional engine types is set to decrease in favour of electric vehicles.

"Meanwhile, employment dropped further despite the return to work of staff previously furloughed. As businesses began to reopen, some firms reportedly made decisions not to renew employee contracts due to weak demand, ongoing uncertainty and in an effort to curb costs.

"Manufacturers noted renewed optimism in the outlook for output over the coming year but continued to cut factory gate charges in the hope of boosting sales. We continue to expect Czech industrial production to fall in 2020, with output forecast to drop 10% on the year."

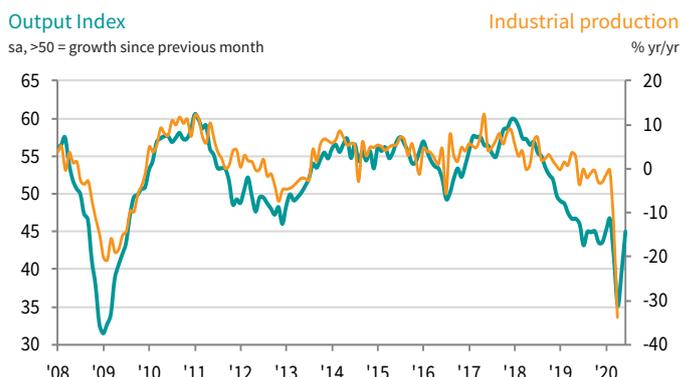
firms noted that reduced working hours at customers in key export markets had led to lower new order volumes.

In line with a strong decline in client demand, firms reduced their workforce numbers further at the end of the second quarter. Despite some firms noting the return to work of staff previously furloughed, others stated that contracts were not renewed following lower production requirements. The marked reduction in backlogs was in part linked to the reopening of factories, but also highlighted an increase in spare capacity.

Business confidence improved in June, as firms recorded optimism for the first time since February. Companies expect output to increase over the coming year amid hopes of a boost to client demand now economies are reopening. Despite reaching a four-month high, the degree of positive sentiment was historically subdued as concerns surrounding the pandemic remained evident.

On the cost front, the rate of input price inflation quickened slightly in June as suppliers raised charges. Weak client demand nevertheless led to further discounting among Czech manufacturers, with selling prices falling at a marginal, but faster pace.

Firms reduced their buying activity further in June. Lower production requirements and sufficient stocks of purchases and finished goods allowed firms to process incoming and unfinished orders. Vendor performance meanwhile improved amid reports of greater spare capacity at suppliers.



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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

June data were collected 12-22 June 2020.

Survey data were first collected June 2001.

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