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IHS MARKIT CZECH REPUBLIC MANUFACTURING PMI®

PMI drops further to lowest level since December 2012

KEY FINDINGS

PMI signals solid deterioration in operating conditions

Strong contractions in new business and export sales

Solid fall in employment

April PMI data signalled a gloomy start to the second quarter of 2019 for the Czech manufacturing sector, with output, new orders and employment continuing to contract. The latest headline PMI figure dipped to its lowest since December 2012, indicating a solid deterioration in overall business conditions. The fall was driven by a strong decline in client demand. Nonetheless, firms still increased their factory-gate prices solidly, despite input price inflation easing to the slowest rate since November 2016. Meanwhile, output expectations remained subdued in the context of the series history.

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.

At 46.6, April's headline PMI signalled a solid decline in the health of the Czech goods-producing sector. The index was down from 47.3 in March and fell for the tenth month running to the lowest since December 2012.

Output levels continued to contract in April, signalling the fifth successive monthly fall in production. That said, the rate of decrease was only marginal and moderated from that seen in March. Nevertheless, panellists linked the downturn to lower client demand.

Firms registered a strong decrease in new orders in April. The rate of contraction was broadly in line with that seen in

Czech Republic Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

March and was one of the quickest since 2012. Alongside a reported drop in domestic demand, firms noted that interest from foreign clients continued to wane during the month.

Less robust demand conditions contributed to another monthly decrease in employment in April. The rate of job shedding accelerated and was strong overall. The decline in workforce numbers was attributed to lower new order volumes and a shortage of skilled workers to replace voluntary leavers. At the same time, firms registered back-to-back monthly decreases in outstanding business.

On the price front, inflationary pressures moderated in April. The rise in input prices – linked to higher raw material and energy costs – was the slowest since November 2016. Output charge increases also eased, but remained solid despite weak demand conditions.

A slowdown in new business led to a further fall in input purchasing, despite the first improvement in supplier delivery times for six years. Firms reportedly utilised pre-production inventories to supplement output.

Finally, firms expressed a slightly higher (albeit still subdued) level of optimism in April. Manufacturers expect a renewed rise in new business over the coming year, but highlighted concerns surrounding labour shortages and weaker demand from European clients.

COMMENT

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

"Czech manufacturers reported further difficulties at the start of the second quarter of 2019. Domestic and foreign demand conditions continued to weaken, with new order volumes contracting for the sixth successive month. Although still expected to remain in growth territory, industrial production is currently forecast to grow by 2.6% in 2019 down from 3.2% in 2018, according to IHS Markit.

"The knock-on effects of less robust demand were evident in the fastest fall in employment since November 2009 and back-to-back decreases in outstanding business. Manufacturers also remained subdued in their output expectations towards the year ahead, amid weaker demand conditions across Europe and a tight labour market."

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.

April 2019 data were collected 10-18 April 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).