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IHS MARKIT CZECH REPUBLIC MANUFACTURING PMI®

February PMI signals fastest deterioration in operating conditions in over six years

KEY FINDINGS

PMI dips to lowest since January 2013

Output and new orders decline at faster rates

Inflationary pressures pick up

Business conditions across the Czech manufacturing sector deteriorated for the third successive month in February, with the headline PMI dipping to its lowest in over six years. Driving the decline in the health of the sector were faster falls in output and new orders. Moreover, new business contracted at the quickest rate since October 2012, as both domestic and foreign demand weakened. Meanwhile, inflationary pressures intensified. Input costs increased at a marked pace and output charges rose at the fastest rate since September 2018.

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.

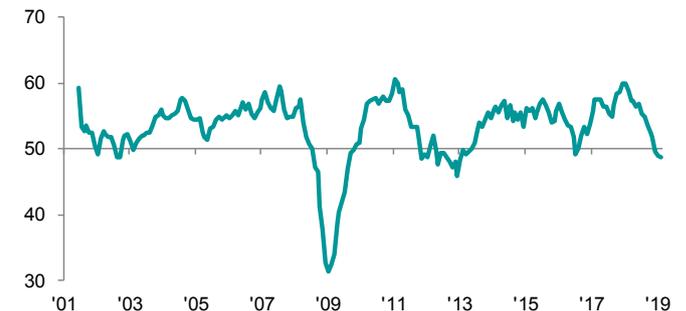
At 48.6, February's headline PMI was down from 49.0 in January and signalled a faster deterioration in the health of the Czech manufacturing sector. The decline in operating conditions was the quickest since January 2013.

Output levels decreased at the joint-strongest pace since December 2012 in February, with the rate of contraction accelerating from that seen in January. Panellists stated that lower new order volumes and weaker client demand drove the downturn.

February saw a fourth successive monthly fall in new orders that was the fastest since October 2012. Anecdotal evidence linked the downturn to a reduction in client demand,

Czech Republic Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

especially for chemicals and metal products. Panellists also registered a further fall in foreign client demand amid difficult global trade conditions.

On the price front, manufacturers indicated a marked rise in input prices in February. Higher raw material costs were reportedly a factor. That said, despite accelerating slightly, the pace of increase was the second-weakest since August 2017.

Despite a further fall in new business, manufacturing firms raised their output charges at a strong rate. Moreover, the pace of output price inflation was the fastest since September 2018 as a number of firms reportedly passed higher costs onto clients.

Goods producers increased their workforce numbers in February amid another monthly rise in backlogs. The upturn in work-in-hand was only fractional, however.

Meanwhile, manufacturers registered falls in both pre- and post-production inventories. The decreases were generally linked to weaker client demand.

Finally, business confidence improved slightly in February, but remained subdued overall. Concerns surrounding global economic conditions and client demand over the coming 12 months weighed on expectations.

COMMENT

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

"Czech manufacturers continued to register a difficult start to 2019, with operating conditions deteriorating at the fastest pace in over six years in February. Further falls in production and new business reflected reports of weaker domestic and foreign client demand.

"Despite a contraction in new business, manufacturers increased their factory gate charges at the fastest rate since September 2018.

"Unsurprisingly, however, business confidence remained muted. Subdued external demand conditions and increased uncertainty weighed heavily on panellists' expectations. In addition, firms pulled back their buying activity as both pre- and post-production stocks declined."

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.

February 2019 data were collected 12-20 February 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).