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IHS MARKIT CZECH REPUBLIC MANUFACTURING PMI®

PMI dips to 12-month low in August

KEY FINDINGS

Output growth remains strong, but eases to weakest since August 2017

Solid, but slower rise in new business

Pressure on supply chains remains marked

According to the latest PMI® survey data from IHS Markit, operating conditions across the Czech manufacturing sector improved strongly in August. That said, the headline figure dipped to the lowest in a year due to weaker rises in output and new orders. On a positive note, firms were able to fill vacancies despite reports of a long-term worker shortage. Meanwhile, inflationary pressures remained elevated, with input costs increasing at the second-fastest rate since November 2017.

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 54.9 in August, the latest PMI figure fell slightly from 55.4 in July and signalled the weakest improvement in the health of the Czech goods-producing sector for a year. That said, the overall pace of growth remained strong and above the long-run series trend.

Output levels increased strongly in August, albeit at a slower pace. Anecdotal evidence suggested that the sustained rise was linked to greater client demand. The rate of growth was the weakest since August 2017, but nonetheless in line with the long-run series average.

Similarly, the pace of new order growth remained solid in August, despite slowing slightly. Demand from domestic clients was reportedly robust, although slightly less regular.

Czech Republic Manufacturing PMI

sa, >50 = improvement since previous month



New business from foreign customers also continued to increase, with the rate of expansion accelerating from July's 20-month low.

On the price front, input costs continued to rise at a marked rate in August. Anecdotal evidence linked the rise in cost burdens to higher raw material prices, especially steel, and exchange rate movements. The rate of increase was the second-quickest since last November. Supply chain pressures helped drive input cost inflation, with vendor performance deteriorating markedly.

Firms were able to partly pass costs onto clients through higher charges. Output prices increased at a strong rate, albeit one that was the weakest for three months.

In line with output growth outstripping that of new orders, backlog accumulation softened in August. The rate of expansion was the weakest since December 2016 and only moderate. Employment, however, rose at a faster pace.

Meanwhile, purchasing activity among manufacturers increased at the slowest rate in almost two years. Pre-production inventories also grew at a weaker pace.

Although remaining strongly positive, business confidence dipped in August to the lowest since October 2016. Panellists noted hopes of greater client demand and investment in technology.

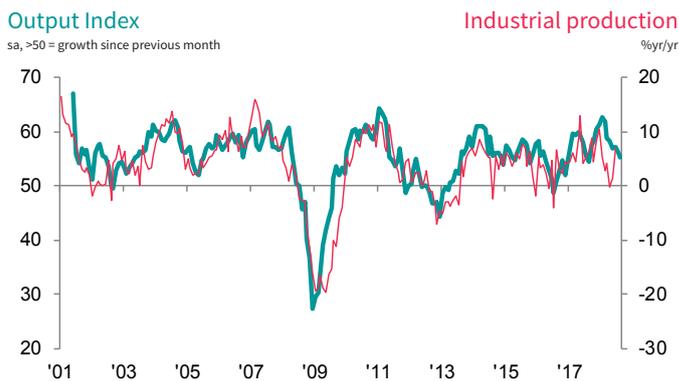
COMMENT

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

"The latest survey data signalled a strong, albeit softer improvement in the health of the Czech manufacturing sector. Rates of growth in output and new orders dipped to 12-month lows, with purchasing activity also rising at a slower pace.

"Employment growth painted a more positive picture, with firms gradually starting to fill long held vacancies, following sustained reports of a worker shortage.

"Meanwhile, input price inflation remained elevated and firms stated they were partly able to pass costs on to clients through higher charges."



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.

August 2018 data were collected 13-22 August 2018.

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

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About PMI

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).