

IHS Markit Czech Republic Manufacturing PMI®

Greatest improvement in operating conditions on record, but supply issues worsen

Key findings

Faster expansions in output and new orders

Vendor performance deteriorates to greatest extent on record

Price pressures intensify notably

Data were collected 11-22 June 2021.

June PMI® data signalled a substantial improvement in the health of the Czech manufacturing sector. Overall growth quickened to the fastest since data collection began in June 2001. The expansion was supported by stronger upturns in output and new orders, with looser COVID-19 restrictions boosting sales to domestic and foreign clients. Business confidence also ticked higher amid hopes of further order growth.

Meanwhile, substantial supply-chain disruptions continued to hamper production capacity and push input costs up. Backlogs of work rose at the fastest pace since January 2011 despite a quicker expansion in employment. Cost burdens rose at the sharpest pace on record, with many firms choosing to partially pass-through greater input prices to clients, leading to the steepest hike in charges since January 2003.

The headline seasonally adjusted IHS Markit Czech Republic Manufacturing PMI® registered 62.7 in June, up from 61.8 in May. The improvement in operating conditions across the goods-producing sector was the strongest on record. The increase in the headline index partially stemmed from a record deterioration in vendor performance, which would ordinarily indicate more robust operating conditions but has instead stemmed from supplier backlogs and delays.

Output expanded robustly during June, with the rate of growth quickening to the sharpest since February 2018. The marked rise in production was linked to stronger client demand and the easing of COVID-19 restrictions. Some firms noted that output capacity was constrained by hiring troubles and supply delays.

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



Source: IHS Markit.

Comment

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

"Czech manufacturers once again signalled a record-breaking pick-up in operating conditions during June, as the sector moved further towards recovery. Domestic and foreign demand improved, leading to the fastest rise in new orders since late-2017.

"Employment also expanded further, but reports of hiring struggles hampered efforts to restrict growth of backlogs. Work-in-hand rose at the quickest pace for over a decade, as supply shortages further exacerbated capacity pressures.

"Longer lead times, uncertain supply flows and efforts to build safety stocks led to the quickest rise in purchasing activity since early-2007. As a result, demand for inputs pushed costs higher once again.

"As inflationary pressures strengthen monetary policy is likely to shift accordingly. We currently forecast two interest rate hikes from the CNB in the second-half of 2021."

New business rose at the fastest pace since December 2017 amid stronger domestic and foreign demand. The further reopening of key export markets reportedly supported the sharpest rise in new export orders since late-2017.

A record-breaking extension to supplier delays was reportedly linked to raw material shortages and strain on supplier capacity. Subsequently, cost burdens soared once again in June. The rate of input price inflation was the steepest on record. The increase was often attributed to further hikes in key material costs such as metals, plastics and fuel.

In response to marked rises in supplier prices, manufacturers increased their selling prices at the sharpest rate since data collection for the series began in January 2003. Panellists suggested that costs were partially passed through to clients through higher charges.

Meanwhile, goods producers expanded their workforce numbers again in June. The upturn in employment was the quickest since December 2017, but was not sufficient to curb growth of backlogs of work. Pressure on capacity continued to increase, with work-in-hand rising at the fastest pace since January 2011. Firms often noted difficulties finding suitable candidates for current vacancies.

In an effort to build safety stocks, firms stepped up input buying. The rise was the quickest since February 2007, with pre-production inventories up for the third month running. Stocks of finished goods declined further, as firms sought to supplement output with current holdings of end products.

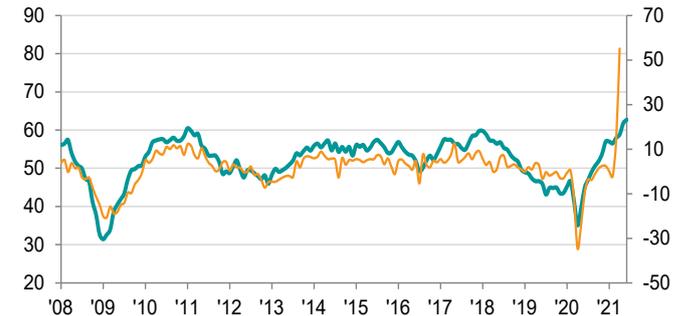
Expectations improved in June, with manufacturers at their most upbeat regarding the outlook for output over the coming year for five months.

Czech Republic Manufacturing PMI

sa, >50 = growth since previous month

Industrial production

% yr/yr



Sources: IHS Markit, CSO.

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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 11-22 June 2021.

Survey data were first collected June 2001.

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