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IHS Markit Czech Republic Manufacturing PMI®

December PMI at four-month high amid stronger demand conditions and easing of supply-chain issues

Key findings

Output and new orders rise at fastest pace since August

Vendor performance deteriorates at softest pace for 10 months

Rate of job creation sharpest since October 2017

Data were collected 06-15 December 2021.

Operating conditions across the Czech manufacturing sector improved markedly in December, according to the latest PMI® data. Overall growth was supported by stronger upturns in production and new orders, as a slight reduction in supply-chain pressures enabled firms to raise their output levels. Although still historically substantial, vendor performance deteriorated to the least extent since February, with the rate of input cost inflation also easing in response. Nevertheless, firms registered a sharp rise in backlogs of work as material shortages hampered the processing of incoming orders. Manufacturers sought to relieve capacity pressure by expanding workforce numbers at the fastest pace since October 2017.

Hopes that client demand will be boosted further, and that the current COVID-19 wave of infections will be less severe than previous outbreaks drove output expectations to their highest for four months.

The headline seasonally adjusted IHS Markit Czech Republic Manufacturing PMI® rose to 59.1 in December, up from 57.1 in November. The latest data signalled the strongest improvement in the health of the Czech manufacturing sector since August, as faster expansions in output, new orders and employment contributed to the increase in the headline index.

Production at Czech manufacturers increased at a strong pace that was the fastest for four months in December. Where increased output was noted, firms linked this to stronger demand. Similarly, new order inflows rose at the sharpest rate since August despite ongoing material shortages

continued...

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 manufacturing firms continued to signal gathering growth momentum as 2021 comes to a close, as production and demand expanded at the quickest rates since August. Encouragingly, some companies noted that there was a little reprieve in supply chain disruption as vendor performance deteriorated at the slowest pace for ten months. Nonetheless, pressure on capacity remained stark and backlogs of work grew steeply. As a result, companies channelled efforts into building stocks of inputs and hiring additional workers. In fact, the rate of job creation was the sharpest since October 2017.

“A relative easing in supply-chain pressure was reflected in a softening of input cost inflation in December. The pace of increase in input prices was still historically elevated amid transportation delays and material shortages, but abated somewhat and eased to the slowest for nine months. Selling prices continued to rise markedly, however, with our current forecast expecting the Czech National Bank (CNB) to hike interest rates to 3.75% by early-2022 in response to higher consumer prices.”

and input delivery delays. Meanwhile, new export orders increased at the quickest pace for three months.

Although the extent to which lead times lengthened eased to the least marked for ten months in December, vendor performance continued to deteriorate markedly. Input delivery delays stemmed from material shortages and transportation issues. As a result, firms sought to build stocks to protect against future supply shocks. Pre-production inventories rose sharply and at the third-fastest pace on record as input purchasing rose steeply. Meanwhile, stocks of finished goods fell only marginally.

At the same time, input prices rose substantially again at the end of 2021. That said, the overall pace of increase in costs for energy, materials and transportation eased from recent series peaks to the slowest for nine months. In response, the rate of charge inflation softened. Nevertheless, firms still sought to pass-through higher input prices to clients, with the rate of charge inflation much quicker than the long-run series average.

The knock-on impact of supply-chain disruption continued to be reflected in steep increases in backlogs of work during December as material shortages prevented companies from completing outstanding business. That said, manufacturers recorded the sharpest rise in employment in over four years as firms reacted to mounting pressure on capacity.

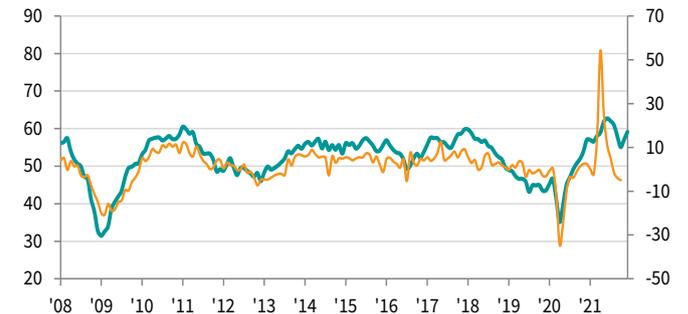
Finally, Czech goods producers registered a strong degree of confidence in the outlook for output over the coming year at the end of 2021. The level of optimism was the highest since August, reflecting hopes of a further uptick in client demand and minimal disruption to operations following the latest COVID-19 outbreak.

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

December data were collected 06-15 December 2021.

Survey data were first collected June 2001.

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