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## IHS MARKIT CZECH REPUBLIC MANUFACTURING PMI®

### Operating conditions deteriorate further amid marked fall in new business

#### KEY FINDINGS

Second-fastest decrease in new orders since April 2009

Exports contract at quickest rate for over a decade

Output charges fall for first time since October 2016

August data signalled a softer deterioration in operating conditions across the Czech manufacturing sector. That said, the overall contraction was still the second-fastest for over a decade, largely driven by a marked fall in new business. Total new orders decreased in part due to the fastest decline in new business from abroad since April 2009. Subsequently, firms expressed greater hesitation towards hiring and future output. Employment contracted further, while business confidence slid to the lowest level for over six-and-a-half years.

At the same time, a subdued rise in cost burdens and efforts to remain competitive drove firms to discount their factory gate charges.

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 44.9 in August, the headline PMI reading was up from July's recent low of 43.1, but continued to signal a substantial deterioration in the health of the Czech manufacturing sector that was among the fastest since the depths of the financial crisis in 2009.

The overall decline was led by a marked downturn in new business. Although slightly softer than that seen in July, it was the second-fastest since April 2009. Panellists stated that weak external demand conditions underpinned the

Czech Republic Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

decrease. Moreover, the rate of decline in new business from abroad accelerated to the quickest for over a decade.

On the price front, the rate of input cost inflation picked up, but remained historically muted overall. Nonetheless, firms stated that greater competition and pressure to discount led to the first fall in output charges since October 2016.

Subsequently, firms registered a further fall in production in August. Although the decline moderated, firms stated that this was largely due to efforts to clear backlogs. Meanwhile, manufacturers signalled a subdued degree of confidence towards output over the coming 12 months. The level of optimism was at its lowest since December 2012 amid concerns surrounding the sustained drop in external client demand.

Employment continued to fall in August, extending the current sequence of job shedding that began in March 2019. Panellists expressed hesitancy to replace voluntary leavers following another decline in new orders. At the same time, backlogs of work decreased at a moderate pace.

Alongside a solid improvement in supplier delivery times, firms reduced their buying activity and pre-production inventories as pressure to stockpile fell. Post-production inventories rose, however, as firms stored any excess output.

## COMMENT

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

*"Operating conditions continued to deteriorate among Czech manufacturers in August. Although the brakes applied to the sector were partially released, with the headline PMI ticking up from July's ten-year low, efforts to clear backlogs were a key factor behind a slower fall in output as new business continued to contract at a marked rate. In fact, export orders declined at the fastest pace for over a decade."*

*"Headwinds from weak external demand and a subsequent drop in new sales to key export partners, including Germany, drove business confidence to its lowest level since December 2012. Hesitancy towards future output was further reflected in a solid decrease in employment, with firms often unwilling to replace voluntary leavers."*

*"Manufacturers also noted the first fall in factory gate charges since October 2016, largely stemming from pressure to discount and remain competitive."*

## Output Index

sa, >50 = growth since previous month



Source: IHS Markit, CSO.

## CONTACT

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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 2019 data were collected 12-21 August 2019.

For further information on the PMI survey methodology, please contact [economics@ihsmarkit.com](mailto: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).