

IHS Markit Czech Republic Manufacturing PMI®

May PMI signals sharpest improvement in operating conditions on record

Key findings

Output and new orders expand at sharpest rates for over three years

Cost pressures intensify, as prices rise at fastest pace on record

Employment growth quickens amid strain on capacity

May data were collected 12-20 May 2021.

May PMI® data signalled a substantial improvement in operating conditions across the Czech manufacturing sector, as the headline figure reached a series high. Supporting the overall upturn were steeper increases in output and new orders. At the same time, vendor performance deteriorated to the greatest extent on record amid significant raw material shortages and transportation issues.

Subsequently, supplier shortages and additional transportation fees pushed costs higher, with input prices rising at the fastest pace since mid-2001 when data collection started. Although firms sought to pass on greater cost burdens to clients, the rise in charges was far outpaced by that of costs.

Encouragingly, companies expanded their workforce numbers sharply as constraints in production capacity worsened.

The headline seasonally adjusted IHS Markit Czech Republic Manufacturing PMI® registered 61.8 in May, up from 58.9 in April, to signal the steepest upturn in the health of the Czech manufacturing sector since data collection began in June 2001. The pace of overall growth also accelerated for the third month running.

Driving the overall expansion were stronger upturns in output and new orders. Although the rise in production was the fastest since February 2018, some companies noted significant pressure on capacity amid raw material shortages. The increase in new sales was marked and widely linked to greater client demand and the acquisition of new customers,

continued...

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



Source: IHS Markit.

Comment

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

"The Czech manufacturing sector gained strength in May, according to the latest PMI data. Output and new order growth continued to accumulate momentum, despite softer foreign client demand, which fed through to greater job creation and improved business confidence.

"That said, supply-chain disruptions reared their head once again, with delays and marked hikes in supplier prices exerting strain on margins and production capacity. The rate of input cost inflation was unprecedented and far outpaced the rate of increase in charges.

"The latest rise in producer cost burdens could cause concern over the coming months if the increase appears to be being fed through to consumer prices. We currently anticipate a rate hike by the Czech National Bank in August, with the potential for a second interest rate rise at a later stage of the second-half of 2021."

with some also mentioning efforts among customers to build safety stocks. New order inflows rose at the sharpest pace since December 2017, despite a slightly slower increase in foreign client demand.

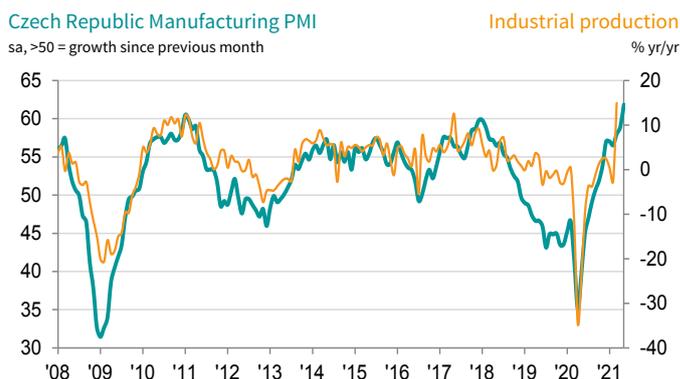
Component shortages continued to exert pressure on cost burdens, as input prices rose at the fastest rate on record. The rate of cost inflation was robust and unprecedented, amid higher prices for materials such as metals and packaging, alongside additional transportation fees.

Firms sought to pass on greater cost burdens to clients through higher selling prices in May. Although the pace of charge inflation soared to a fresh series high, it continued to be far surpassed by that of input prices.

Efforts to build safety stocks at customers were also reflected at Czech manufacturers, with buying activity rising at the steepest rate since November 2017. Stocks of purchases expanded at the fastest pace for three years, but post-production inventories dwindled further as firms sought to meet order commitments in a timely manner.

Meanwhile, raw material shortages led to further constraints on production capacity. Although goods producers increased employment at the steepest rate since February 2018, backlogs rose at the quickest pace for three-and-a-half years. Some companies also noted that larger order from existing clients exacerbated pressure on capacity.

Finally, output expectations regarding the year ahead improved in May. Firms displayed the strongest degree of optimism for four months amid hopes of an end to the COVID-19 pandemic by the end of 2021 due to successful vaccine roll-outs. At the same time, the boost to positive sentiment was often linked to stronger client demand and the acquisition of new customers.



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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

May data were collected 12-20 May 2021.

Survey data were first collected June 2001.

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