June PMI dips to lowest since July 2009

KEY FINDINGS

- Accelerated rates of contraction in output and new orders
- New export orders fall at fastest pace for a decade
- Input price inflation eases to three-year low

June data indicated a strong deterioration in operating conditions across the Czech manufacturing sector. The decline in the health of the sector was partly driven by a faster decrease in production and the quickest fall in new business since May 2009. Consequently, firms reduced employment for the fourth month running, while concerns surrounding global trade tensions led to a subdued level of confidence towards output over the coming 12 months. Meanwhile, input costs faced by goods producers rose at only a marginal rate that was the slowest for three years. The pace of output prices inflation also softened amid increasing pressure to reduce charges.

Driving the decrease in output was the strongest decline in new business since May 2009. The contraction was marked overall as firms noted that weaker demand and unplanned shutdowns in the automotive sector had weighed on new order volumes. At the same time, new business from abroad fell at the fastest rate for a decade.

On the price front, input costs paid by manufacturers increased further in June, albeit at a slower pace. The rate of inflation was the softest since June 2016 amid efforts to re-negotiate costs with suppliers as demand for inputs slowed. Output prices rose at only a marginal rate. Although some firms were able to partly pass on costs to clients, others suggested that greater pressure to discount weighed on their ability to raise charges.

Meanwhile, pressure on capacity eased as the level of outstanding business and employment fell further. Although the decline in backlog accelerated, workforce numbers decreased at the softest pace for four months.

In line with weaker demand conditions, input buying and inventory levels continued to contract. Moreover, the fall in purchasing activity was the second-fastest since December 2012.

Finally, output expectations remained muted in June, as uncertainty surrounding global trade tensions and lacklustre demand continued. The degree of confidence slipped to a three-month low.
COMMENT

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

"Czech manufacturers continued to signal weaker demand conditions in June. The deterioration in operating conditions gained momentum at the end of the second quarter, with output and new orders falling at faster rates. In particular, ongoing difficulties in the automotive sector led to a sharper drop in external demand.

"Meanwhile, lower purchasing activity allowed firms to renegotiate raw material costs, as pressure to discount charges in order to retain clients increased.

"Optimism towards the year ahead remained muted among goods producers, as global trade tensions and automotive weakness weighed on expectations. Although Czech industrial production growth is set to pick up through 2019, downward pressures from lacklustre external demand and labour market tightness are set to remain."

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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.

June 2019 data were collected 12-20 June 2019.

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

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