

IHS Markit Czech Republic Manufacturing PMI®

Strongest improvement in operating conditions for two years in October

Key findings

Output and new orders expand further

Employment rises for first time since February 2019

Cost pressures intensify

October data were collected 12-22 October 2020.

October PMI® data signalled a modest improvement in operating conditions across the Czech manufacturing sector. Overall growth was the fastest since October 2018, as output and new orders continued to increase. The rate of expansion in new business was the sharpest in just over two years, with export orders rising at the steepest pace since June 2018. Subsequently, manufacturers increased their workforce numbers, albeit only fractionally. That said, firms were less upbeat regarding the outlook for output over the coming 12 months, with the degree of confidence slipping to a four-month low.

On the price front, cost burdens rose at the fastest rate since April 2019 amid supply shortages. Firms continued to struggle to pass on higher input prices, with charges falling further.

The headline seasonally adjusted IHS Markit Czech Republic Manufacturing PMI® registered 51.9 at the start of the fourth quarter, up from 50.7 in September. The latest data signalled the sixth successive increase in the headline index, as it moved further away from the marked contraction indicated in April.

Output at Czech manufacturing firms increased moderately again in October, with the pace of expansion matching that seen in September. The upturn in production was often linked to stronger client demand. The rate of growth was the joint-fastest for two years.

The rise in output was driven by greater new order inflows, with both total and new export sales rising at quicker rates. New business increased modestly as firms noted the

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



Source: IHS Markit.

Comment

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

"The Czech manufacturing sector showed further signs of emerging from the depths of the pandemic-induced economic downturn in October. There were tentative signs of demand strengthening, as foreign clients also showed renewed interest in Czech manufactured items.

"Encouragingly, there were indications that pressure on capacity is starting to build as backlogs fell at a slower rate and employment increased for the first time since February 2019.

"Margins continued to be squeezed though, as a sharp rise in cost burdens was met with yet another drop in output charges. Sustained efforts to boost sales amid challenging demand conditions also weighed on expectations, as firms expressed muted optimism due to COVID-19 related uncertainty.

"Our latest forecast reflects such uncertainty, as virus cases pick-up once again. Although the decline in industrial production is expected to slow to 2.9% year-on-year in the final quarter, the pandemic's impact may dampen the sector's performance once again."

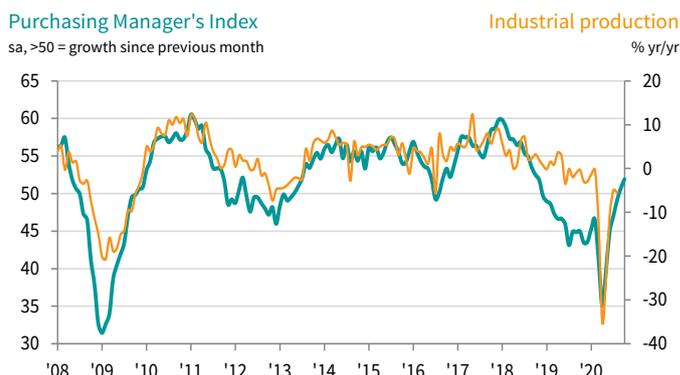
acquisition of new clients and improved customer demand. The upturn in new export orders was commonly attributed to client referrals and stockpiling among some customers due to the coronavirus disease 2019 (COVID-19) pandemic uncertainty.

In line with stronger client demand, goods producers raised their workforce numbers for the first time since February 2019. The increase was only fractional, but was often linked to a further upturn in production. At the same time, backlogs of work fell at the slowest pace in the current sequence of decline that began in March 2019.

Meanwhile, cost burdens faced by manufacturers rose at an accelerated pace in October. The sharp rate of inflation was the quickest since April 2019, as firms stated that supplier shortages and higher transport costs had driven input prices up. Goods producers continued to seek to boost sales, however, and reduced their charges further. The decrease was marginal overall and the slowest in the current ten-month sequence of discounting.

Despite a further uptick in new sales, Czech manufacturing firms expressed less upbeat expectations regarding the outlook for output over the coming 12 months. The degree of confidence was historically muted and slipped to a four-month low amid concerns surrounding the ongoing COVID-19 pandemic.

Supply chain issues persisted in October, with vendor performance worsening to the greatest extent since May. As a result, despite another monthly rise in purchasing activity, pre-production inventories decreased further. Stocks of finished goods also fell.



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

October data were collected 12-22 October 2020.

Survey data were first collected June 2001.

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