News Release

Embargoed until 0930 CEST (0730 UTC) 1 September 2020

IHS Markit Czech Republic Manufacturing PMI®

Output expansion accelerates to fastest since October 2018

Key findings

Production rises despite still-weak demand

Employment falls at solid, albeit slower rate

Firms remain optimistic regarding the year-ahead outlook for output

August data were collected 12-20 August 2020.

August PMI® data indicated a marginal decline in operating conditions across the Czech manufacturing sector, with the rate of contraction easing to the slowest since December 2018. The result largely reflected the quickest expansion in output since October 2018, and a slower fall in new order inflows. That said, demand conditions remained challenging, with firms expressing subdued optimism towards future output amid the ongoing coronavirus disease 2019 (COVID-19) pandemic. Companies continued to signal excess capacity as backlogs of work fell further. As a result, job shedding was solid overall.

Meanwhile, a slower rise in input costs and strong competitive pressures led to a faster fall in selling prices.

The headline seasonally adjusted IHS Markit Czech Republic Manufacturing PMI® registered 49.1 in August, up from 47.0 at the start of the third quarter. The rate of deterioration was only marginal overall and eased further from April's recent nadir. Moreover, the overall pace of decline was the slowest since December 2018.

Contributing to the rise in the headline PMI was a sharper expansion in output in August. The modest upturn was largely driven by the resumption of client operations and the reopening of firms. Production increased for the second month running and at the quickest pace since October 2018.

New orders continued to fall, however, thereby extending the current sequence of contraction that began in November 2018. Panellists stated that the decrease was linked to historically subdued demand conditions. That said, the rate of decline was only fractional overall and the slowest in the

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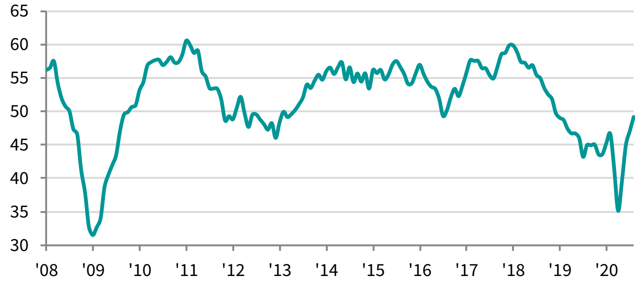
Czech Republic Manufacturing PMI
sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

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

"August data pointed to a further, albeit slower, decline in operating conditions across the Czech manufacturing sector. Although the contraction in new order inflows eased, firms often linked the upturn in output merely to the resumption of operations, rather than an outright strengthening of client demand.

"Firms continued to shed workers amid ongoing signs of spare capacity, with companies highlighting the further need for redundancies. Mirroring subdued demand, business confidence remained historically muted as worries for the longevity of the pandemic and the associated economic impact dampened optimism.

"Mirroring our current forecast for no change in interest rates until mid-2021, the latest PMI data signalled solid but below-average cost pressures at firms, with manufacturers continuing to discount their selling prices in an effort to boost sales."

PMI® By IHS Markit

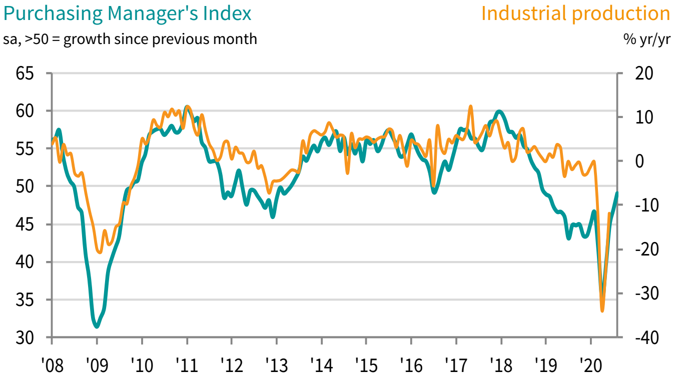
aforementioned sequence. Contributing to the decrease in total sales was a solid fall in new export orders. Nonetheless, the pace of the downturn was the softest since January 2019.

As a result of sustained weakness in client demand, firms reduced their workforce numbers at a solid rate amid ongoing excess capacity. That said, the pace of contraction in employment eased for the fourth month in a row and was the slowest since October 2019.

Business confidence remained historically subdued, however. Although firms were optimistic, the level of positive sentiment was well below the series average as concerns surrounding the longevity of the ongoing COVID-19 pandemic weighed on expectations.

On the price front, input costs rose at a solid rate in August, with firms noting higher raw material prices and increased transportation costs. The rate of cost inflation slowed however, which alongside strong competitive pressures resulted in a modest, and faster, decrease in selling prices.

Lower new order inflows led to firms registering a reduction in input buying during August. Companies reportedly utilised their stocks in production in an effort to keep costs down amid challenging demand conditions. At the same time, panellists stated that a fall in post-production inventories stemmed from sales from stock.



Sources: IHS Markit, CSO.

Contact

Siân Jones
Economist
IHS Markit
T: +44-1491-461-017
sian.jones@ihsmarkit.com

Katherine Smith
Public Relations
IHS Markit
T: +1 781 301 9311
katherine.smith@ihsmarkit.com

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

August data were collected 12-20 August 2020.

Survey data were first collected June 2001.

About IHS Markit

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

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