IHS MARKIT CZECH REPUBLIC MANUFACTURING PMI®

Fastest deterioration in business conditions for over ten years

KEY FINDINGS

Sharp decline in operating conditions during July

Output falls at quickest rate since May 2009

Further sharp reduction in new business

July data pointed the sharpest decline in business conditions faced by Czech manufacturers since June 2009. The deterioration was driven by quicker falls in both output and new orders, as well as an acceleration in the rate of job cutting. Meanwhile, firms reduced purchasing activity at the fastest pace for just over ten years, which saw pre-production inventories contract markedly.

On the cost front, the rate of input price inflation eased for the fifth month in a row, reaching the softest since a reduction in April 2016. Similarly, output charges rose only marginally.

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 43.1 in July, the headline PMI reading dipped from 45.9 in June to reach its lowest in just over a decade. The result represented a sharp deterioration in business conditions faced by manufacturers in the Czech Republic.

A key factor behind the decline was a marked contraction in output at the start of the third quarter. In fact, the pace of reduction was the quickest since May 2009, with some panellists citing the ongoing slowdown in the automotive sector.

July data also pointed to another decrease in new orders placed with Czech manufacturers. The latest reading extended the current sequence of decline to nine months.

Moreover, the rate of deterioration was the fastest since April 2009 and sharp overall.

The fall in total new business was in part driven by a reduction in international sales, which contracted at a quicker rate for the second month in succession. Anecdotal evidence suggested that the latest decrease was a result of increased competition and softening demand.

Goods producers in the Czech Republic continued to cut their staff numbers at the start of the third quarter, extending the current run of decline to five months. Moreover, the rate of workforce contraction accelerated to the quickest since April and was marked overall.

On the price front, input cost inflation eased for the fifth month in a row and was only marginal overall. Where panellists reported increased cost burdens, some mentioned higher prices for services and material inputs. Accordingly, firms reported only a marginal rise in charges that was the weakest in over two-and-a-half years.

Finally, Czech manufacturers were less optimistic towards the business outlook in July. The degree of positivity was the weakest since firms were last pessimistic in December 2012.
COMMENT

Eliot Kerr, Economist at IHS Markit, which compiles the Czech Republic Manufacturing PMI survey, commented:

“The performance of the Czech manufacturing sector weakened further in July, with operating conditions deteriorating at the sharpest rate in just over a decade. Output and new orders fell further from already low bases, and the respective rates of contraction accelerated.

“Firms responded by cutting jobs at the quickest pace for three months, while purchasing activity was reduced for the eighth month in a succession.

“Cost pressures continued to subside, with the latest increase in input prices only marginal overall and the slowest since the last decline in April 2016.”

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.

July 2019 data were collected 12-23 July 2019.

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