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IHS MARKIT CZECH REPUBLIC MANUFACTURING PMI®

Slowest deterioration in operating conditions since June 2019

KEY FINDINGS

Downturns in output and new business moderate

Employment decreases at quickest rate since
September 2009

Input costs and output prices both fall in January

January PMI® survey data signalled a further, albeit less marked, deterioration in the health of the Czech manufacturing sector. The overall contraction was driven by sustained decreases in output and new orders, and it led to the fastest decline in employment since September 2009. Manufacturers remained pessimistic about the outlook for output over the coming 12 months amid ongoing uncertainty.

Meanwhile, both input prices and output charges fell in January amid reports of successful negotiations with suppliers and efforts to stay competitive.

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.

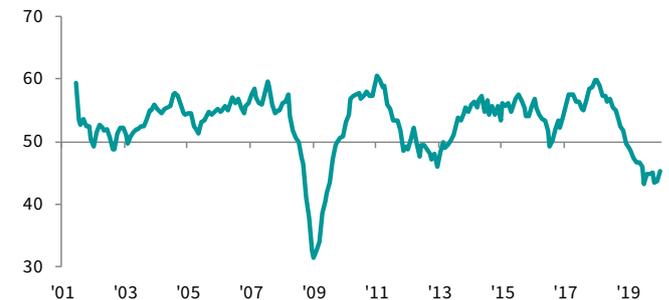
The headline PMI rose to 45.2 at the start of 2020, up from 43.6 in December. Although still strong, the rate of deterioration in operating conditions across the Czech manufacturing sector was the softest since June 2019.

A key factor behind the slower decline in the health of the sector was a softer pace of decrease in production. Although solid overall, it was the weakest decline for three months. Firms attributed the fall in output to a sustained drop in domestic and foreign client demand.

New business contracted for the fifteenth consecutive month in January, and at a strong pace. That said, the rate of decline softened to the weakest since last April. Firms continued to

Czech Republic Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

state that uncertainty in the automotive industry had dented sales volumes. Foreign client demand also fell markedly.

Consequently, manufacturers cut their payroll numbers at an accelerated pace. The reduction in employment was the sharpest for over a decade, with firms noting that staffing levels were reduced in line with lower new order volumes and a solid drop in work-in-hand.

At the same time, in an effort to attract new clients, goods producers reduced their factory gate charges at the start of 2020. The decline in output prices was the quickest since April 2016, albeit only modest overall. The cut in charges came alongside a third successive monthly fall in input costs, with firms reportedly renegotiating prices with suppliers following a reduction in input purchasing.

In line with a fall in buying activity, firms supplemented output with pre-production inventories, which decreased at a faster rate in January. This was also the case for finished goods stocks.

Finally, business confidence remained negative in January, with manufacturers expressing uncertainty towards the outlook for output over the next year. However, the degree of pessimism was the least marked for four months.

COMMENT

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

"January data did not point to a positive start to 2020 for Czech manufacturers, with a solid fall in production and a strong decline in client demand. That said, rates of contraction eased notably from December, which could potentially signal a turning point in what has been a challenging period across the goods-producing sector.

"Manufacturing firms did remain pessimistic towards the outlook for output, however. Uncertainties regarding the future evolution of supply chains in the automotive sector and a sustained drop in new orders weighed on expectations. Firms also shed workers at the sharpest rate since September 2009, with reports of redundancies increasing.

"Following strong inflationary pressures across the Czech economy at the end of 2019, manufacturing supplier prices and output charges fell at the start of 2020. Lower demand for inputs and efforts to remain competitive were commonly linked to the declines. We still expect a small hike in interest rates by the Czech National Bank later this week."

CONTACT

IHS Markit

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

Katherine Smith
IHS Markit
T: +1 (781) 301-9311
katherine.smith@ihsmarkit.com

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.

January 2020 data were collected 13-23 January 2020.

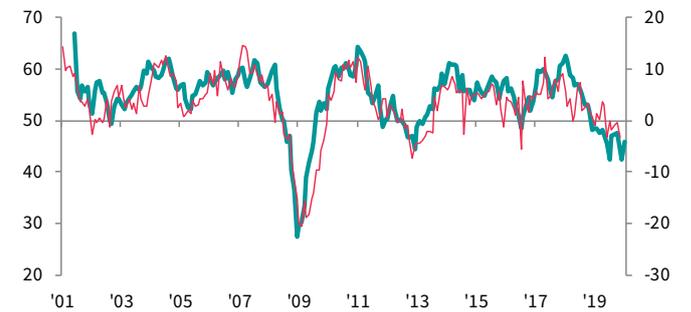
For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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Output Index

sa, >50 = growth since previous month



Source: IHS Markit, CSO.

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Purchasing Managers' Index® (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to [ihsmarkit.com/products/pmi.html](https://www.ihsmarkit.com/products/pmi.html).