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IHS MARKIT CZECH REPUBLIC MANUFACTURING PMI®

Business confidence drops to lowest since December 2012

KEY FINDINGS

Degree of optimism falls sharply in November

PMI drops to lowest in over two years

First fall in new orders since August 2016

November survey data signalled the weakest improvement in operating conditions across the Czech manufacturing sector since August 2016. The subdued performance was driven by a slower expansion in output and the first decrease in new orders for over two years. Of concern was a drop in the level of business confidence. The degree of optimism was the lowest for almost six years following auto sector weakness and a drop in foreign demand. Reflective of more subdued demand conditions, the rate of output charge inflation eased despite input prices increasing at a faster pace.

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 51.8 in November, the headline figure was down from the 52.5 seen in October, representing the fifth successive monthly fall in the PMI. The health of the sector continued to improve, but at the weakest pace since August 2016.

A key contributing factor towards the further drop in growth momentum in the manufacturing sector was a weaker rise in production. Output levels increased at the least marked rate for over two years, amid difficult demand conditions in the autos sector and subdued interest from domestic and foreign clients.

In line with more muted demand conditions, new orders contracted for the first time since August 2016. The marginal

Czech Republic Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

fall in new business reflected subdued demand among domestic and foreign clients, with new export business also declining for the first time in over two years. The downturns were largely influenced by production issues in the automotive industry following the introduction of new emissions test procedures. Moreover, the decrease in new export orders was the fastest since December 2012.

Consequently, firms were less optimistic regarding future output. The degree of confidence was the lowest in almost six years. Worries about the sustainability of demand over the coming 12 months and concerns surrounding growth in the automotive industry were largely behind weaker sentiment.

Although manufacturers' buying levels broadly stagnated in November, input prices continued to rise markedly. That said, a faster increase in raw material costs was not always reflected in higher factory gate prices, as output charge inflation eased to the slowest since August 2017.

Meanwhile, the rate of job creation was one of the weakest in the last five-and-a-half years. A reduction in pressure on capacity was also mirrored in the slowest rise in backlogs in the current two-year sequence of expansion.

COMMENT

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

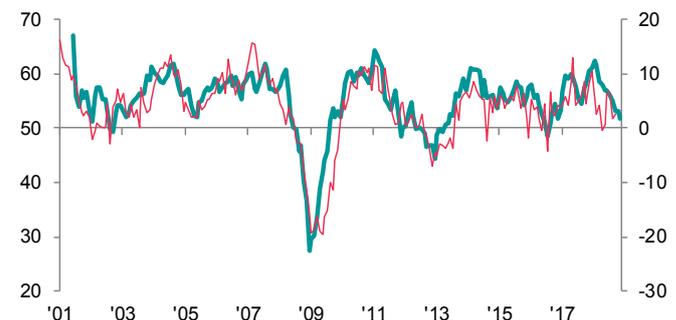
"Hot on the heels of the recently released IHS Markit Czech Manufacturing Outlook survey which signalled an increased sense of trepidation towards future growth, goods producers registered the lowest level of confidence since December 2012, amid weaker output expansion and a fall in new business.

"Worryingly, ongoing production issues in the autos sector hampered domestic and foreign client demand. Not only was the rate of output growth much weaker than those seen earlier in the year, but it also dipped further below the long-run series trend.

"Unfavourable demand conditions also meant firms were less inclined to raise factory gate charges in November. Despite a quicker increase in input costs, output price inflation was the slowest in over a year."

Output Index

sa, >50 = growth since previous month



Source: IHS Markit, CSO.

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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.

November 2018 data were collected 12-22 November 2018.

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

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About PMI

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).