

IHS Markit Czech Republic Manufacturing PMI®

Output growth eases amid significant supply chain disruption

Key findings

Expansion in production constrained by capacity and material shortages

Backlogs of work rise at fastest pace on record

Input costs increase robustly again

Data were collected 12-20 August 2021.

August PMI® data signalled another robust improvement in the health of the Czech manufacturing sector, supported by a marked expansion in new orders amid strong client demand. That said, capacity constraints hampered production growth which eased to the slowest for four months, and led to a series record increase in backlogs. Pressure on capacity largely stemmed from severe supply chain disruption as lead times lengthened notably and cost burdens soared once again. Delivery delays were also exacerbated by greater demand for inputs amid efforts to build safety stocks.

The headline seasonally adjusted IHS Markit Czech Republic Manufacturing PMI® registered 61.0 in August, down from 62.0 in July, to signal the slowest improvement in operating conditions for four months. Nonetheless, the health of the sector strengthened at one of the fastest rates on record.

Contributing to the overall upturn was a stronger expansion in new order inflows during August. The rate of growth quickened from July amid greater client demand. The marked rise in total sales was also supported by the fastest increase in new export orders since October 2017, as foreign customer demand picked up further.

Despite a substantial increase in new sales, production growth was constrained by capacity shortages and severe delays in raw material deliveries amid steep global demand for inputs. As a result, the pace of expansion in output eased to the slowest since April.

As firms struggled to process new orders due to material shortages, backlogs rose at a substantial pace. In fact, the rate of accumulation in outstanding business was the

continued...

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



Source: IHS Markit.

Comment

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

"August data signalled strong client demand across the Czech manufacturing sector, as economies reopen and businesses step up spending. The easing of restrictions has not come without challenges, however, as supply chain disruptions continued to cause havoc across the global goods-producing sector.

"Output was further constrained by material shortages, as backlogs of work mounted at an unprecedented pace.

"Nevertheless, manufacturers pursued a further course of stock building as inventories rose at the fastest pace on record, despite shortages and soaring costs hampering companies' ability to process new orders.

"Inflationary pressures remained historically elevated and well above any rate of increase seen before 2021. As such, we continue to anticipate further interest rate hikes by the Czech National Bank through the rest of 2021 and into 2022."

steepest since data collection for the series began in January 2003.

Greater production requirements and pressure on capacity led firms to expand their workforce numbers again in August. The rate of job creation was strong overall as companies sought to work through their backlogs.

Meanwhile, cost burdens faced by Czech manufacturing firms increased robustly in August. Hikes in input prices were often linked to supplier shortages and greater global demand for raw materials, especially for metals, plastics and packaging. Although the pace of inflation eased to a four-month low, it was among the quickest on record.

At the same time, firms sought to pass on higher costs to their clients where possible. The rate of charge inflation matched July's record-breaking pace.

Severe supply chain disruptions were again reflected in a substantial deterioration in vendor performance. Suppliers' delivery times lengthened following marked material and capacity shortages at vendors. That said, the extent to which lead times lengthened was the least marked since March.

Nevertheless, Czech manufacturers stepped up their safety stock building efforts, as purchasing activity rose at the second-fastest pace since February 2007. Subsequently, stocks of purchases expanded at a series-record pace. Post-production inventories were depleted again as firms struggled to increase production to replenish stocks.

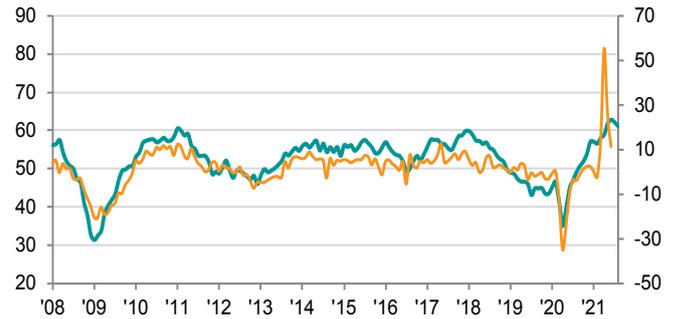
Finally, the degree of confidence regarding the outlook for output over the coming year reached the highest since June 2018.

Czech Republic Manufacturing PMI

sa, >50 = growth since previous month

Industrial production

% yr/yr



Sources: IHS Markit, CSO.

Contact

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

Joanna Vickers
Corporate Communications
IHS Markit
T: +44-207-260-2234
joanna.vickers@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 2021.

Survey data were first collected June 2001.

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