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IHS MARKIT CZECH REPUBLIC MANUFACTURING PMI®

December PMI signals first deterioration in operating conditions since July 2016

KEY FINDINGS

PMI dips below 50.0 mark for the first time in over two years

Output and new orders contract

Inflationary pressures ease to slowest since August 2017

Latest survey data signalled the first deterioration in the overall health of the Czech manufacturing sector since July 2016. The contraction was linked to a fall in production and a second consecutive monthly decline in new orders. Moreover, the decrease in new business accelerated and was the fastest in six years, led by a sharp downturn in new export orders. Reflective of weaker demand conditions, business confidence was the second-lowest since December 2012.

Meanwhile, inflationary pressures eased slightly in December. Rates of both input price and output charge inflation softened to the slowest since August 2017.

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 49.7 in December, the headline PMI was down from 51.8 in November and indicated a fractional contraction in operating conditions across the goods-producing sector. The latest index figure signalled a disappointing finish to the year, with the final quarterly average the lowest since the third quarter of 2016.

A key contributing factor behind the deterioration in the overall health of the sector was a further decline in new business. Manufacturing firms registered a solid fall in new orders in December, with the rate of contraction accelerating to the quickest in six years. Panellists suggested that the

Czech Republic Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

downturn stemmed from ongoing issues in the automotive sector and a drop in client demand. Furthermore, Czech manufacturers noted a sharp fall in new export orders, the fastest in nine-and-a-half-years, which was generally linked to trade wars.

In line with weaker demand, Czech manufacturing firms registered a drop in production during December, the first monthly fall since July 2016. Although only marginal overall, the decrease in output was the strongest since December 2012.

Subsequently, goods producers indicated a softer rise in output charges in December. Factory gate prices rose at the slowest rate since August 2017. Input price inflation was marked overall but also eased to a 16-month low. A number of firms commented on higher energy and raw material costs.

More time-consuming and labour intensive production processes meanwhile drove further rises in employment and backlogs. Firms also noted increased efforts to stockpile raw materials and finished goods.

Business confidence remained muted in December, with firms reporting concerns surrounding global trade tensions and lower client demand. The degree of optimism was the second-lowest in six years (behind November's recent low).

COMMENT

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

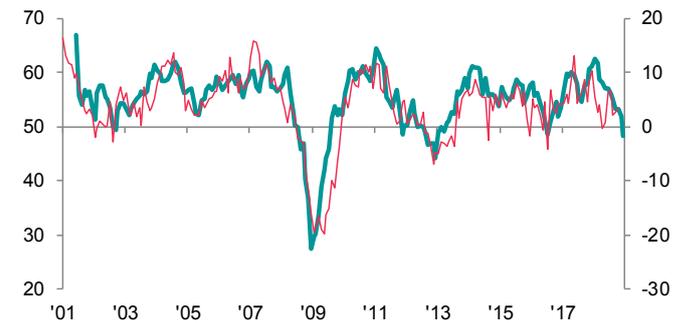
"In comparison to the strength seen at the start of the year, the Czech manufacturing sector is ending 2018 on a disheartening note. December data signalled a deterioration in operating conditions, driven by falls in both output and new orders. A knock-on effect of lower client demand was muted business confidence, exacerbated by ongoing trade tensions and difficulties in the autos sector.

"Although rates of employment and backlog growth accelerated, this was reportedly due to more labour-intensive production processes rather than greater client demand.

"One area of respite was a reduction in cost inflation. The pace of increase in input prices was the softest since August 2017 as strain on supplier capacity was partially alleviated. However, weaker client demand contributed to the slowest rise in factory gate charges since August 2017."

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.

December 2018 data were collected 5-13 December 2018.

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

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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).