Output and new orders fall substantially in May amid COVID-19 impact

May data indicated another significant contraction in output and new orders, as the impact of the coronavirus disease 2019 (COVID-19) pandemic continued to weigh on client demand. At the same time, new export orders fell at a marked pace amid lockdown measures across key export markets in Europe. Subsequently, excess capacity pushed firms to reduce their workforce numbers steeply and at the second-fastest pace since July 2009. The drop in employment also reflected ongoing uncertainty and pessimism among Czech manufacturers towards the outlook for output over the coming year.

Meanwhile, companies sought to attract customers by reducing output charges for a fifth straight month.

The headline PMI posted 39.6 in May, up slightly from 35.1 in April but nonetheless signalling the second-sharpest deterioration in the Czech manufacturing sector since the depths of the global financial crisis just over 11 years ago.

Driving the decline in the goods-producing sector were further significant contractions in output and new orders. The rate of decline in production eased from the record pace in April but was still one of the fastest since data collection began in June 2001. Firms continued to highlight customer shutdowns alongside the postponement and cancellation of orders as key factors behind the fall. Similarly, lower foreign client demand led to a reduction in new export order volumes, especially in key export industries such as automotives.

Reflecting weak demand, manufacturers reported another round of lay-offs in May, as spare capacity increased further and backlogs of work contracted. Although some noted the use of furlough schemes to retain workers, the rate of job shedding was the second-sharpest since July 2009.

The decline in employment was partially due to uncertainty across the global economy as the COVID-19 pandemic continued. Despite a softer degree of pessimism among Czech manufacturers, firms remained concerned about the length of time before a significant improvement in demand was seen.

On the price front, goods producers sought to attract and retain clients by further lowering their factory gate charges midway through the second quarter. A slight slowdown in the rate of input cost inflation was meanwhile reported.

Finally, purchasing activity declined at the second-quickest rate since March 2009 in May amid weak client demand. Further deteriorations in vendor performance were noted due to supply chain disruption, but firms stated that stocks were used to fulfill production requirements.
COMMENT

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

“The Czech manufacturing sector remained in a downturn in May, as the impact of the COVID-19 pandemic weighed further on demand and production. Although rates of decline eased in line with the slight reopening of the economy, conditions across the sector remain dire as firms struggle to revive demand.

“Despite numerous firms reporting the use of furlough schemes to retain workers, employment continued to decline markedly amid dwindling new order volumes and growing excess capacity. Pessimism among manufacturers exacerbated job losses, as expectations of a drop in output over the next year and a protracted recovery weighed on confidence.

“Efforts to bolster demand were reflected in a further cut to output prices in May, as firms sought to retain existing clients as well. Although the rate of input price inflation softened slightly, it was still the second-fastest for a year as weakness in the koruna and higher imported raw material prices pushed up cost burdens. The Czech National Bank (CNB) forecasts slower inflation in the coming months, with the recent interest rate cuts mirroring the challenging economic conditions.”

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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.

May 2020 data were collected 12-20 May 2020.

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

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