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IHS MARKIT CZECH REPUBLIC MANUFACTURING PMI®

November PMI signals marked deterioration in operating conditions

KEY FINDINGS

PMI dips to four-month low

Output and new orders fall at sharper rates

Output expectations slump to series low

November PMI® survey data signalled a stronger deterioration in the health of the Czech manufacturing sector. The overall contraction was driven by faster decreases in production and new business, amid challenging domestic and foreign demand conditions. Lower new order volumes resulted in a further decline in workforce numbers, with the rate of reduction in employment accelerating to the sharpest since September 2009. Meanwhile, global economic uncertainty and ongoing difficulties in the automotive sector led to further pessimism towards the outlook for output among manufacturers.

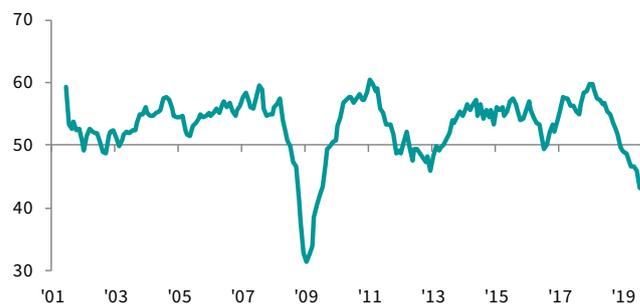
The headline IHS Markit Czech Republic Manufacturing PMI® is a composite single-figure measure of manufacturing performance. It is derived from indicators for new orders, output, employment, suppliers' delivery times and stocks of purchases. Any figure greater than 50.0 indicates overall improvement in the sector.

The headline PMI dropped to 43.5 in November, down from 45.0 in October, signalling the steepest deterioration in operating conditions for four months and one of the worst performances since mid-2009. The latest contraction extended the current sequence of decline to 12 months.

A key factor behind the downturn was a sharper drop in production during November. Output among manufacturers fell at a steep pace that was the fastest since July. Moreover, domestic and foreign customer demand worsened, with rates of contraction in total new business and new export orders remaining marked overall. Challenging demand

Czech Republic Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

conditions reportedly stemmed from ongoing difficulties in the automotive sector, a slowdown in global manufacturing and trade wars.

Lower new order volumes impacted business confidence towards output over the coming year, with manufacturers continuing to note pessimism in November. Sentiment dropped to a series-record low as fears for the broader economy weighed on firms' expectations.

Uncertainty towards future production levels resulted in a further fall in workforce numbers during November. Job shedding accelerated to a steep rate that was the fastest for over a decade as pressure on capacity continued to wane. Backlogs of work decreased sharply during the month.

On the price front, cost burdens faced by Czech manufacturers fell for the first time since April 2016. Although only marginal, the decrease in input prices was reportedly linked to lower demand for inputs and a resulting increase in discounts from suppliers. Nonetheless, manufacturers raised their charges at the quickest pace for six months.

Finally, further contractions in input buying and stocks of purchases led to another monthly improvement in vendor performance. Firms also increasingly fulfilled new business by selling from stocks, with post-production inventories decreasing as a result.

COMMENT

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

"The downturn across the Czech manufacturing sector worsened in November, with client demand tumbling further. Rates of contraction in production and new orders accelerated as global and domestic demand conditions deteriorated markedly.

"A further decline in the overall health of the sector and lower new order volumes led firms to reduce their staffing levels at the fastest pace since September 2009. Pessimism towards future production requirements was also mirrored in output expectations for the coming year. Sentiment fell to a fresh series low amid concerns surrounding ongoing challenges in the automotive sector.

"Nevertheless, manufacturers were still able to increase their output prices modestly in November, with the rate of charge inflation quickening despite the first reduction in cost burdens since April 2016."

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 2019 data were collected 12-21 November 2019.

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).