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IHS MARKIT CZECH REPUBLIC MANUFACTURING PMI®

Sustained fall in production amid marked decline in new business

KEY FINDINGS

Sharp deterioration in overall manufacturing operating conditions in October

Employment falls at fastest rate for almost a decade

Expectations turn negative for first time since late-2012

October PMI® survey data signalled a further deterioration in the health of the Czech manufacturing sector. The decline was led by further substantial, albeit slower, contractions in production and new orders. Notably, lower client demand led firms to cut their workforce numbers at the quickest pace since November 2009. In turn, manufacturers expressed negative sentiment towards output over the coming year for the first time since December 2012, as hopes of a pick-up in demand waned.

Meanwhile, lower demand for inputs led to quicker supplier deliveries and only a fractional rise in costs. Despite a drop in new order volumes, firms increased their charges for the first time in three months.

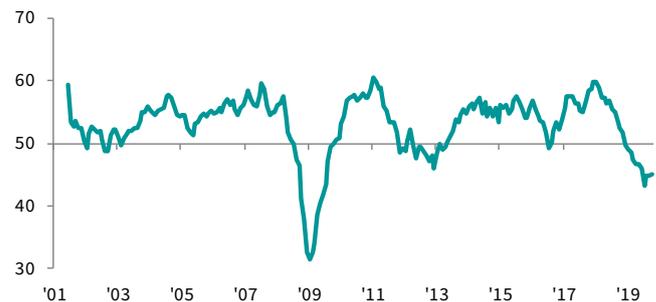
The headline IHS Markit Czech Republic Manufacturing PMI® is a composite single-figure measure of manufacturing performance. It is derived from indicators for new orders, output, employment, suppliers' delivery times and stocks of purchases. Any figure greater than 50.0 indicates overall improvement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

At 45.0 in October, up slightly from 44.9 in September, the headline PMI reached a four-month high. That said, the rate of contraction signalled by the index remained strong overall and was among the fastest recorded since mid-2009.

Production decreased across the manufacturing sector for the eleventh successive month in October, albeit at the softest pace since April. A decline in new business reportedly drove the moderate contraction. Moreover, a downturn in domestic and foreign demand led to further marked falls in

Czech Republic Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

new orders and new export business. Although the rates of decline eased slightly, they remained among the quickest since 2009 amid reports of a drop in sales to key export partners and clients in the automotive sector.

Amid challenging demand conditions, manufacturers registered the sharpest fall in workforce numbers for almost a decade in October. The strong decrease was linked to lower production requirements and efforts to cut costs. A reduction in new order volumes also allowed firms to clear their backlogs of work at the quickest rate for three months.

Meanwhile, firms expressed the lowest degree of sentiment towards future output since late-2012. Manufacturers expect production to fall over the coming 12 months amid sustained contractions in domestic and foreign demand.

On the price front, input costs rose only fractionally at the beginning of the fourth quarter as lower demand for inputs limited supplier pricing power. Output charges, however, increased for the first time since July despite weak demand conditions.

Finally, buying activity showed one of the fastest falls since 2012, while lower production requirements also meant stocks of purchases were reduced at a steep rate. Post-production inventories, meanwhile, rose moderately.

COMMENT

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

"The Czech manufacturing sector remained firmly in the doldrums at the beginning of the fourth quarter of 2019, with overall operating conditions deteriorating strongly. The decline was underpinned by further marked decreases in new business and foreign client demand. Firms highlighted a challenging environment for those in the automotive industry, and the knock-on effects of weakness in the German manufacturing sector.

"Most worrying was a worsening picture across the labour market and forward-looking indicators. Firms registered the fastest decline in employment for almost a decade and business confidence turned negative for the first time in almost seven years. Lacklustre sales volumes and reports of little sign of improvement in demand in the coming months drove pessimism.

"Inflationary pressures remained subdued, as input costs rose only fractionally amid reduced input buying across the manufacturing sector. Nonetheless, firms' pricing power improved as charges rose for the first time since July despite muted new business volumes."

CONTACT

IHS Markit

Siân Jones
Economist
T: +44-1491-461-017
sian.jones@ihsmarkit.com

Joanna Vickers
IHS Markit
T: +44-207-260-2234
joanna.vickers@ihsmarkit.com

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.

October 2019 data were collected 11-23 October 2019.

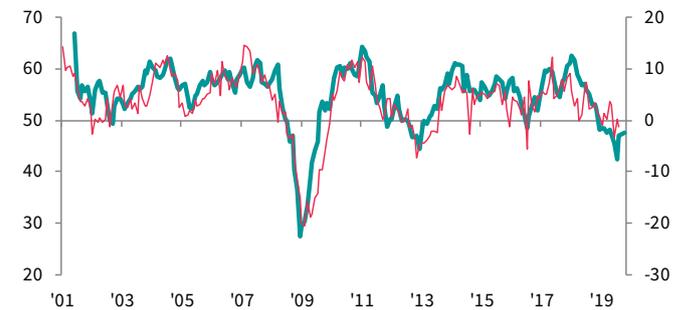
For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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Output Index

sa, >50 = growth since previous month



Source: IHS Markit, CSO.

About IHS Markit

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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).