Operating conditions across the Czech manufacturing sector continued to deteriorate sharply in September. Although the rates of contraction in output and new business softened slightly, the fall in employment accelerated and was the quickest since November 2009. Subsequently, firms expressed a muted degree of confidence in production over the coming year amid ongoing trade wars and lacklustre client demand. Meanwhile, cost pressures remained subdued as input prices rose at the second-slowest rate since mid-2016. Output charges fell further, with firms reporting pressure from clients to discount.

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 44.9 in September, the headline PMI reading was in line with that seen in August and signalled one of the sharpest declines in the health of the Czech manufacturing sector since July 2009. Furthermore, the third quarter average in 2019 indicated the fastest deterioration in operating conditions since the depths of the financial crisis in the second quarter of 2009.

Although contractions in production and new business eased in September, they remained solid and marked, respectively. Foreign demand was muted as new export orders also fell at a steep pace. Panellists stated that reluctance among clients to place orders had reduced new business inflows, reflected in a tenth consecutive fall in output.

Consequently, firms were hesitant to expand their workforce numbers in September. Although some firms stated that staffing levels fell following a reduction in operating requirements, others linked the decrease to the non-replacement of voluntary leavers. Spare capacity was further reflected in a sustained decline in backlogs.

Business confidence was again dampened by fears surrounding trade wars and a drop in external client demand. The degree of optimism was the second-weakest since December 2012 (behind August 2019) and only slight overall.

At the same time, firms registered the second-slowest rise in purchase prices for over three years in September. The marginal rate of inflation was commonly linked to favourable negotiating positions with suppliers following a drop in input buying. As such, selling prices fell fractionally as firms were reportedly placed under greater strain to discount.

Finally, manufacturers noted a solid improvement in vendor performance following a strong decline in input purchasing. A reduction in production requirements also led to a fall in stocks of purchases and a slower rise in post-production inventories.
Siân Jones, Economist at IHS Markit, which compiles the Czech Republic Manufacturing PMI survey, commented:

"Operating conditions across the Czech manufacturing sector continued to deteriorate in September, as lacklustre demand weighed further on production and new business. The PMI stayed at one of its lowest readings since July 2009. There was some let-up in the severity of the decline, however, as the rate of contraction in output and new orders eased slightly. "Nonetheless, goods producers continued to highlight muted demand conditions at home and abroad, with new export orders falling at a marked rate. Subsequently, firms reduced their workforce numbers at the fastest pace for almost a decade. Many stated that employment declined following the non-replacement of voluntary leavers.

"Business confidence was also subdued amid tough external demand conditions, ongoing trade wars and weakness across the automotive sector. IHS Markit currently forecasts a weak performance in the goods-producing sector in the third quarter, as supported by the PMI, with growth momentum expected to pick up in the closing months of 2019."

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