

## IHS MARKIT CZECH REPUBLIC MANUFACTURING PMI®

### Strong deterioration in operating conditions in September

#### KEY FINDINGS

September PMI among lowest since mid-2009

Sharp, albeit softer decrease in new orders

Employment falls at fastest pace since November 2009

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

Czech Republic Manufacturing PMI

sa, >50 = improvement since previous month



Source: IHS Markit.

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.

## COMMENT

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."*

## CONTACT

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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.

September 2019 data were collected 12-20 September 2019.

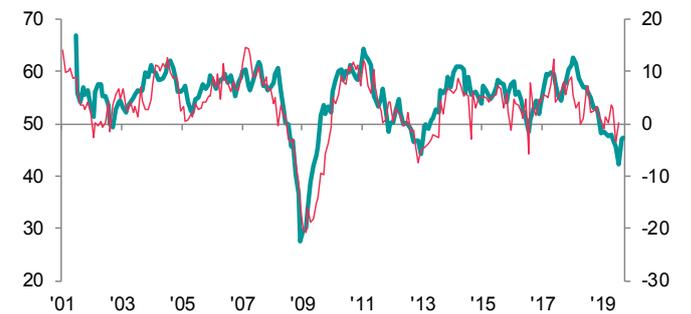
For further information on the PMI survey methodology, please contact [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com).

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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).