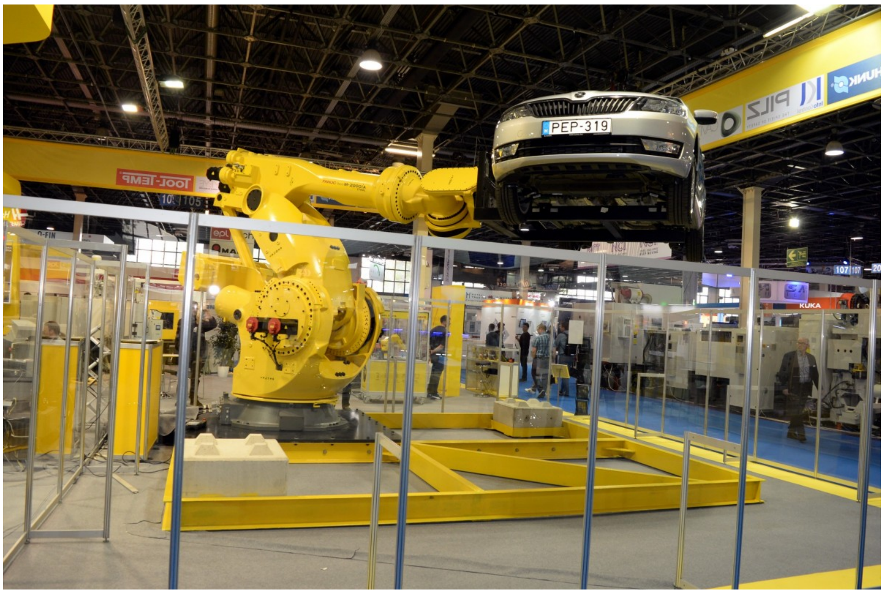
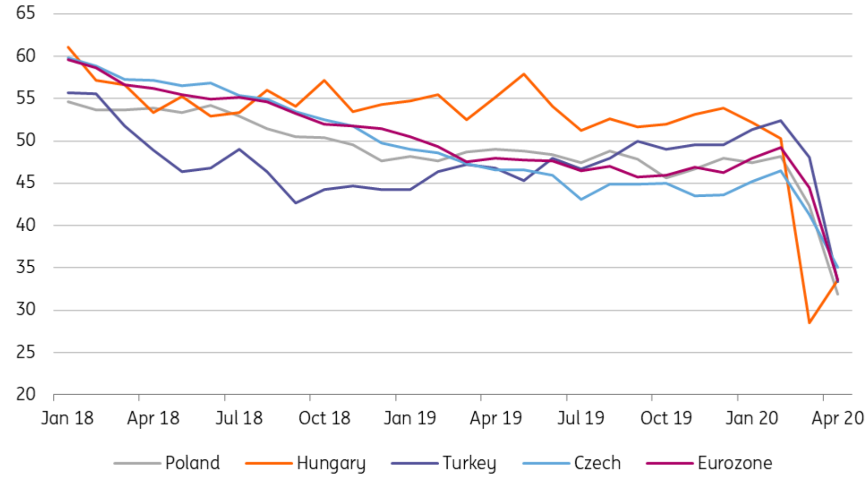
CEE April Manufacturing PMIs: Hard landing

We have just seen the April manufacturing PMI releases across Poland, the Czech Republic, Hungary and Turkey. In general, these have matched or disappointed very low expectations and point to a significant contraction in economic activity this year. The re-opening of some sectors in late April/early May should be welcome, however



An industrial robot machine in action at an exhibition in Hungary

CEE April manufacturing PMIs slump



Source: Markit, ING

Following the eurozone lower

It is no surprise to see sharp falls in the manufacturing PMIs across the Central and Eastern European region. The equivalent April figure from the eurozone published a couple of weeks ago saw a reading of 33.6 and contributed to a staggeringly low composite PMI reading of just 13.5. As Bert Colijn said at the time, the data does not tell us much that we do not know already from looking out the window, although notably services have been hit a lot harder than manufacturing. For the CEE region, however, only manufacturing PMIs have been constructed.

Of today's data releases across the CEE, we'd pick out the following highlights in each country:

Poland: Record lows – but an over-reaction?

In April, the Polish PMI extended its collapse, reaching a record low, below the post Lehman level and doubling the pace of the downward move recorded in March. All the main components reached record lows, including manufacturing output and new orders. The collapse in the headline PMI seems to be an overreaction. The Polish PMI is even lower than the eurozone respective index, despite the fact that factory closure was less severe here.

Company expectations are very negative regardless of the Polish government's launch of a record high anti-crisis programme of 11% of GDP, of which 6.5% of GDP should be direct spending - the highest in Europe.

Manufacturing sector pessimism may reflect the very adverse nature of the Covid-19 shock; in this recession natural buffers that typically support the Polish economy do not work, i.e. a stable eurozone and domestic demand. The former helped Poland avoid recession after Lehman, the latter prevented a major slowdown during trade wars. Neither factor can be relied upon now.

We expect Polish GDP to slow to +1% year-on-year in 1Q20 versus 3.2% YoY in 4Q20, while 2Q20 should be the trough, with GDP contracting by 8.9% YoY.

Czech Republic: Auto shutdowns and temporary staff layoffs weigh

The PMI slump to 35.1 points after 41.3 in March is not surprising (though better than consensus) as all car makers prolonged shutdowns from mid-March and were closed during the whole of April. As such, output and new orders fell at the sharpest rates since mid-2001, when data started to be gathered.

The survey also revealed that firms cut their workforces at the fastest pace since the global financial crisis, but much of the reduction related to temporary agency staff. Given the severity of anti-Covid measures, however, the April PMI should not in any way be surprising. March industrial production is due on Thursday, with the analyst consensus estimating a -15% YoY fall. As this relates to shutdowns in the second half of March only, April data should bring a much more severe fall, which is consistent with today's PMI slump. On the other hand, the April PMI should be the bottom, as most factories have been reopened at the turn of April/May. The recovery will be gradual, however.

Hungary: Widespread fall points to rapid contraction in manufacturing

After a record low reading in March, the manufacturing PMI rebounded somewhat in April. All of the five sub-indices showed minor improvements, but the bounce was not even close to what we were expecting as some big manufacturers (mainly in the car industry and related suppliers) got back to work from mid-April.

The details are showing widespread weakness and there is not a single sub-index where the figure is above the 50 level. After years of labour shortages, the employment sub-index points towards further layoffs, the stock of orders and production are falling, inventories are depleting, and delivery times have increased. In all, the PMI still shows a very rapid contraction in manufacturing.

Turkey: Employment leads fall, but auto sector reopening may help in May

The April PMI plunged to the lowest level since the global financial crisis. The sharp fall from 48.1 a month ago is largely attributable to the decline in employment given the sharp drop in workloads and consequent scale back in purchasing activity. Currency weakness has also impacted prices despite relatively lower inflation, likely reflecting deteriorating demand conditions and the collapse in oil prices. It is not surprising to see a large volume decline in overall business, which has been impacted by falling export orders.

Despite the plunge in the April PMI, some industries expect a more limited impact from the pandemic than envisaged earlier. Of note, the 43% capacity utilisation in April (81% March) could rebound in May, as some big names in the automotive sector have already resumed production in late April and this sector is expected to be fully operational in early May.

Overall, the April PMI echoes the earlier indications of a slowdown evidenced by the real sector sentiment survey and capacity utilisation indicator last month. With a resumption of operations and improving demand on the back of significant stimulus measures and an expansionary fiscal stance, we will likely see a rebound this month, though a full recovery will take time.

Authors

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr