

CEE October PMIs: So far so good but the outlook darkens

PMIs across the CEE region (except Russia) signal an ongoing recovery and improving conditions in industry, which is in line with the improving October PMIs from the eurozone. However, a new Covid-19 wave with stronger restrictions suggests a less optimistic outlook for the months and quarters ahead, as underlined by participants in the PMI survey

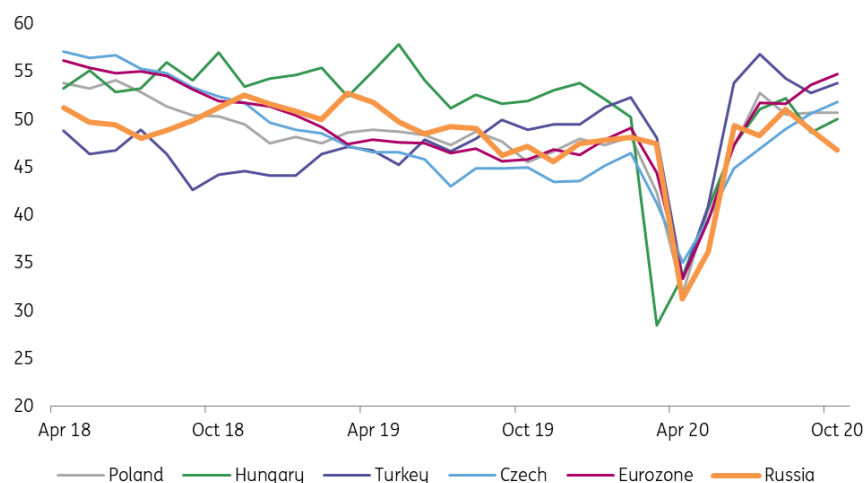


Source: Shutterstock

CEE October print broadly positive as in the eurozone

Eurozone PMI releases for October indicated that the service sector was hit by the second Covid-19 outbreak and subsequent restrictions (with the PMI in services falling to 46.2 after 48 in September and 50.5 in August), but the manufacturing sector continued its recovery, with the industrial PMI increasing to 54.4 points, the highest reading since August 2018. October prints from the Central and Eastern European region were generally positive with the exception of Russia, which fell more deeply below the 50-threshold. Still, a new wave of restrictions suggests a darker outlook and more uncertainty ahead.

October manufacturing PMIs



Source: IHS Markit, ING

Czech Republic: Better, but less optimistic outlook

The Czech manufacturing PMI increased to 51.9 after 50.7 in September, reaching the highest level in the last two years amid stronger production and new orders from at home and abroad. However, companies were less optimistic due to the new Covid outbreak, and also the fact that an increase in new orders was often connected with pre-stocking due to the new pandemic wave, so this growth may not be sustainable. This is probably the reason why confidence of companies declined to a four-month low and the one-year outlook deteriorated again.

On the surface, these were positive October figures but the details of the survey reveal a lot of risks and concerns, which might undermine the solid recovery of Czech industry up until now. That said, Skoda Auto has decided with labour unions to maintain production, so the negative economic impact of this second wave might still be slightly lower than during the spring, when all car makers voluntarily shut down production.

Hungary: Improvement in PMI could be short-lived

Hungary's manufacturing PMI surprised to the upside in October. The 50.1 point reading suggests an incremental expansion in the sector. It seems that a significant rise in the number of Covid-19 infections in Hungary wasn't enough to change the perception about the outlook.

The main reason behind the relatively optimistic picture is the new orders element of the index. New orders rose from the previous month, remaining in expansion territory. In parallel, the employment index also showed an expansion after dropping below the 50-point threshold in the previous month. Purchased inventories increased, probably due to preparations for supply chain disruptions and increasing order levels. In terms of economic activity, the most important sub-index - the production volume index - fell but was able to remain in expansion territory.

Despite the upside surprise, it's better to take this data with a pinch of salt. More and more European countries are deploying and expanding shutdown measures in November, which will impact global trade and global value chains going forward. In such an export-oriented country like Hungary, this will hit the manufacturing sector quite soon.

Poland: Slowdown ahead

The manufacturing PMI for Poland remained at 50.8 points in October, broadly in line with the consensus of 51. The index indicates that the recovery in manufacturing slowed down amid a fall in new domestic orders, likely due to weaker demand during the pandemic. On the other hand, export orders increased the most in almost three years, which is most likely related to the recovery of German industry, driven by a relatively good situation in Asian economies. Production continued to grow, although at a slower rate than a month before, and forecasts for the next 12 months have deteriorated. The employment assessment continued to improve, signalling the fastest growth in over two years.

The data confirms our expectations that Poland is entering another slowdown, driven by the rising number of Covid-19 cases and restrictions. Domestic demand is likely to suffer the most, but mostly in services. Manufacturing activity should remain relatively resilient, helping to maintain a solid current account surplus.

Russia: Concerns intensify

Russia's manufacturing PMI posted a noticeable drop from 48.9 in September to 46.9 in October, underperforming the consensus which expected the gauge of industrial sentiment to improve this month. This confirms the [concerns](#) we voiced following the September data on industrial output, which showed a moderation in the recovery, especially in the metals processing sector. This may be a combination of weakness in external demand for commodities, the secondary effects of OPEC++ constraints, which given the oil price expectations may need to be [extended](#), and renewed concerns surrounding the [consumption recovery in Russia](#). Based on this and the unfavorable calendar effect, we expect the industrial output drop to deepen from 5.0% year-on-year in September to 6.3% YoY in October and do not exclude further negative surprises in 4Q20.

Turkey: Remaining in recovery mode

After two consecutive months of decline, the Turkish PMI recorded an uptick to 53.9 in October from 52.8 a month ago, showing that the economy remains on a recovery track, despite recent measures by the Banking Regulation and Supervision Authority to decelerate credit formation, and tightening moves by the central bank.

According to the breakdown, we see that new orders and new export orders continue to rise, indicative of improving demand. Employment recorded the sharpest increase since February 2018, hinting at some further improvement in labour market conditions. Pressure on input and output prices, on the other hand, prevailed given the impact of ongoing weakness in the Turkish lira.

The PMI has remained above the 50 threshold for the last five months and there was evidence of a strong start to the last quarter. But some of the recently-released indicators, like consumer confidence, have shown signs of deceleration. For credit growth, the normalisation trend has become more evident in both commercial and consumer loans, as evidenced by broadly unchanged FX-adjusted lending volumes since early September. However, other indicators, like the PMI, sector confidence indices, the capacity utilisation rate and retail sales have pointed to a continuation of strong momentum in early 4Q.

Authors

Peter Virovacz

Senior Economist, Hungary

peter.virovacz@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.