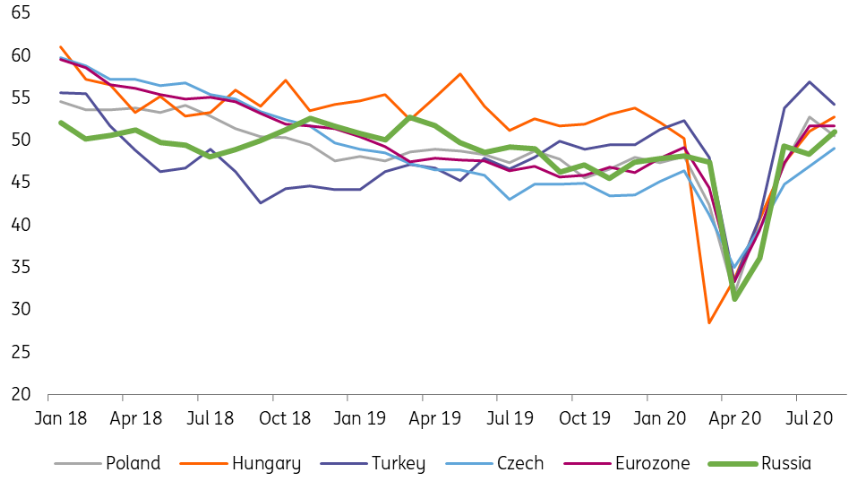
Article | 1 September 2020

Central and Eastern Europe: PMIs hold gains in August

Today's August PMIs for the CEE region largely remain near their summer highs and continue pointing towards manufacturing sector optimism in the second half. The Czech Republic continues to lag slightly, held in check by a further decline in new orders

Source: Shutterstock

CEE August manufacturing PMIs largely hold summer gains



Source: Markit, ING

Poland: Some slowing in manufacturing optimism

The August PMIs for Western Europe were largely seen as disappointing, led by a decline in the services sector as Bert Colijn outlines here. Optimism in the manufacturing sector has been holding up better, and this has largely been reflected in today's manufacturing PMIs across the CEE region.

> *The overall picture indicates a somewhat slower recovery in manufacturing*

The August PMI for Poland fell to 50.6pts. from 52.8pts. a month ago. The volatility likely reflects an uneven path of economic recovery as the lockdown in Poland was lifted.

New orders stagnated compared to July. This reflects an improvement in external demand being offset by weaker domestic orders. The production assessment worsened from a 31-month high in July, but remains at a relatively solid level, suggesting further expansion. But companies continued to lower employment for 14 straight months now.

The overall picture indicates a somewhat slower recovery in manufacturing. However, the PMI has been relatively poor in predicting overall manufacturing activity in Poland during shocks, so the strong drop does not necessarily need to translate into an equally strong slowdown in production. A further rise in export orders is encouraging, suggesting Poland should retain its substantial trade surplus.

Czech Republic: Long road to recovery

Czech August manufacturing PMI increased slightly from 47 points to 49.1 points and ended slightly below the market consensus of 49.4.

This is not a very rapid recovery, especially given that: a) manufacturing PMIs in neighbouring countries including Germany reached the 50-threshold already in July and b) domestic industrial confidence returned back to the pre-Covid-19 levels in August. That said, a large part of that was driven by expectations, rather than the current assessment.

> *In sum, the recovery of domestic industry is ongoing, but a little slower than we hoped for*

According to IHS Markit, output itself increased in August for the second month in a row as a result of a production recovery after shutdowns. New orders continued to fall, keeping the headline PMI below the 50-threshold. On a positive note, the pace of the decline was the slowest since the end of 2018 and firms remain relatively optimistic regarding the year-ahead outlook. Still, as a result of weaker demand, companies reduced their workforce further.

In sum, the recovery of domestic industry is ongoing, but a little slower than we hoped for. Typically the PMI readings during summer months are usually less reliable due to company holidays, thus we need to wait for September data to really assess the pace of recovery. What is clear, however, is that Czech industry has been strongly hit by the Covid-19 pandemic - confirmed by the structure of GDP published today where the manufacturing industry fell by 18% YoY in 2Q. The path to pre-Covid-19 levels will be long.

Hungary: A healthy picture

After pushing above the 50 level in July, Hungary's manufacturing PMI improved further and surprised on the upside in August, hitting 52.8. The reading is clearly expansionary, confirming the recovery is still ongoing, despite summer seasonals.

> *The improving PMI paints a healthy picture of a rebound, but planned summer shutdowns will impact production levels*

Output, new orders, inventories and employment sub-indices all rose in August and pointed to expansion. The deliveries gauge still indicates contraction. The fact that delivery times were longer again means that the backlog of orders is still significant, which provides further short-term impetus to production volume. On the other hand, the remaining four gauges all rose in August.

The employment index rose over 50 after eight months of contraction, providing hope that the second-round effects in the labour market of the first wave of Covid-19 might be weaker than expected. Purchased inventories have increased for the second month in a row after five months of contraction. This can provide some cushion against supply chain issues going forward.

Taken together the improving PMI paints a healthy picture of a rebound, but planned summer shutdowns will impact production levels through July and August nonetheless.

Russia: First 50+ reading since April 2019

Russian manufacturing PMI posted a sharp recovery from 48.4 in July to 51.1 in August, beating the 48.9 consensus and posting the first 50+ reading since April 2019.

The continued recovery in producer sentiment in the manufacturing sector could be a reaction to the faster than expected recovery in the consumer trend observed in July and should be a positive sign for the overall industrial production, which is likely to show improvement compared to the 8.0% YoY drop seen in July.

That said, the industry numbers in August will remain under pressure of reduced oil output required by OPEC+ and adverse calendar effects.

Turkey: Good momentum, but pace may slow

The August PMI retreated to 54.3 from July's strong reading of 56.9. However, it remained in growth territory showing that the strong momentum with the reopening of the economy continues.

> *Recent indicators signify a "V" shape recovery in the second half of the year, but momentum may slow down ahead*

In the breakdown, we see that output and employment increased with the support of higher new orders, while input and output prices recorded the highest increases in the last two years, indicative of ongoing price pressures.

Recent indicators signify a "V" shape recovery in the second half so far and the August PMI provides further evidence for this. However, that momentum may slow down ahead given that recent steps taken by the BRSA to normalise credit momentum and the central bank to gradually tighten monetary policy.

Author

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

Piotr Poplawski
Senior Economist, Poland
piotr.poplawski@ing.pl

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