

CEE January PMIs: Positive figures despite supply chain issues

The Central and Eastern Europe region posted solid PMIs in January confirming the ongoing recovery and improving conditions in industry. However, supply chain disruptions are mounting in the region, which might slow the recovery



As the eurozone and German manufacturing PMIs fell slightly in January, the market also expected some slowdown in the CEE surveys compared to the readings at the end of 2020. However, the figures broadly improved and surprised the market on the upside. Czech PMI stagnated at 57 points, Hungary and Turkey surprisingly increased above 54, Poland was at 52 points and Russian was again above the 50-threshold. Still, problems in supply chains are mounting and delivery times are increasing, signalling that even industry is facing challenges related to the pandemic, which might weaken the recovery in the months ahead.

Czech Republic: Supply chain disruptions mounting

The Czech manufacturing PMI stagnated at a solid 57 points, while the market expected some slowdown towards 55.5. Firms in the survey reported an increase in production and new orders, and optimism about future production increased. On the other hand, delivery times deteriorated

significantly, being the worst since April 2020. This caused an increase in input prices, which rose at the fastest rate since March 2017. Companies either did not pass these through to clients, or did so only partially, but output price inflation was still the second fastest since the end of 2019.

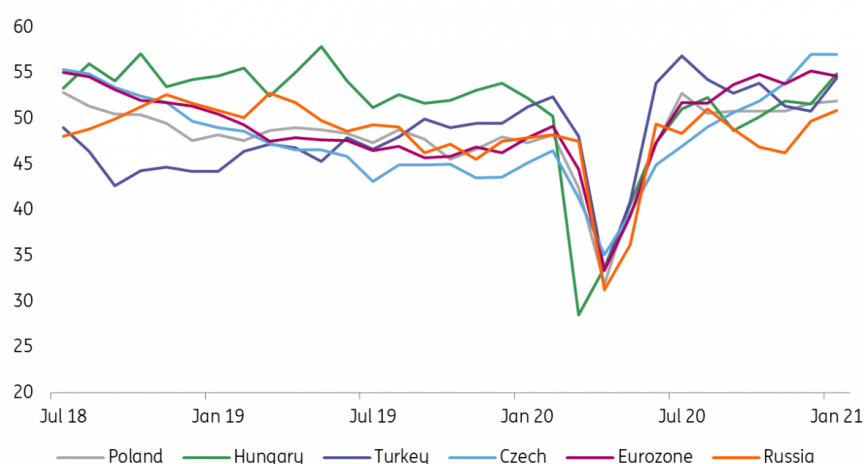
All in all, this was a positive figure but problems in supply chains are mounting and the biggest Czech automaker announced a temporary partial shutdown last week. As such, this should weaken production somewhat in the weeks ahead and slow the ongoing recovery. Also, delayed supply deliveries are pushing the PMI higher as the methodology considers this to be an increase in demand. This means, that the situation in industry is less rosy than the PMI indicator itself suggests, though it remains solid so far given the pandemic situation.

Hungary: Surprisingly strong PMI might be driven by reopening hopes

Hungary's manufacturing PMI surprised on the upside in January. The 54.9 point reading is the highest since mid-2019, suggesting an excellent expansion in the sector. Considering the bad news from car manufacturing, which was related to supply chain disruptions, shutdowns and dropping shifts, this January reading is even more puzzling.

The details provide some explanation however. From an economic activity point of view, the most important sub-index, the production volume index, fell but was able to remain in expansion territory. It seems that other sectors outside of car manufacturing are doing well. This idea is supported by the purchased inventories sub-index, as purchased inventories showed a strong increase. This could reflect an expected jump in demand in the near future, as manufacturers prepare for reopening. New orders also rose from the previous month, remaining in expansion territory, supporting the idea of a reopening boost. In parallel, the employment index showed an expansion too, after dropping below the 50-point threshold in the previous month. Supply chain issues affected only the delivery times, which were longer than in December. In all, despite the upside surprise in the soft indicator, the issues in car production (to the sector's share in industry) could have a dampening effect in the whole sector in January, so we'd take today's PMI data with a pinch of salt.

January PMIs in the CEE region above expectations



Source: IHS Markit, ING

Poland: Sentiment in manufacturing improved in January

Poland's manufacturing logistics managers improved their assessment of the economic climate. In January, the PMI index increased to 51.9 points, the second highest level since July 2018. The market expected a mild decline to 51.3, we assumed a stabilisation at 51.7. Despite the prolonged lockdown, sentiment in manufacturing remains relatively good. This was also shown in other surveys.

PMI components point to a second consecutive increase in new orders, with stronger exports than domestic demand. Backlogs and material inventories are also rising, firms continue to report limited capacity and staff shortages, also due to workers in quarantine. This is generating demand for new workers. Material shortages and supply chain disruptions are also resulting in rising cost pressures - in January they reached their highest level since April 2011.

Polish manufacturers expect production to increase once the pandemic is contained. We also believe the sector will remain healthy. In the course of the year, as further restrictions are relaxed, services will also begin to recover.

Russia: Producers back to cautious optimism

Russia's manufacturing PMI re-entered positive territory in January with a 50.9 result after a temporary drop below the key 50 level in 4Q20. The performance seems to be in line with the [manufacturing recovery](#) seen at year-end, which allowed positive manufacturing growth of 0.3% for the full year, driven mostly by consumer-focused sectors. At the same time, the optimism among producers may be challenged by the year-end [drop in consumer confidence](#) amid apparent pressure on income growth in the private sector. In addition, the expected [fiscal consolidation](#) is also a factor that might limit the pace of industrial recovery in 2021.

Turkey: Continuing strength in the PMI

Despite expectations of further moderation amid a gradual downtrend in the second half of 2020, the Turkish PMI jumped again to 54.4 in January, the highest level since last July, from 50.8 a month ago. Accordingly, it has remained in growth territory despite a recent policy shift by the Central Bank of Turkey, with significant tightening, momentum loss in lending and new pandemic measures in the last quarter, as Covid cases accelerate.

According to the breakdown, we see strength in manufacturing with new orders supporting production, while employment in the sector has recorded the highest increase in the last three years. A recent stabilisation in the exchange rate has also taken some steam out of input and output prices.

All in all, the PMI has strengthened to well above the 50 threshold and has remained in expansion territory since the reopening of the economy after the first wave of the Covid-19. However, the withdrawal of policy stimulus will weigh on the strength of the recovery this year, likely pushing the PMI downwards in the period ahead.

Author

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 www.ing.com.