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CZECH REPUBLIC

Czech manufacturing continues to deteriorate

The Czech manufacturing PMI remained at 46.6 in May and has now contracted for six months in a row. It is now at the lowest level since the end of 2012. Due to the recent escalation in the trade war, things might get worse before they get better



Source: Shutterstock

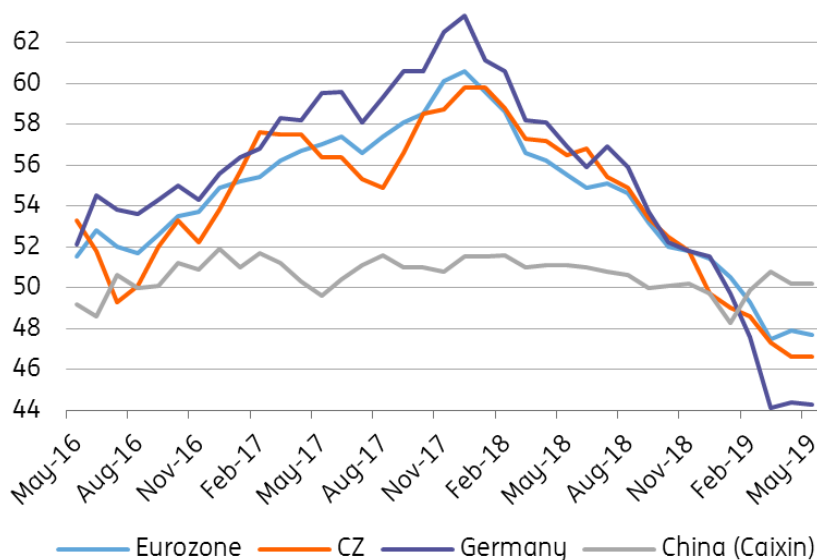
Conditions in the manufacturing segments are deteriorating

The Markit PMI survey for May signalled a further deterioration in conditions in the Czech manufacturing sector. The PMI stayed at 46.6 points and has now been below the key 50-threshold since December 2018, with both output and new orders falling. Weakening demand was driven by both domestic and foreign markets, mainly due to problems in the automotive industry. Many respondents mentioned a deterioration in their competitiveness due to higher prices. For the third month in a row, respondents also reported a decline in employment, mainly due to problems in replacing employees who have left. The expectations for next year remain historically weak, although better than in the previous months, though this probably doesn't reflect the recent escalation in the trade conflict.

Domestic conditions follow developments abroad

As in previous months, the development of the domestic PMI was more or less consistent with relevant PMIs from abroad, mainly Germany, remaining just slightly above the 44-mark, its lowest level since mid-2012. According to respondents, the main cause was weak demand from the automotive industry. The recent fall in the official PMI in China below the 50-threshold (and Caixin remaining just close to 50) suggests that a challenging environment for the manufacturing industry will remain in place.

Manufacturing PMIs



Source: IHS Markit, Bloomberg, ING

Things might get worse before get better

Given the re-escalation of the US-China trade war, it is not surprising that leading indicators remain at low levels. Moreover, China introduced another set of retaliatory measures against the US over the weekend (White Papers) suggesting that a quick de-escalation of the trade conflict is less and less likely. On the contrary, imposing tariffs on European cars imported to the US sometime this year has become almost a baseline scenario, in our view. As such, things might get worse in the Czech/European manufacturing industry before they get better.

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