

Czech manufacturing conditions weaken further

Czech Manufacturing PMI continued in decline in November reaching 51.8, the lowest level since mid-2016. While not a particularly optimistic development, it could well be down to one-off issues surrounding new emission norms in the automotive sector



Confidence in Czech industry has come under pressure

The Czech PMI slumped to the lowest level since mid-2016

Conditions in the Czech manufacturing industry further worsened in November according to the Purchasing Managers Index (PMI). PMI continued its declining trend and slumped from 56.8 in mid-2018 to just 51.8 points in November, the lowest value since mid-2016.

51.8

Czech manufacturing PMI (Nov)

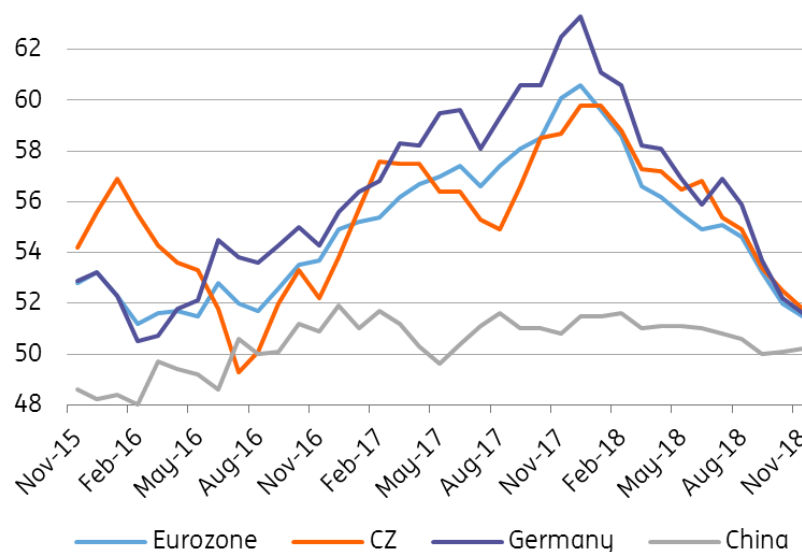
The lowest level since mid-2016

Lower than expected

New orders declined due to the car segment, optimism is decelerating

According to IHS Markit, the PMI drop in November was due not only to weaker production growth, but also a decline in new orders, the first one for over two years. This deterioration was largely driven by new emission limits starting in September, which hindered a production in many European car manufacturers. Also, respondents were much more concerned about future demand and their confidence declined to the lowest level in almost last six years.

Manufacturing PMIs



Source: Bloomberg, IHS Markit

Temporary factors hindering production should recede next year

On balance, the recent fall in industrial PMI indicators in the Czech economy and also in the Eurozone is likely to have been driven to a large extent by new emission standards in the automotive sector; they've slowed down production in many European cars manufacturers. This means that deteriorating conditions in industry should be temporary. Also the survey respondents made it clear that the worsened situation in new orders is linked to those new standards. As such, the situation should gradually stabilise and conditions in the industry might improve again at the beginning of the new year in our view.

It's worth noting that the US-China agreement, which temporarily reduces the threat of further escalating trade wars, could also help improve falling confidence in industry, although reaching a final agreement in such a limited timeframe will not be easy, [according to ING economists](#).

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