

Czech manufacturing PMI increased in August, but...

...new foreign orders continue their sharp fall. In our view, the small improvement doesn't bring enough optimism after the consecutive falls in the last year



Bleak foreign demand, structural issues in the European automotive sector, and challenges to the German economic model were the main issues reported in the Czech PMI survey

Czech August PMIs increased from 43.1 in July - the lowest level seen in the last ten years to 44.9 points, considerably more than the market expected. Despite the increase in August, the survey details aren't very optimistic, in our view.

44.9

August Czech PMI

First increase in a year

Higher than expected

Backlogs increased production, but new orders fall

The survey suggests that improvement in the indicator in August was due to the production of a

backlog of orders. However, new orders further noticeably declined and the rate of decline was the second-highest since April 2009. According to participants, this decline was due to weak export demand. The number of workers decreased further and has been falling since March. According to survey results, companies are hesitant to replace outgoing employees due to the drop in new orders. Efforts to maintain competitiveness have led companies to reduce product prices.

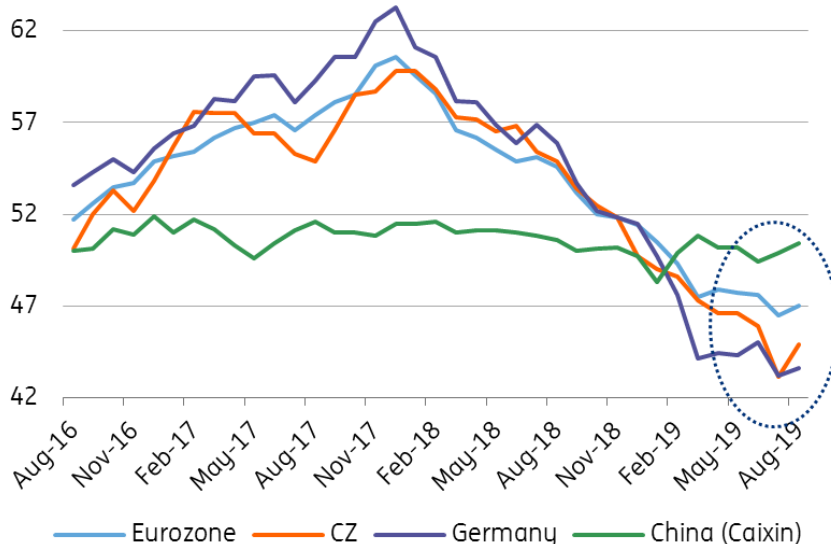
Mixed signals

PMIs in the domestic industry have been gradually decreasing since the turn of 2017/2018 when they reached 60 points. As such, the growth in August has interrupted the series of consecutive falls, which is good news. On the other hand, the current level of the indicator remains well below 50 points and still signals a marked deterioration of conditions in the domestic industry. Moreover, August data also confirmed that demand from abroad is further weakening, which is critical for the Czech industry.

Foreign developments remains weak and uncertain

The causes of the slowdown in external demand haven't really gone away, instead the trade war between the US and China has intensified further. China's industry continues to slow as the official PMI remain in the contraction zone at 49.5 points in August. The alternative Caixin, focusing more on small and medium-sized enterprises, rose slightly above the 50-point benchmark in August, mainly due to better production, but demand and sentiment worsened further. The situation in Germany isn't bringing anybody any joy either as August manufacturing PMI remained stuck at 43.5 after 43.2 in the previous month.

Manufacturing PMIs



Source: Bloomberg, IHS Markit, ING

Czech industry to decelerate further

The situation in the domestic industry remains fragile this year according to all soft forward-looking indicators, despite the fact that the real economy statistics are still relatively favourable.

The July statistics might even show the industry sped up but this will be largely due to the traditional summer months volatility when the year-on-year comparison are affected by a different distribution of holidays. However, if the global manufacturing industry remains under pressure, this will sooner or later transmit into domestic figures. And the August PMI reading being negative regarding foreign demand signals that this is a likely scenario in the forthcoming quarters.