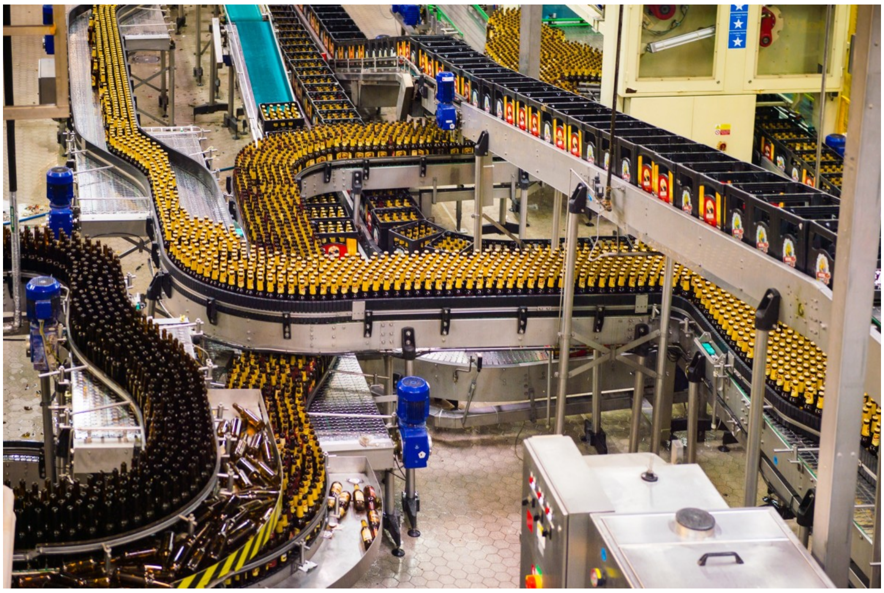
Czech manufacturing PMI nosedives

The Czech manufacturing PMI dropped to 48.0 in May from 48.9 in April, below market expectations. The index has remained in contraction territory for three consecutive years, with the latest drop marking the sharpest deterioration in business conditions in the past three months

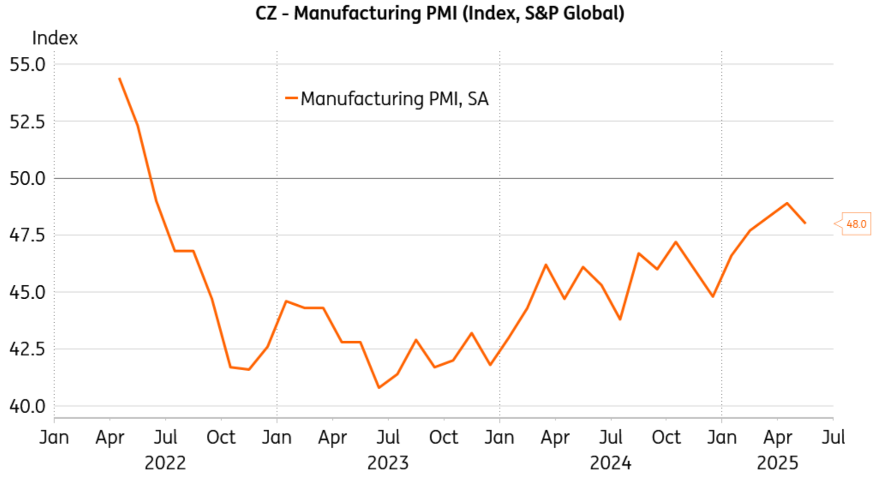


A factory in Prague, Czech Republic

Industry treads water again

The PMI trend supports our view that the Czech industrial sector was showing signs that it was over the worst of it. However, growth momentum has recently slowed across Europe, and the Czech manufacturing sector is struggling once again, at least in terms of output and new orders. According to the PMI survey participants, the sector's performance has been primarily dampened by ongoing economic uncertainty and problems within the automotive industry.

Three years in contraction territory



Source: S&P Global, Macrobond

Companies have continued to implement cost-saving measures, i.e. limiting spending on recruitment and purchasing inputs, but further delays in deliveries due to shortages are still straining capacities.

Supply shortages were the primary driver behind the rise in input price inflation, even as subdued demand continued to encourage price competition.

Falling new orders contrast with upbeat sentiment

The renewed decline in new orders is accelerating output reductions, an issue that is likely to weigh on production in the coming months. The decline was recorded in both domestic and foreign orders and marked the steepest contraction since the beginning of the year. Meanwhile, new export orders fell for the 39th consecutive month, albeit at a softer pace.

Meanwhile, hopes for a better outlook reached their most optimistic level since February 2022, driven by expectations of a demand recovery in existing markets – despite lingering concerns over global economic uncertainty. We find this dichotomy somewhat surprising, yet it holds true: *Dum spiro spero – while I breathe, I hope*. The renewed weakness in manufacturing, coupled with a continued reluctance to invest, suggests that a rebound in fixed investment remains elusive. This underscores the case for a more accommodative monetary policy stance, while the main growth obstacles appear to lie beyond the realm of elevated capital costs.

Author

David Havrlant
Chief Economist, Czech Republic
420 770 321 486
david.havrlant@ing.com

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