

Czech manufacturing sees the light at the end of the tunnel

The Czech manufacturing PMI has remained in a contraction zone for almost three years, with employment in the segment taking a hit in February. That said, the worst for the industry seems to be in the past as confidence on the outlook strengthened, pushing the overall index above market expectations

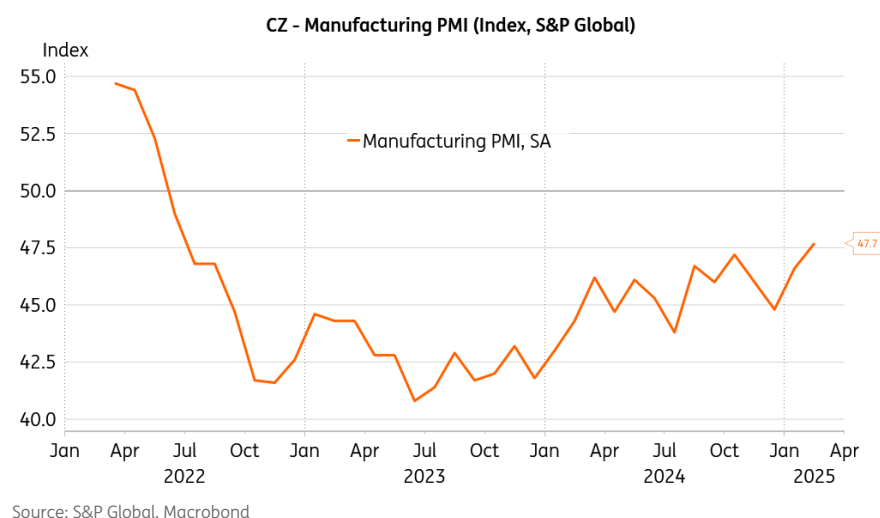


We're optimistic that the worst is now in the past for Czech industry

Weakness in output and new orders softened significantly

The deterioration in Czech output and new orders has slowed significantly, although the overall manufacturing PMI remained in the contraction zone at 47.7 points in February. Still, we see a clear upward trend that leaves the bottom back in 2023. Indeed, the PMI reached its most upbeat point since June 2022 – this was when we saw it drop to the contraction zone, and it has failed to return above the 50-point watermark for expansion ever since.

Czech PMI on an upward trend

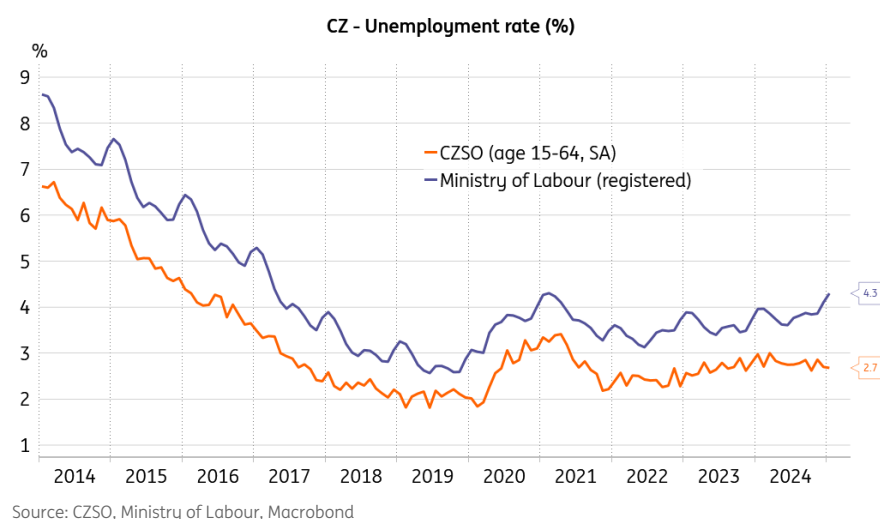


The lukewarm demand from European trading partners remains the main weak point from the perspective of the Czech manufacturers. At the same time, some firms noted signs of revived interest from existing clients. Another encouraging sign was the reduction in delivery times and the subsequent improvement in supply conditions. The rate of cost inflation remained historically subdued, given the weak demand for input. This has eased the pressure on profit margins at a time when the requests for discounts remained vigorous.

Staff reduction accelerates while confidence improves

The layoffs in manufacturing gained traction in February, as the industry has more than two and a half rough years behind it. Despite the tendency to retain the skilled labour force, the demand from European trading partners has been too weak for too long to keep everyone on board. In contrast, business confidence in February was the most upbeat since last March, providing some renewed hope that the worst is in the past for Czech industry.

The labour market remains tight



We see the thriving construction sector at least partially compensating for the tough employment situation in industry in the coming quarters. The seasonally adjusted unemployment rate remained unchanged at 2.7% at the beginning of the year, according to the latest survey from the Statistical Office. Meanwhile, as measured by the registered job seekers in the Ministry of Labour statistics, the unemployment rate has accelerated to 4.3% in January – but this increase is heavily affected by a prominent seasonal effect. When putting the relationship of the two series to statistical tests, it can't be clearly decided whether one series precedes the other and provides a more timely signal. In our view, the Czech labour market remains rather tight.

Overall, manufacturing eventually getting out of the woods would be good news for the Czech economic rebound, as households have recently become more worried about the future. Should industry gain more solid ground and receive a boost when it comes to profit margins, robust wage growth could carry on and push the Czech economy further ahead.

Author

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

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.