

Czech PMI contracts but confidence is upbeat

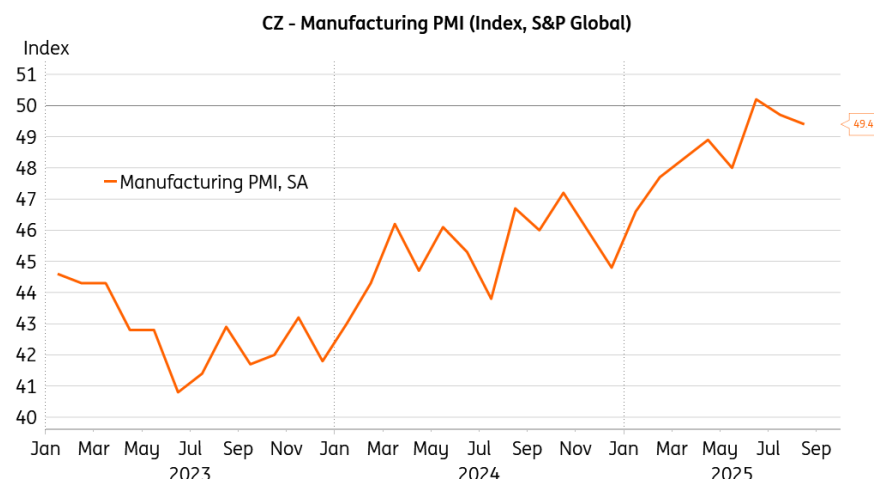
August's PMI remained in the contraction zone, as supply chain issues dampened output. However, new orders increased, and confidence remained upbeat. The Czech economy appears poised to hum along smoothly, with no need for loose monetary policy



Production hampered by supply chain hiccups

Czech PMI weakened to 49.4 points in August, coming in below market expectations. August was a challenging month for Czech manufacturers in terms of output, as logistical problems constrained production. Production was hampered by delays in material deliveries, as well as the consequences of US customs policy. Overloaded ports and technical issues are reportedly contributing to a deterioration in supply chain performance, with delivery times reaching their longest duration since November 2024.

PMI hampered by stagnant output



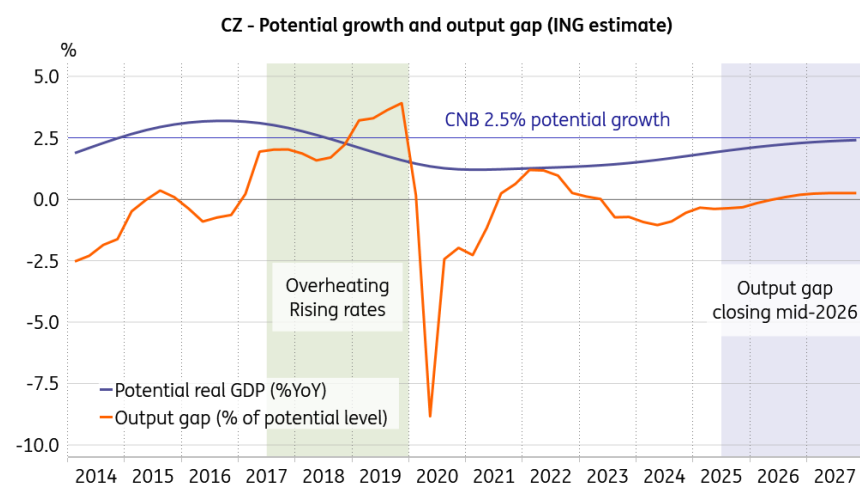
Source: S&P Global, Macrobond

New orders gain ground

That said, August's new orders grew at their fastest pace since February 2022. Respondents reported stronger customer demand, particularly for machinery and construction materials. Still, the pace of growth was relatively subdued in a historical context. Sales were again generally held back by mediocre export orders, predominantly reflecting US customs policy, geopolitical uncertainty, and continued weakness in customer demand from Germany.

Overall, we see the outlook as positive for the Czech manufacturing and economic expansion. Such a view is confirmed by prevailing optimism regarding the firms' confidence when looking ahead. The level of confidence in August rose to its second-highest level since February 2022, supported by plans for higher investment and the launch of new products on the market. It appears that the Czech economy is entering a fully-fledged rebound, with consumers, industry, and construction all humming in unison.

Negative output gap set to close



Source: ING, Macrobond

Additionally, given the upward revision to 2Q GDP, we raise our full-year growth performance expectation to 2.5%, with the negative output gap expected to close by mid-next year. We believe the cyclical upswing is gradually evolving into a more structurally driven expansion - provided that fixed investment, which remains disappointing, begins to accelerate. The appetite for growth appears to be in place. The message from the real economy for policymakers is relatively straightforward: there is no need for easier monetary policy when the economy is booming.

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.