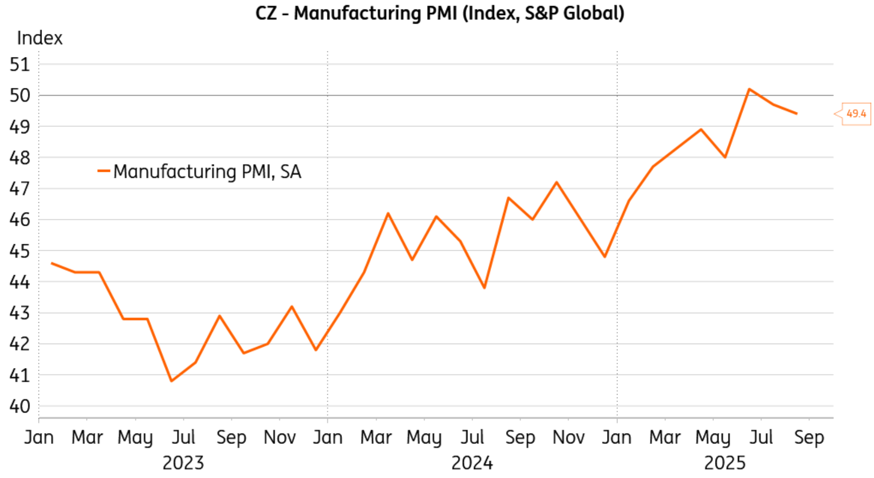
Czech PMI contracts but confidence is upbeat

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



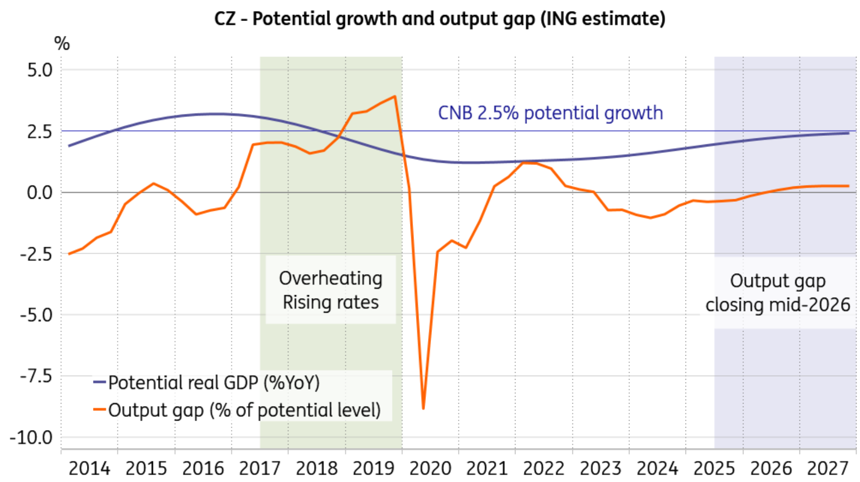
Source: S&P Global, Macrobond

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.

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