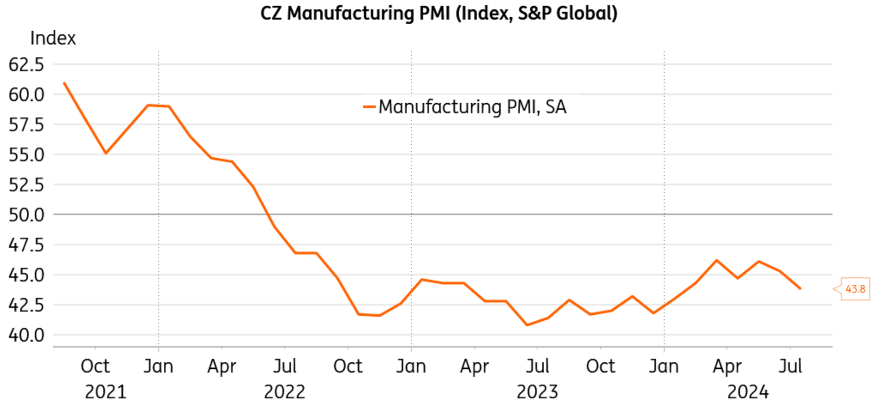
Czech PMI index goes south with no sign of improvement

The Czech manufacturing segment remains mired in difficulty, with the PMI index plunging further into contractionary territory in July. The deterioration in confidence was sharper than expected, adding to the industry's woes

Output, new orders, and outlook: all goes wrong

Conditions in the Czech manufacturing segment deteriorated markedly in July, as the PMI index slid to 43.8, hitting the lowest level since the beginning of the year. The continued weakness in both output and new orders brought the index deeper into contractionary territory. Tepid demand from abroad was the main factor behind the poor sentiment in industry. In turn, low confidence contributed to a continued reduction in employment.

Czech PMI dives deeper into contraction zone



S&P Global, Macrobond

The economy disappointed in the second quarter, with real GDP coming in below expectations. However, overall growth was primarily hindered by a negative impact from a reduction in inventories. The change in inventories is often a key factor behind the revision in the refined estimate that will also deliver more details on the growth breakdown. Household and government consumption along with net exports remained intact, according to the Czech Statistical Office comment.

Still, we see the protracted weakness in manufacturing as putting the economic rebound in the second quarter at risk, with the weak German performance unfolding and taking a toll on Czech output. Muted demand from abroad and the inability of Czech industry to pick up increase the chances for a downward revision to our rather conservative estimate of 1% real growth for this year, yet we will wait to see the detailed activity composition. The growth outlook will enter the Czech National Bank's decision function with heightened priority, as inflation is on target and monetary conditions seem too tight, given the deteriorating growth outlook.

Subdued pricing reflects dormant demand

Operating costs at Czech goods producers rose more quickly for the second consecutive month, with increasing sea freight, energy, and raw material costs reported as the main cost drivers. However, the producers chose to absorb the input costs themselves due to weak demand, rather than passing them along the supply chain.

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