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Article

CEE June Manufacturing PMIs: Gimme a 'V'

The June manufacturing PMIs have been released across the Central and Eastern European region this morning. As in the eurozone, sentiment has picked up strongly – but apart from Turkey, most remain in contractionary territory

An industrial robot machine in action at an exhibition in Hungary

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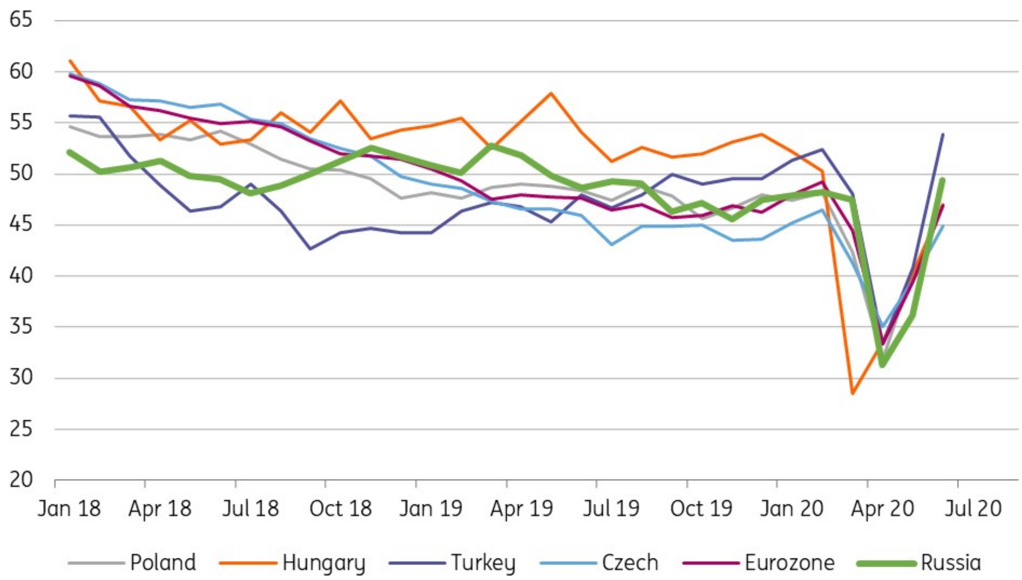
CEE June PMIs bounce back smartly



Source: ING, Markit

Poland: Bouncing, but poor relationship to the real manufacturing sector

Following on from the eurozone PMI release, Poland's June manufacturing PMI jumped to 47.2 from 40.6 a month earlier. This is above the consensus estimate of 46.1 points. The reading suggests a large recovery in production and new orders.

However, the PMI has been notoriously weak in explaining actual manufacturing output in Poland. In 2019, the index predicted a much stronger deterioration than actual manufacturing data showed. Likely this reflects the PMI focus on large multinationals. This time around, the pandemic impact is more widespread than trade wars, impacting domestic demand as well. Therefore, we expect industrial production to contract by 3% year-on-year in June.

Czech Republic: Challenging conditions remain

The June PMI increased slightly from 39.6 to 45, but still remains below the 50-point threshold indicating that conditions in the Czech manufacturing segment are not improving. This is somewhat surprising given the fact that June was not affected by Covid-19 lockdowns as were the previous three months.

According to IHS Markit, the boost in output came largely from the processing of backlogs, while client demand fell. Companies mentioned the lack of investment in the automotive industry and halting construction projects as the main reasons behind weaker new orders.
Given weaker demand, companies continued their workforce reductions. However, business confidence improved in June for the first time since February, as companies expect output to increase in the months to come. All in all, conditions in domestic industry remain challenging. The recovery is being hampered by weaker foreign demand.

Hungary: Cautious improvement, but welcome

Hungary's manufacturing PMI remained in contraction territory in June despite improving for a second month from a record low. The PMI rose to 47 from a revised 40.7 in May. The June reading exactly matched the eurozone's preliminary PMI data for the same month. The improvement wasn't much of a surprise as the economy moved into the re-opening phase in June from lockdown in April–May.

The most important sub-indices (output, new orders, employment) all showed improvement, but stood below the 50-point watershed, indicating a contraction. In such a crisis, the predictive power of PMIs is questionable but if we believe in the methodology, it means that manufacturing will contract further through May and June, which would trigger another round of downward revisions to the GDP outlook.

In our view, in such an extraordinary environment, it's better to celebrate the rise from May to June, than feel down about the below-50 reading. Against this backdrop, we see the June reading as an indicator that shows improvement in economic activity.

Turkey: Return to growth

The rebound in the Turkish manufacturing PMI has continued with a return to growth territory. The June reading of 53.9 compares to the lowest levels since the 2009 financial crisis seen in April at 33.4. The bounceback is due to the reopening of the economy, with encouraging data on the pandemic and the government's efforts to limit the economic impact of the lockdown.

In the breakdown, we see: 1) higher output and new orders 2) higher input prices and 3) the start of hiring in the manufacturing sector with the easing of lockdown measures and return of economic activity. Accelerating debit and credit card expenditures, the bounce in confidence indicators and a gradual increase in electricity consumption show that the economy is gaining momentum.

The labour market outlook, the level of investment appetite alongside the recovery in capacity utilisation, and the pace of the expansion in key export markets will determine the extent of optimism in the period ahead.

Russia: Encouraging rise in new orders

Russian manufacturing PMI recovered from 36.2 in May to 49.4 in June, exceeding the 45.0 consensus. Indeed, the mood in the manufacturing sector (accounting for around 50% of the industrial output) had been recovering since May along with the removal of the national lockdown, and in June most of the regional quarantines were lifted. With a lack of supply side constraints, the manufacturing sector should see a further recovery in the coming months, however secondary demand constraints make a return to positive year-on-year growth unlikely. Overall, industrial output dynamics will be constrained by Russia's compliance with OPEC+ commitments.

Economic data overall was relatively sluggish in May, with understandable restraint showed by both corporates and households, June should be better. Our team still thinks that Russian authorities may be called in for further fiscal and monetary policy support.

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