3 August 2020

Article

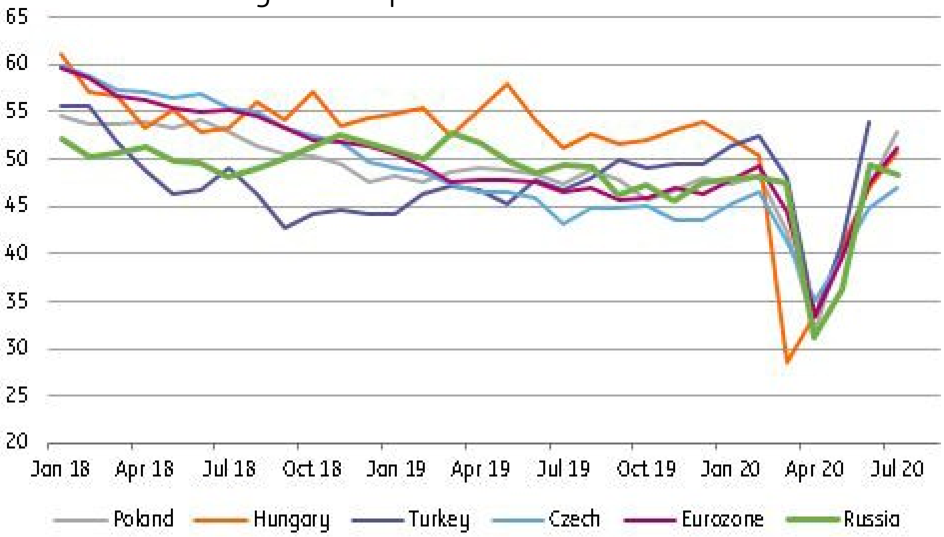
CEE PMIs: Signs of life

The July releases of CEE manufacturing PMIs (ex Russia) have largely echoed the flash release of the Eurozone number – namely figures pointing to returning optimism in the manufacturing sector

A worker wears protective clothing at a car plant in Poland

Content

CEE manufacturing PMIs improve further



Source: Markit

Poland: Export-oriented rebound

As Bert Colijn discussed in his review of the Eurozone July PMIs, there is some optimism emerging from German exporters on signs of life not only from Chinese but also from Eurozone internal demand. The evidence of this optimism has also been found in the Polish figures, with a strong increase to 52.8 in July from 47.2 in June. The comments from Markit reveal a major improvement in the assessment of current production and new orders.

Export orders increased as well, for the first time since July 2018. Companies continue to decrease their workforce but at the slowest pace this year. The improvement in the PMI most likely suggests a recovery in export-oriented branches. The survey is aimed at large companies - often multinationals - and part of global production chains. A word of caution, however. Historically the PMI has reflected activity in the whole Polish manufacturing sector relatively poorly.

Czech Republic: Not quite as rosy

The Czech July manufacturing PMI increased only slightly from 44.9 to 47 points and was below the consensus, which had expected a figure closer to the 50-point threshold. This modest improvement is surprising given soaring July industrial confidence, which rebounded close to levels seen before Covid outbreak. That development was largely driven by the "expectation" component, and today's July PMI figure suggests the actual situation is not quite so rosy in Czech industry.

This is also underlined by hard data, where car production fell by 50% in 2Q and industrial production likely remains in double-digit contraction even in June. Still, given July industrial confidence and developments abroad, today's Czech reading is still disappointing. According to IHS Markit, output itself increased for the first time since November 2018, but new orders continued to fall (though at a slower pace), amidst coronavirus uncertainty. As such, firms cut their workforce further. Difficult conditions pushed manufacturers to discount, despite increased cost pressures. On a positive note, the confidence of manufacturers has increased to reach the highest level since October 2018 as firms hope for a gradual recovery ahead.

Hungary: Encouraging rise in new orders

Hungary's 50.8 reading is mildly expansionary, but we've already seen the industrial production rebounding from the lows in April, so this data basically just confirms that the rebound is happening. If we check the sub-indices, we can find some positives for the future. Delivery times were longer than in June, but output has started to increase. The production volume index rose over 50, so companies are increasing their output level which is important for today but won't help tomorrow. What helps in the future are the new orders. According to the recent survey, the new orders index is on the rise again, showing expansion.

The increase in the level of orders is a must if we are to see a gradual improvement later this year and in early 2021. Regarding the labour market, despite some improvement, the crisis is still affecting the employment index, showing a contraction for the eighth month in a row. Despite the all-around improvement, sub-indices are well below their respective historical averages. According to survey respondents, supply chain disruptions are still part of everyday life, especially in electronics and metal industry, as well as in import of Chinese products.

All in all, the overall picture is rather positive, but this improving PMI will not necessarily translate immediately into a strong industrial data, especially not in the summer. After the forced spring shutdowns, production in Hungarian car factories will be suspended again, but it is important to emphasize that the coronavirus epidemic has nothing to do with it. Only the usual planned summer shutdowns are taking place, which are used by the companies to carry out maintenance and conversion work. These will impact the July and August industrial output.

Russia: A surprise drop

The Russian manufacturing PMI reading surprisingly deteriorated from 49.4 in June to 48.4 in July, contrary to consensus expectations of recovery to above the 50 threshold. This result comes as a surprise to us too, as the recent weakness in the industrial output (-9.4% YoY in June) has been driven mainly by the commodity extraction sector as a result of Russia's OPEC+ commitments, while the manufacturing sector has shown modest improvement from -7.2% YoY in May to -6.4% YoY in June.

The June industry data suggests that the intermediary and investment-focused sectors are the likely weak link in the current downturn, however some pressure on the consumer-driven stories – despite the intensified social support – cannot be excluded, as the recent banking sector data suggests that the households could be using extra benefits to repay debt and build up savings where possible. Based on weak manufacturing PMI, persisting OPEC+ oil output restrictions (which were somewhat eased since August), and the adverse calendar effect, we do not exclude industrial production showing a double-digit drop in July.

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
+44 20 7767 1610
chris.turner@ing.com

Disclaimer