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Article

CEE September PMIs: Coming off the boil

PMIs across the CEE region generally softened in the latest September releases, although there were a few bright spots including in the likes of Poland and the Czech Republic. Second waves will clearly raise some challenges for the new quarter and keep the pressure on policymakers for more stimulus


Source: Shutterstock

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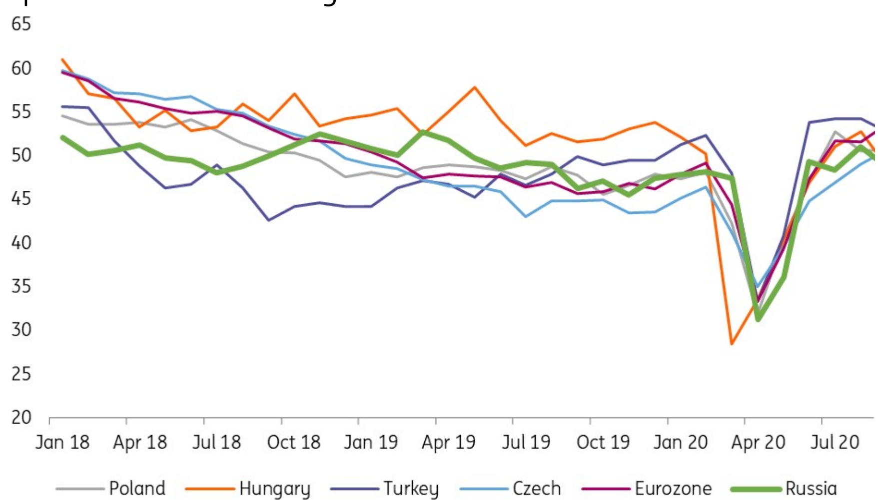
September PMIs: Stalling



Source: Markit, ING

Poland: V-shaped mindset continues

Eurozone September PMI releases were a mixed bag. As Bert Colijn noted at the time, the services components of the releases were showing worrying signs of stalling, even while manufacturing sentiment pushed ahead.

Across the CEE region, the PMIs are confined to the manufacturing sector and, in the case of Poland, point to some small improvement in September. The index rose from 50.6pts to 50.8pts, but still significantly below the July level (52.8pts – the two-year high). The rise in the index chiefly reflected a further improvement in new orders (including exports) and employment. The survey hinted at employment growth for the first time in 15 months. Companies seem to be unconcerned over the mounting Covid-19 wave in Europe. On the other hand, the current production assessment deteriorated slightly but still indicates improving activity. Nonetheless, this is another metric suggesting Polish businesses have a V-shaped mindset.

> We consider the PMI survey as a relatively poor proxy for Polish manufacturing though, especially during the pandemic

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We consider the PMI survey a relatively poor proxy for Polish manufacturing though, especially during the pandemic. Local industry is far more diversified compared to other CEE countries, with lower reliance on automakers and a larger share of smaller companies. Still, rising orders are particularly welcome, suggesting Poland should retain a high current account surplus (c.3% of GDP this year) in the coming months.

Czech Republic: Short-lived optimism?

Given an increase in manufacturing PMI in the Eurozone and Germany in September, the Czech PMI had been expected to finally move above the 50-point threshold, which was confirmed by today's release. The improvement was only marginal, however, edging up to 50.7 points.

> September Czech PMI together with PMIs from the main trading partners, especially Germany, points to some careful optimism

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As such, the Czech manufacturing segment has started to improve again, according to the PMI survey, for the first time since the end of 2018. Indeed, the slowdown in the Czech industry sector was apparent before the outbreak of the pandemic. Today's survey reveals that the PMI increase was driven mainly by higher production and an expansion in new orders, while employment continued to fall due to overcapacity.

However, optimism has increased and is registering its highest level since October 2018. Thus, the September Czech PMI together with PMIs from the main trading partners, especially Germany, point to some cautious optimism. But the second wave of the pandemic is likely to delay the recovery, not only in selected services but also across global industry in the months ahead – meaning September's optimism may prove to be short-lived.

Hungary: Five months of expansion come to an end

After improving for five months in a row, the good run of Hungarian manufacturing PMI releases ended in September.

The reading didn't just decrease but dipped below the 50-watershed level. From the downwardly revised August reading of 52.3, September's release dipped to 48.8 in September. It is clearly a downside surprise to expectations for further expansion – expectations built on an autumn restart after July and August production levels had been hit by summer shutdowns.

> After improving for five months in a row, the good run of Hungarian manufacturing PMI releases ended in September showing how vulnerable and fragile the recovery is

In contrast, the PMI index plummeted into contraction territory in all of the five sub-indices. It seems that the second wave cannot be taken lightly despite the relatively relaxed measures and regulations in relation to Covid-19 defences. The employment index showed a contraction reflecting the uncertainty ahead, while purchased inventories were down slightly too. Delivery times also increased. The only two sub-indices able to remain above 50 despite the decline were new orders and the production volume index, offering some silver lining.

In all, the retreating PMI shows how vulnerable and fragile the recovery will be - further challenged by the second wave.

Russia: Slowdown in domestic demand and RUB weakness may be weighing

The Russian manufacturing PMI is back below the 50 threshold in September after a brief spike to 51.1 in August. The September reading of 48.9 is lower than expectations.

The mood in the manufacturing sector may have deteriorated in response to three things: moderation of local consumption recovery seen in August (although we attribute it to a reopening of outward tourism rather than anything else), the slowdown in the fiscal spending growth (overall and on direct sector support in particular), and the sharp rouble depreciation, which may have upped the cost of intermediary and investment imports for manufacturers.

Overall, the below-50 PMI reading, which Russia has consistently seen since May 2019, ie, long before the Covid-19 crisis, does not necessarily mean a deterioration in industrial output growth (and the September data could be supported by the calendar effect), however, it does highlight the key challenges to a robust recovery in producer activity in Russia.

Hopefully, the finalisation of the Russian budget draft for 2021-2023, expected by December, and the renewal of the US political cycle, should bring more clarity for Russian producers by year-end.

Turkey: Consistent with a third quarter rebound

Turkish PMIs continued to moderate over the past two months, dipping to 52.8 in September from 54.3 a month earlier. Despite the softening, the data has remained in growth territory since June, consistent with the re-opening of the economy.

In the breakdown, we see that new orders and new export orders remain on an upward track, though lost some momentum. Employment recorded a sharp increase, hinting at signs that the easing of restrictions is helping the labour market. Pressure on input and output prices, on the other hand, remains a concern on the back of recent TRY weakness.

The PMI in addition to other early indicators provide evidence of strong activity in the third quarter. However, 4Q is likely to see some deceleration given that the BRSA has stepped in to normalise credit formation and the central bank started tightening in August – in response to pressure on its sovereign risk premium.

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