

# Czech Republic

Czech industrial production continued to fall at double-digit pace in December, as indicated by PMI data.

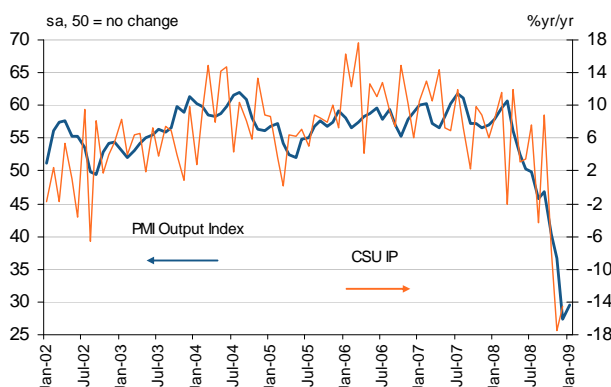
## Key findings

- Further plunge in industrial output in December.
- GDP grew on annual basis in Q4...
- ...but lowest ever PMI in January suggests contraction imminent.

## December output dropped 14.6% yr/yr

Official data covering Czech industry showed a further sharp drop in output in December. The annual rate of contraction remained steep at 14.6%, compared to November's 17.4% drop. Moreover, the latest figures were worse than expected and bolstered calls for the central bank to continue cutting interest rates. The main policy rate stands at 1.75%, down by 2% since last year.

Chart 1: PMI Output Index vs CSU IP



The latest official figures were close to that signalled over one month in advance by the PMI, compiled for RBS by Markit. The Output Index fell to a survey low in December, indicative of a marked fall in manufacturing

production. Since the survey started in September 2001, the Output index has achieved a correlation of 0.66 with the year-on-year change in official manufacturing output. Regression analysis applied to the December Output Index signalled a contraction of 15.4%, close to the official result.

## Sharp economic slowdown in Q4

The weak industry data posed downside risks to the fourth quarter GDP results, but the Czech Statistics Office subsequently reported a better-than-expected 1.0% annual rate of economic growth in the final three months of 2008. That said, this represented a marked slowdown from 4.2% growth in Q3 and the quarter-on-quarter drop of 0.6% was the worst since 1997. Detailed results are not available until 11 March.

## Bleak year ahead

The outlook for 2009 has deteriorated sharply, especially as the export-reliant Czech Republic's main trading partner, Germany, is expected to contract by 2.5% (according to an updated estimate from the IMF) and posted a record annual contraction in Q4 GDP (<http://www.markit.com/information/news/commentary/markit-economics/contentParagraphs/011111/document/GERMAN%20GDP%2016-02-09.pdf>). The IMF also downgraded its GDP forecast for Central and Eastern Europe to -0.4% in 2009, from 3% previously. January data from the Czech PMI survey saw the headline PMI sink to a new low, reflecting the forward-looking new orders, employment and input stocks components. With over 70% of the open Czech economy accounted for by exports in gross terms, it appears highly unlikely that the EU member will not suffer an outright recession in 2009 as demand from the Eurozone collapses.

## Forthcoming release dates (February data):

RBS Czech Republic Manufacturing PMI: 2 March 2009

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