

Czech Republic

Official output remained bleak but PMI suggests worst is over

Key findings

- **Factory output down nearly a quarter on last year in February.**
- **PMI data showed sharp contraction of Czech manufacturing in Q1...**
- **...but has indicated a moderating rate of decline in recent months.**

Data released by the Czech Statistical Office indicated that industrial output in the Czech Republic plunged by 23.4% yr/yr during February. This is the sharpest annual contraction since the current series began in 2001. The latest industry figures and weak retail sales data point to a sharp economic downturn and have fuelled arguments for further rate cuts, but the main two-week repo rate has been maintained at 1.75% for the past three months, reflecting concerns for the crown (see Chart 1).

The official data correlate well with PMI survey data, which have signalled substantial falls in Czech manufacturing output throughout the first quarter of 2009. Chart 2 shows the close relationship between the PMI Output Index and official data. Since the PMI survey began in September 2001, the Output Index has a correlation of 0.73 with the annual rate of change in industrial production, and the headline PMI (a composite indicator derived from five survey variables) has an even better relationship at 0.78.

Although the average PMI reading for Q1 was the lowest to date, the headline index has risen throughout the quarter from December's low. This suggests a slackening in the overall rate of contraction of the manufacturing sector and points to weaker falls in industrial production in the coming months. Regression analysis applied to the March PMI figure signals an annual decline of about 18%.

If PMI figures do suggest that Q1 represented a nadir, then it is likely that any further interest rate cuts will be much smaller than those in October, November and January. Analysts are forecasting a 0.25% reduction at the May 7 meeting, three days following the publication of April PMI data.

Chart 1: Two-Week Repo Rate

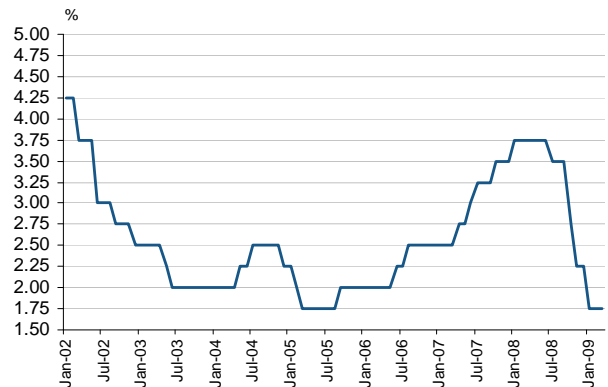
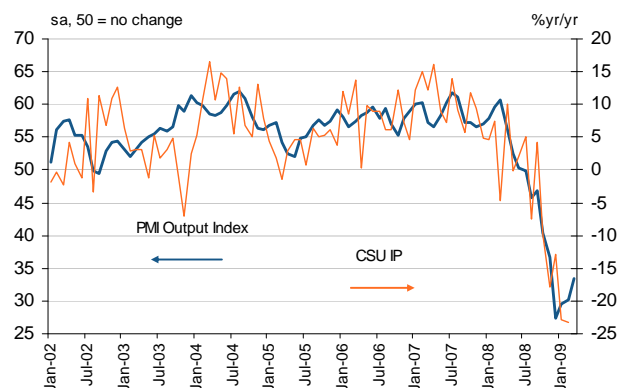


Chart 2: PMI Output Index vs industrial production



Forthcoming release dates (April data):

RBS Czech Republic Manufacturing PMI: 4 May 2009

Trevor Balchin

Economist

Markit

Tel: +44 1491 461 065

Email: trevor.balchin@markit.com

For further information, please visit www.markit.com

The intellectual property rights to this report provided herein is owned by Markit Group Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Markit is a trademark owned by the Markit group.