

Czech Republic

PMI accurately signalled weaker March fall in output

Key findings

- **Factory output down 17% on a year earlier in March...**
- **...very close to the trend signalled in advance by the PMI.**
- **PMI data suggest further softening of manufacturing recession in April.**

Data released by the Czech Statistical Office on 12 May showed that industrial output in the Czech Republic continued to fall sharply on an annual basis in March. Production declined 17% year-on-year, having plunged 23.4% in February.

The official data correlate well with PMI survey data, compiled by Markit for RBS, which has signalled substantial falls in Czech manufacturing output throughout 2009 so far. Regression analysis applied to the March Output Index pointed to an annual contraction of 17.7%, close to the official outcome.

Although the average PMI reading for Q1 was the lowest to date, the headline index has risen continuously since December's low. This suggests a slackening in the overall rate of contraction of the manufacturing sector. April PMI data signal that the rate of decline will ease further to around 11%.

Chart 1 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 0.76 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 0.80.

The PMI also carries several advantages over the official measure. It is released over one month in advance – March data were released 1 April – and, as the chart shows, is less volatile.

The new orders component of the PMI also signals a further moderation in the rate of contraction of the manufacturing sector (see chart 2). April data pointed to the weakest rate of decline in new orders since September 2008.

If forthcoming official figures do confirm the earlier signal from the PMI that Q1 represented a nadir, then it is likely that the current phase of monetary easing will cease. The headline repo rate stands at a record low of 1.5%, having fallen 225bps since last August, but analysts are forecasting that this represents the bottom of the cycle.

Chart 1: PMI Output index vs industrial production

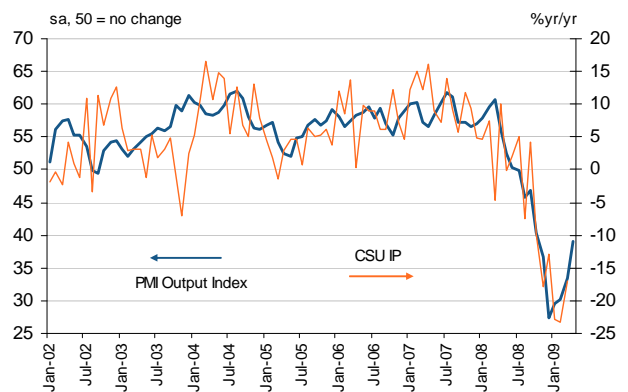
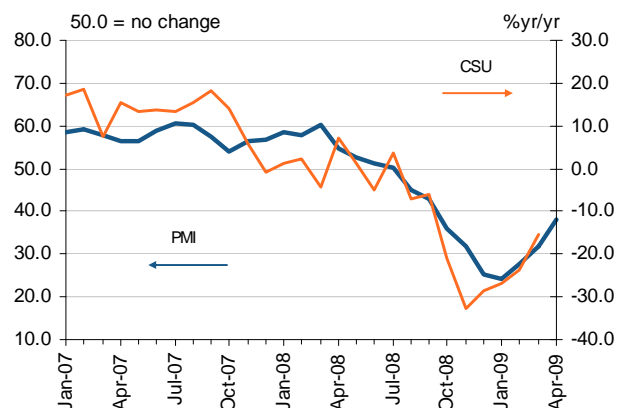


Chart 2: new orders, manufacturing



Forthcoming release dates:

GDP (preliminary, Q1): 15 May

RBS Czech Republic Manufacturing PMI (May): 1 June

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