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HSBC Czech Republic Manufacturing PMI

Czech manufacturing sector continued on path to recovery in August.

Summary

PMI data from HSBC covering the Czech Republic continued to show that the severe manufacturing contraction had passed its worst phase mid-way through the third quarter. Both output and new orders rose compared to July, although a further sharp cut in employment forestalled an outright recovery. Manufacturers' cost pressures were broadly stable, while downward pressure on output prices was maintained.

The headline HSBC Manufacturing PMI® is a composite index designed to provide a single-figure snapshot of overall business conditions. Readings below 50.0 indicate decline, and deterioration has been signalled continuously since July 2008. However, the PMI rose by 3.6 points in August to 47.0, indicating the slowest deterioration in the business climate since last August. The PMI has improved every month since January's record low, signalling that the worst phase of the downturn has passed. Moreover, the latest gain in the headline index was the second-steepest in over eight years of data collection.

The most important component of the PMI – new orders – moved into positive territory in August. The volume of new work received increased for the first time in thirteen months, albeit only slightly. Survey data suggested that domestic demand had driven growth as new export orders continued to fall, albeit at a much reduced rate. Meanwhile, the ratio of new orders to finished goods stocks rose to its highest in two years.

The increase in new orders was largely behind in a return to production growth in August. Output rose on the previous month for the first time since June 2008, though the rate of expansion was modest compared to the survey's historic standards. Firms also continued to reduce input purchases as they streamlined stocks.

Although workloads increased in August, firms continued to shed staff at a marked rate as capacity remained under-utilised. The rate of decline in employment remained strong, despite easing to the slowest in ten months. Backlogs fell for the twelfth month running, albeit only marginally, reflecting the increase in new contracts.

Czech manufacturers paid less for inputs on average in August, although the fall was only slight. Sources of lower costs included steel and foodstuffs. Higher prices were reported for copper, timber and oil-related products.

The fragility of the recovery in demand for Czech manufactured goods was highlighted by a further sharp cut in output prices in August. Charges have fallen for eleven consecutive months, as firms continued to report intense competition for sales.

Comment

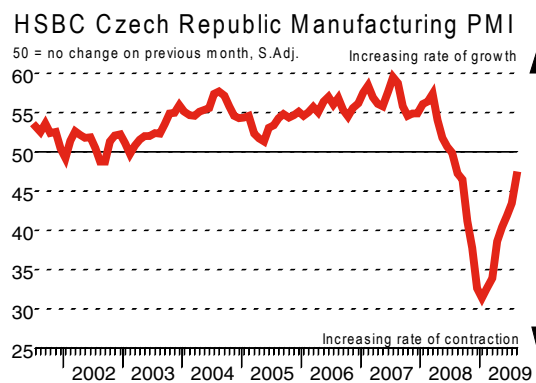
Commenting on the Czech Republic Manufacturing PMI survey, Juliet Sampson, Chief Economist for Emerging Europe at HSBC said:

"The sharp rise in the August PMI provides a building sign of recovery in Czech Republic. While the composite index remains below the key 50 level, the manufacturing output index has moved into positive territory, heralding the likelihood of growth in the sector before long. A noticeable improvement in new export orders points to recovery in Czech Republic's key Western European export markets and a possible move into positive levels by September. However, continued weakness in the employment index points to a likely deterioration in consumption in the months ahead and possibly a weak recovery in economic activity."

Key points

- PMI rose sharply to 47.0, indicating much slower decline in business conditions.
- Production and new orders both increased on the month.
- Jobs and input stocks both continued to fall sharply.

Historical overview



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Notes to Editors:

The HSBC Czech Republic Manufacturing PMI is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 300 industrial companies. The panel is stratified geographically and by Standard Industrial Classification (SIC) group, based on the regional and industry contribution to Czech industrial production.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50.0 indicates an overall increase in that variable, below 50.0 an overall decrease. All data are seasonally adjusted.

The Purchasing Managers' Index (PMI) is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment- 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times index inverted so that it moves in a comparable direction.

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