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The HSBC Czech Republic Manufacturing PMI series is produced by Markit Economics, an independent research company that produces highly-regarded surveys of business conditions in nations around the world.

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HSBC Czech Republic Manufacturing PMI

Czech manufacturing sector continued on path to recovery in August.

Key findings:

- 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.

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

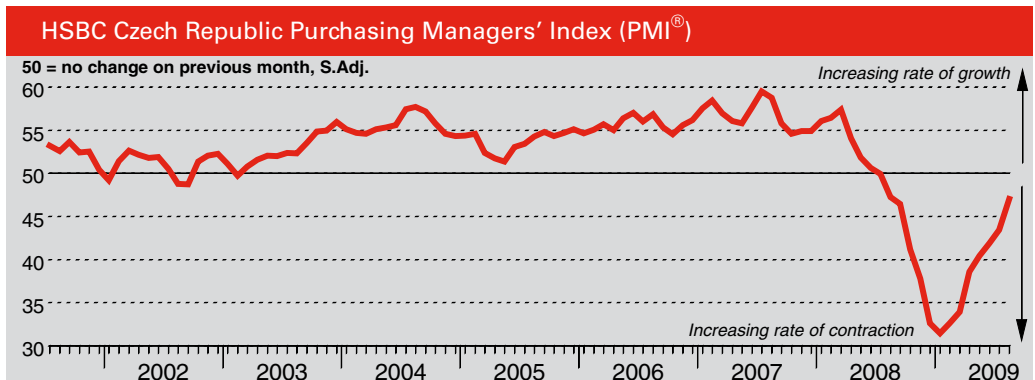
at a much reduced rate. Meanwhile, the ratio of new orders to finished goods stocks rose to its highest in two years.

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.

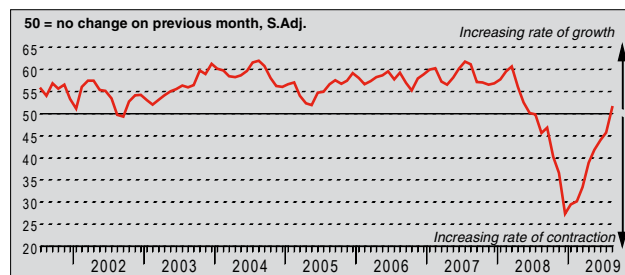


The HSBC Czech Republic Purchasing Managers' Index (PMI) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times and stocks of goods purchased. A reading of the PMI below 50.0 indicates that the manufacturing economy is generally declining; above 50.0, that it is generally expanding. A reading of 50.0 signals no change. The greater the divergence from 50.0, the greater the rate of change signalled by the index.

Output Index

Q. Please compare your production/output this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Mar	15.8	44.1	40.1	-24.3
	Apr	18.8	48.3	32.9	-14.1
	May	23.2	43.3	33.6	-10.4
	Jun	24.4	46.2	29.4	-5.1
	Jul	25.0	40.2	34.9	-9.9
	Aug	26.7	36.4	36.9	-10.2

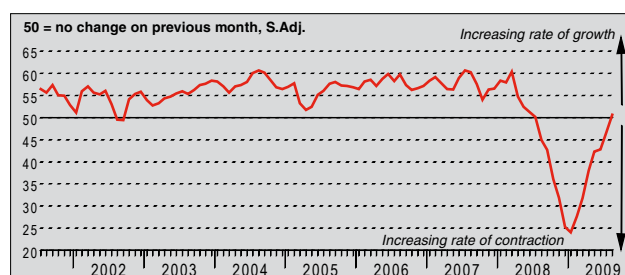


Czech manufacturing output rose for the first time since June 2008 in August. The seasonally adjusted Output Index rose for the eighth month in succession from December's record low, and the points gain in the latest period was the greatest posted by the series to date. Survey respondents primarily linked higher activity to rising new order volumes, expanded customer bases and improved production capacity. That said, the rate of growth was only modest, and much weaker than the series long-run average.

New Orders Index

Q. Please compare the level of new orders received this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Mar	17.5	37.2	45.3	-27.8
	Apr	22.1	41.2	36.7	-14.5
	May	22.7	42.6	34.7	-12.0
	Jun	25.0	39.1	35.9	-10.9
	Jul	26.7	40.1	33.2	-6.4
	Aug	25.3	42.9	31.8	-6.4

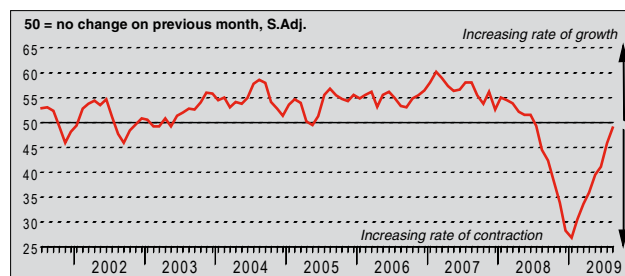


August data signalled a rise in new orders received by Czech manufacturers. The increase was the first in thirteen months. Higher receipts of new work compared to one month earlier were primarily attributed by survey respondents to rising customer numbers and an improvement in market demand. That said, the rate of expansion signalled was only marginal and, as with production, was well below the long-run average for the series.

New Export Orders Index

Q. Please compare the level of new export orders received this month with the situation of one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Mar	16.7	43.0	40.3	-23.7
	Apr	15.2	44.2	40.6	-25.5
	May	16.4	50.9	32.8	-16.4
	Jun	21.5	46.2	32.3	-10.7
	Jul	24.7	46.8	28.4	-3.7
	Aug	21.5	47.2	31.4	-9.9

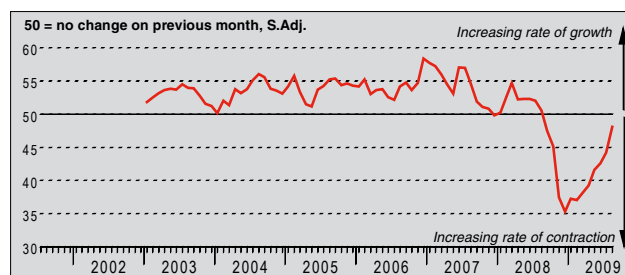


New export business in the Czech manufacturing sector fell for the fourteenth successive month in August. However, the seasonally adjusted New Export Orders Index rose for the seventh month in a row, to a level indicative of only a marginal rate of decline. The points rise in the index was one of the largest registered by the series to date. Some firms commented that conditions in key export markets had improved, and that the wider global economic crisis appeared to have passed its worst phase.

Backlogs of Work Index

Q. Please compare the level of outstanding business in your company this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Mar	14.6	52.1	33.3	-18.7
	Apr	17.3	51.4	31.3	-14.1
	May	13.8	57.3	28.9	-15.1
	Jun	18.7	54.5	26.8	-8.0
	Jul	15.7	56.2	28.1	-12.4
	Aug	20.0	51.7	28.4	-8.4

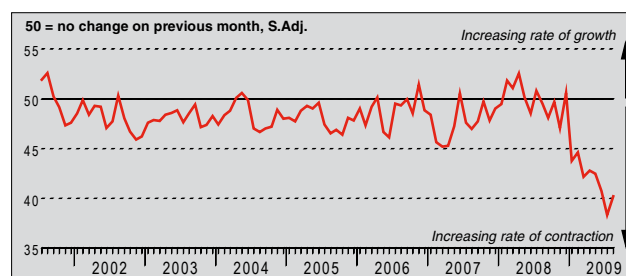


Backlogs of work at Czech manufacturers continued to fall in August, in a sign that pressure on capacity in the sector remained subdued. However, the rate of reduction in the level of work-in-hand eased further over the month to only a moderate pace. The seasonally adjusted Backlogs of Work Index was at its closest to the neutral 50.0 threshold in the current twelve-month sequence of decline, having posted its largest one-month gain since June 2007.

Stocks of Finished Goods Index

Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Mar	20.8	46.0	33.2	-12.4
	Apr	16.7	56.7	26.6	-9.9
	May	13.9	57.9	28.2	-14.2
	Jun	11.3	56.0	32.7	-21.5
	Jul	12.0	48.9	39.1	-27.2
	Aug	13.6	56.2	30.3	-16.7

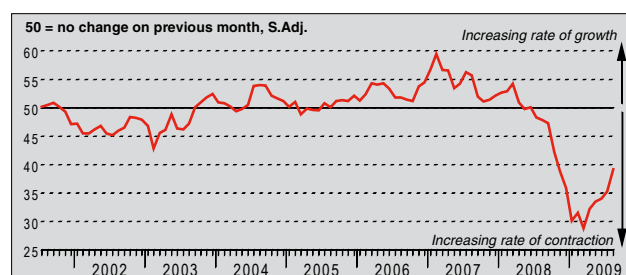


Post-production inventories at Czech manufacturers declined for the eighth consecutive month in August. The current sequence of reduction is the longest since that registered between June 2004 and March 2006. The rate of decline was slightly weaker than July's survey record – as shown by a rise in the seasonally adjusted Stocks of Finished Goods Index – but still sharper than in any previous survey period. Firms mainly linked lower stocks to order shipments. The ratio of the new orders to finished goods stocks indexes rose to its highest for two years in the

Employment Index

Q. Please compare the level of employment at your unit with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Mar	3.4	49.7	46.9	-43.6
	Apr	7.1	53.6	39.3	-32.2
	May	4.2	59.4	36.4	-32.2
	Jun	6.0	57.2	36.9	-30.9
	Jul	6.2	61.7	32.1	-25.8
	Aug	9.2	64.8	26.0	-16.7

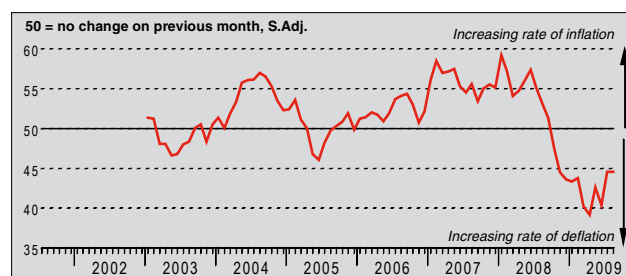


Czech manufacturers continued to cut jobs in August, despite the nascent recovery in new orders. The seasonally adjusted Employment Index remained at a level indicative of a marked rate of job shedding in the sector, with over one-quarter of companies reporting reduced workforces. The current period of contraction now stretches to fourteen months. However, the reduction in headcounts in August was less severe than in each of the preceding nine months.

Output Prices Index

Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Mar	0.7	78.1	21.1	-20.4
	Apr	1.3	77.0	21.7	-20.3
	May	1.4	82.7	15.9	-14.5
	Jun	0.8	77.7	21.4	-20.6
	Jul	4.2	81.4	14.4	-10.2
	Aug	4.1	80.6	15.3	-11.3

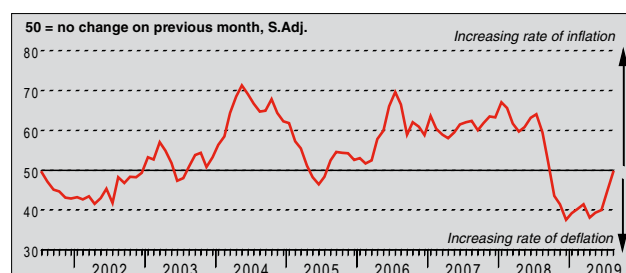


Pricing power in the Czech manufacturing sector remained heavily restricted in August. The seasonally adjusted Output Prices Index remained below the 50.0 no-change mark, signalling declining average output charges for the eleventh successive month. The rate of reduction was unchanged from July's strong pace, but was nevertheless weaker than those indicated during the first half of 2009. Firms linked discounting to an intensely competitive marketplace.

Input Prices Index

Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Mar	7.9	67.7	24.4	-16.5
	Apr	2.8	69.5	27.7	-24.9
	May	4.2	71.0	24.7	-20.5
	Jun	5.6	70.7	23.7	-18.1
	Jul	11.8	71.2	17.0	-5.2
	Aug	14.5	73.5	12.0	2.5

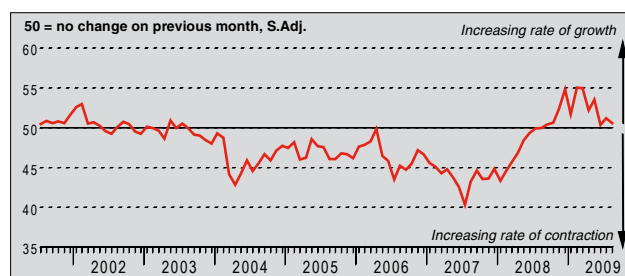


Average input prices paid by Czech manufacturers fell for the eleventh month in succession in August. However, the seasonally adjusted Input Prices Index posted the steepest one-month gain in over three years to a level indicative of only a marginal rate of reduction. Firms reported lower steel and food prices as being key sources of reduced cost pressures. Instances of higher cost burdens were linked to rising prices for timber and paper, oil-related chemicals and copper.

Suppliers' Delivery Times Index

Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.

		Faster %	Same %	Slower %	Net +/-
2009	Mar	14.2	82.9	3.0	11.2
	Apr	8.8	87.1	4.1	4.7
	May	9.0	88.5	2.5	6.4
	Jun	4.3	90.5	5.2	-0.9
	Jul	6.0	85.5	8.5	-2.6
	Aug	5.5	82.3	12.2	-6.7

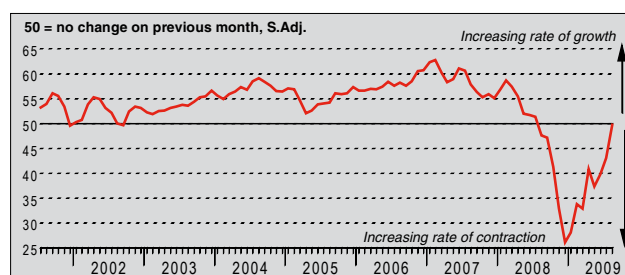


The average time taken for suppliers to deliver inputs to manufacturers shortened only marginally in August, in a sign that pressure on vendor capacity was stable. The seasonally adjusted Suppliers' Delivery Times Index was at a level indicative of the second-slowest decline in average times since last September. Instances of faster shipments were generally linked to lower sales volumes, while delays were attributed to recovering market conditions.

Quantity of Purchases Index

Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Mar	13.6	41.3	45.2	-31.6
	Apr	23.4	41.0	35.7	-12.3
	May	20.0	38.0	42.0	-22.0
	Jun	20.0	44.9	35.1	-15.1
	Jul	21.0	43.1	36.0	-15.0
	Aug	22.9	43.9	33.2	-10.3

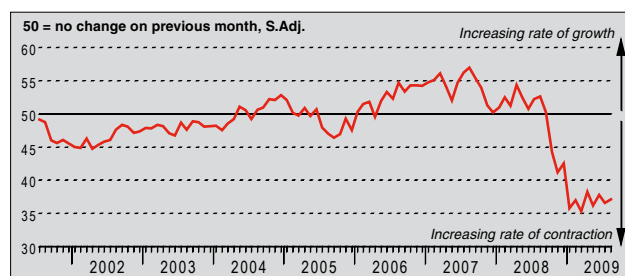


The level of inputs purchased by Czech manufacturers fell for the thirteenth successive month in August. However, the rate of decline slowed markedly compared to the previous month, to only a very marginal pace that was the weakest in the current period of contraction. The seasonally adjusted Quantity of Purchases Index registered its second-largest one-month gain in over eight years of data collection, but remained just below the no-change mark of 50.0.

Stocks of Purchases Index

Q. Please compare your stocks of purchases (in units) with the situation one month ago.

		Higher %	Same %	Lower %	Net +/-
2009	Mar	9.0	55.2	35.7	-26.7
	Apr	10.9	59.3	29.8	-19.0
	May	10.8	50.5	38.7	-27.9
	Jun	9.0	60.7	30.3	-21.3
	Jul	10.9	51.0	38.1	-27.2
	Aug	10.4	58.3	31.4	-21.0



The seasonally adjusted Stocks of Purchases Index rose in August, but was still close to March's series-record low. The data signalled a further rapid contraction in manufacturers' input stocks, with just over 31% of survey respondents reporting lower warehouse holdings of raw materials and semi-manufactured goods. Stocks of purchases have declined every month since last October as firms have targeted lean production strategies in order to control costs.

Notes on the Data and Method of Presentation

The Purchasing Managers' Index is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 250 manufacturing companies. The panel is stratified geographically and by Standard Industrial Classification (SIC) group, based on 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'.

The Purchasing Managers' Index (PMI) is a composite index based on five of the individual indexes with the following weights derived from the Chartered Institute of Purchasing & Supply's survey of the UK economy: 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.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

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