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HSBC Czech Republic Manufacturing PMI

Production and new orders continued to rise

Summary

The September PMI survey findings from HSBC covering the Czech manufacturing sector continued to point to a nascent recovery in business conditions at the end of the third quarter. Production and new orders both increased for the second month running, while backlogs of work were only marginally lower. The main drags on overall recovery remained falling employment and pre-production inventories, while cost pressures increased for the first time in twelve months.

The headline HSBC Czech Republic Manufacturing PMI® is a composite index designed to provide a single-figure snapshot of overall business conditions, based on sub-indexes for output, new orders, employment, supplier performance and input stocks. In September, the PMI remained below 50.0, extending the current sequence of overall contraction to fifteen months. However, the latest figure of 49.5 signalled the slowest rate of decline since July 2008. The only two components to exert negative influences on the headline figure were employment and stocks of purchases.

Czech manufacturers raised production for the second month running in September. The rate of growth accelerated slightly from August, but remained weaker than the long-run series average. Driving the latest increase in output was a further monthly gain in new work. Moreover, broad-based growth of both total and export new orders was indicated for the first time since June 2008. Firms reported recovering domestic demand and also new contracts from key export markets such as Germany.

Gains in new orders and rising output requirements resulted in growth of purchasing activity in September. Though weak overall, the expansion was the first in fourteen months. Although purchases rose, the level of inputs held in stock continued to fall sharply as firms reported streamlining policies. Delays from suppliers were also blamed for falling inventory levels, as average lead times increased for the first time in fourteen months.

Job losses in the manufacturing sector continued in September, but at a weaker rate. Declining headcounts have been registered every month since July 2008. The pace of job shedding slowed to an eleven-month low in the latest period.

Average input costs rose for the first time since September 2008. Sources of inflation, according to survey respondents, included metals, plastics and chemicals. In contrast, foodstuffs were reported to have fallen in price. Though solid, the rate of increase in input costs was below the long-run average for the survey. Meanwhile, firms cut their output prices for the twelfth month running as competitive pressures remained intense.

Comment

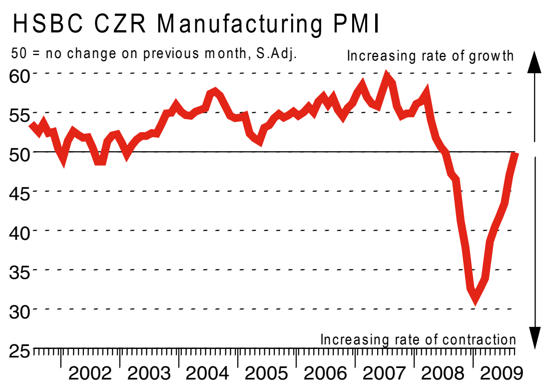
Commenting on the Czech Republic Manufacturing PMI survey, Juliet Sampson, Chief Economist for Emerging Europe at HSBC said:

"A further rise in the composite PMI index in September towards the key 50 level signals a fledgling recovery in the manufacturing sector. The output index advanced for the second consecutive month thanks to improving domestic and external demand. Notably, new export orders turned positive for the first time in over a year, reflecting improved conditions in Western Europe, while a slower pace of inventory depletion points to rising sales. Despite a sharp increase in input costs, output prices continued to retreat, underlining the possibility of further downside surprises in inflation, while continued weakness in employment suggests a quick revival in economic activity is unlikely."

Key points

- PMI rose to 49.5, indicating near-stabilisation of business conditions.
- Gains in new business and output offset by falling employment and input stocks.
- Input prices rose for first time in a year.

Historical overview



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Notes to Editors:

The HSBC Czech Republic Report on Manufacturing 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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