

Embargoed until: 09:30 (PRAGUE), 01 October 2009



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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

Production and new orders continued to rise.

### Key findings:

- 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.

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<sup>®</sup> is a composite index designed to provide a single-figure snapshot of overall business conditions, based on sub-indices 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.

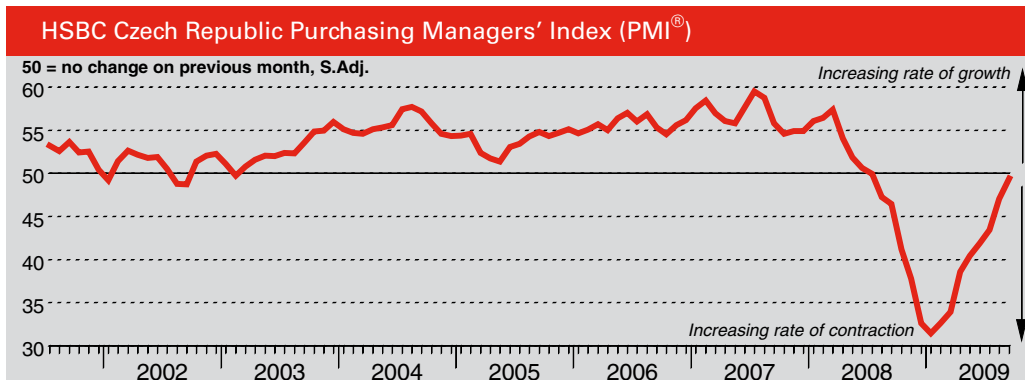
Czech manufacturers raised production for the second month running in September. The rate of growth accelerated slightly from August, but remained weaker than the long-run series average. Driving the latest increase in output was a further monthly gain in new work. Moreover, broad-based

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.

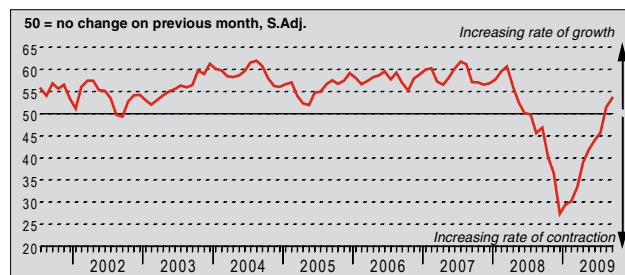


The HSBC Czech Republic Purchasing Managers' Index (PMI) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, 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 +/-
<b>2009</b>	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
	Sep	31.0	57.7	11.3	19.6

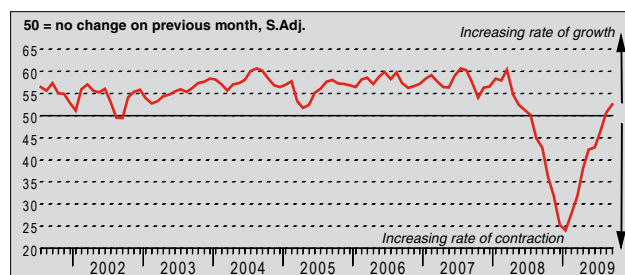


Czech manufacturing production rose for the second month running in September. The seasonally adjusted Output Index rose for the ninth month running from December 2008's record low, and stood at its highest in seventeen months. The latest figure was indicative of a robust rate of expansion, albeit one that remained below the survey's long-run average. Anecdotal evidence linked the rise in production to recovering demand, stabilising new order levels and work from clients in the construction industry.

### New Orders Index

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

		Higher %	Same %	Lower %	Net +/-
<b>2009</b>	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
	Sep	33.3	47.1	19.6	13.7

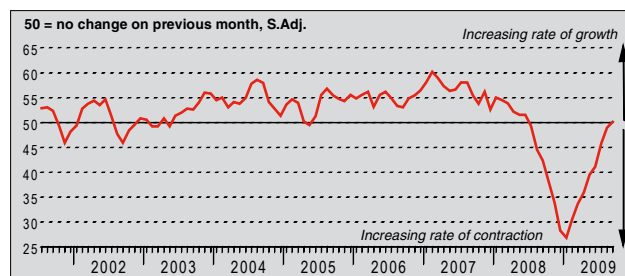


August's gain in new workloads at Czech manufacturers was repeated in September. Moreover, the rate of expansion accelerated to its sharpest since April 2008. However, in line with output, the seasonally adjusted New Orders Index remained below its long-run trend. Survey respondents linked rises in new contracts both to improving domestic demand and tenders from construction companies. Panellists also noted gains in export markets, particularly Germany. One-third of firms reported higher new orders than one month previously, versus almost one-in-five that stated losses.

### 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 +/-
<b>2009</b>	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
	Sep	24.2	55.5	20.3	3.9

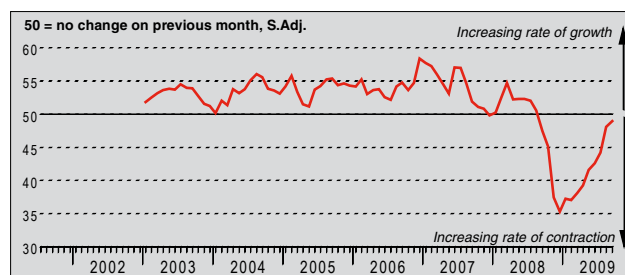


The level of new export orders received by manufacturers in the Czech Republic was broadly stable in September. The seasonally adjusted New Export Orders Index edged above the no-change mark of 50.0 for the first time in fifteen months, indicating growth of new export contracts. However, the latest figure was below the long-run trend and signalled only a marginal rate of expansion. The key German market was cited by a number of panellists as a source of rising new work in September.

### 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 +/-
<b>2009</b>	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
	Sep	20.9	60.2	18.9	2.0

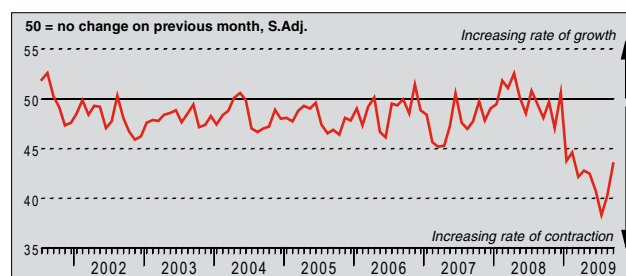


Outstanding business held by Czech manufacturers fell for the thirteenth month running in September. However, the seasonally adjusted Backlogs of Work Index moved closer to the neutral level of 50.0, indicating a rate of decline that was the slowest of the current sequence. Firms continued to link lower backlogs to stock streamlining and uncertainty regarding the economic outlook, although some companies reported rising incomplete workloads as a result of new order growth.

## 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 +/-
<b>2009</b>	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
	Sep	10.2	68.1	21.7	-11.5

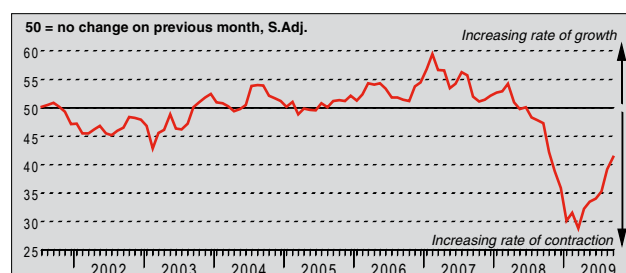


Stocks of post-production inventories declined for the ninth successive month in September, the longest sequence of contraction registered in three-and-a-half years and by far the steepest over the survey history. The latest rate of decline was the slowest in seven months, but still sharper than in any period covered by the series prior to March. Firms linked lower inventory levels to stock clearances – partly through promotional campaigns – and rising sales.

## Employment Index

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

		Higher %	Same %	Lower %	Net +/-
<b>2009</b>	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
	Sep	7.5	69.6	23.0	-15.5

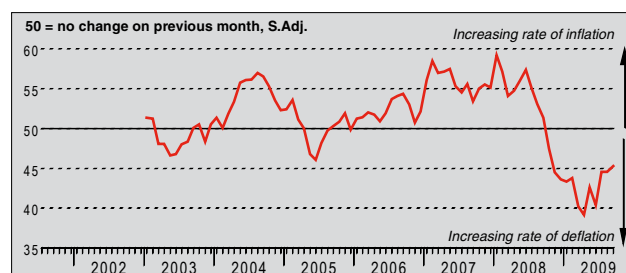


Although new orders and production both rose during September, workloads in the Czech manufacturing sector remained below long-run trend levels and firms subsequently cut staff numbers. The current period of decline in manufacturing employment now extends to fifteen months. That said, the rate of job shedding has eased continuously since hitting a survey record in March, with the latest fall the weakest since October 2008.

## 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 +/-
<b>2009</b>	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
	Sep	4.8	82.2	13.1	-8.3

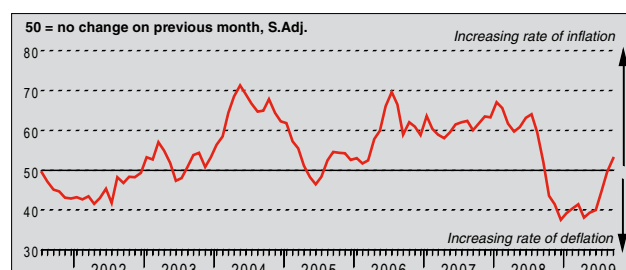


Czech manufacturers cut their selling prices on average for the twelfth month in succession in September. Firms widely linked lower output prices to competitive pressures in the marketplace, and also to the introduction of cheaper product ranges intended to attract new customers. The rate of reduction remained sharp overall, but eased to its weakest since October 2008. Approximately 13% of firms reported lowering charges during the month, against less than 5% that posted a rise.

## 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 +/-
<b>2009</b>	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
	Sep	15.5	75.8	8.7	6.7

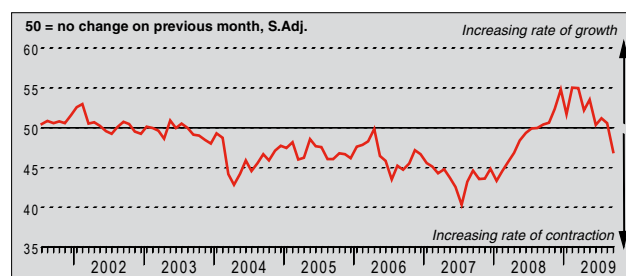


Average prices paid by manufacturers for their inputs rose in September. It was the first instance of input cost inflation in the sector in a year. Sources of rising cost burdens included metals (aluminium, copper), plastics, chemicals and timber. Meanwhile, there were reports of falling prices for a range of foodstuffs. Though indicative of a robust increase in input prices, the seasonally adjusted Index remained below its long-run trend level in September.

## 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 +/-
<b>2009</b>	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
	Sep	5.6	83.3	11.1	-5.6

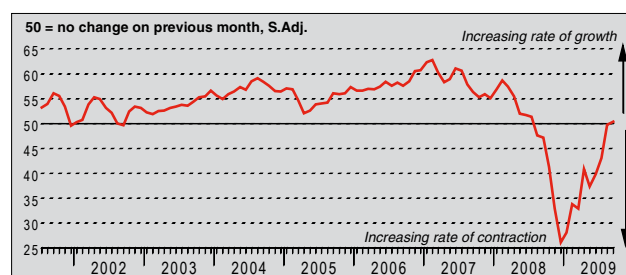


September data indicated a worsening of supplier performance for the first time since July 2008. Just over 11% of survey respondents reported that average lead times had lengthened compared to one month earlier. Some firms reported that suppliers had reduced stock levels and were subsequently unable to accommodate the nascent recovery in market conditions. Metals were reported to be in short supply in a number of cases.

## 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 +/-
<b>2009</b>	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
	Sep	27.4	54.2	18.3	9.1

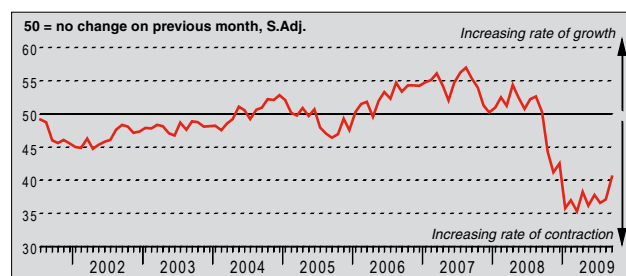


The sustained increases in output and new orders during September led to a rise in manufacturers' purchasing activity. That brought to an end a thirteen-month sequence of decline which commenced in August 2008. However, the seasonally adjusted Quantity of Purchases Index was only fractionally above the no-change mark of 50.0, indicative of a marginal rate of expansion. Instances of lower purchasing were generally linked to reduced output requirements, which were in turn attributed to efforts to cut stock levels.

## Stocks of Purchases Index

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

		Higher %	Same %	Lower %	Net +/-
<b>2009</b>	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
	Sep	12.7	60.2	27.1	-14.4



The current sequence of declining input stocks in the Czech manufacturing sector was extended to one year in September. Although it rose to a nine-month high, the seasonally adjusted Stocks of Purchases Index remained at a level indicative of a sharp rate of contraction. More than one-quarter of survey respondents reported lower input inventories during the month, compared to less than 13% that recorded growth. A number of firms reported that falling stocks were linked to delays from suppliers.

## 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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