

## HSBC Czech Republic Manufacturing PMI

Operating conditions in Czech manufacturing sector stabilised in October

### Summary

Latest data signalled that the business climate in the Czech manufacturing sector edged closer to recovery in October. Production and new orders both increased on the month, while employment and input stocks fell at slower rates. However, firms continued to cut their charges sharply in order to boost sales.

The headline HSBC Czech Republic Manufacturing PMI® edged up from 49.5 to 49.8. A repeat of October's marginal gain in November would see the headline figure break the 50.0 mark for the first time since June 2008, to signal an overall improvement of business conditions in the sector.

Growth of production was signalled for the third successive month, driven by a third straight monthly rise in new orders received, although in both cases the rate of growth slowed marginally since September. Despite easing slightly, the rate of expansion in new work was sufficient to generate a marginal increase in the volume of outstanding business at manufacturing plants in October. It was the first time that backlogs had risen since August 2008.

Manufacturers continued to pursue efforts to cut costs in October. Employment fell for the sixteenth month running, while both pre- and post-production stocks were cut further. That said, in all three cases the rates of reduction slowed.

Returning pressure on supply chains was evident in October. The volume of inputs purchased rose for the second month running, and at a faster rate than in September. As a result, suppliers' delivery times lengthened for the second consecutive month. Some survey respondents commented that vendors' stocks had not been replenished sufficiently to cope with the nascent recovery in market conditions.

Inflationary pressure on costs subsided in October. While paper and oil-related items such as plastics and gas increased in price, foodstuffs and raw materials for the autos and construction sectors generally became cheaper. Overall, average input prices were largely unchanged from September.

Improving market demand was in part fuelled by further price discounting in October. Manufacturers cut their output charges on average for the thirteenth month running, and at the fastest rate since June.

### Comment

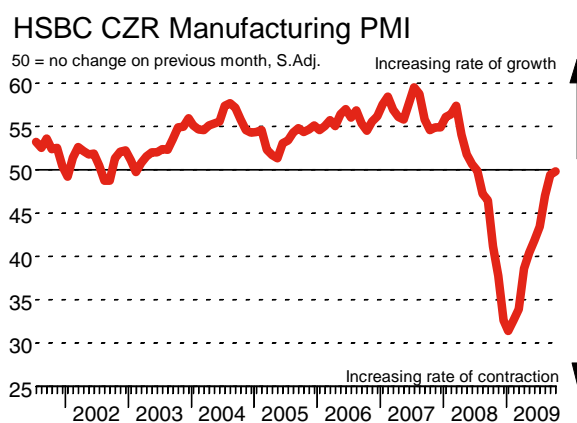
Commenting on the Czech Republic Manufacturing PMI survey, Kubilay Ozturk, economist at HSBC said:

*"Business conditions in the Czech manufacturing sector further approached recovery levels in October. The advance of production and new orders, for the third consecutive month, provides a further sign of a general recovery in demand conditions. The external environment also continues to be supportive as new export orders increased for the second month running. A deepening decline in output prices over the month suggests deflation is a real possibility, increasing the chances of further easing in monetary policy by year-end."*

### Key points

- PMI close to neutrality at 49.8.
- Output and new orders both rose for third month running.
- Input stocks fell at substantially reduced rate.

### Historical Overview



## For further information, please contact:

### HSBC

Kubilay Ozturk, EEMEA Economist, HSBC Bank plc.

Telephone +44-20-7991-1360

Email [kubilay.ozturk@hsbcib.com](mailto:kubilay.ozturk@hsbcib.com)

Petr Plocek, PR Manager, HSBC Bank (Prague)

Telephone +420-221-033-724

Email [petr.plocek@hsbc.com](mailto:petr.plocek@hsbc.com)

Filip Koutný, Director Treasury

Telephone +420-221-033-510

Email [filip.koutny@hsbc.com](mailto:filip.koutny@hsbc.com)

### Markit

Trevor Balchin, Economist

Telephone +44-1491-461-065

Email [trevor.balchin@markit.com](mailto:trevor.balchin@markit.com)

Claire Gorman, Vice President, Corporate Communications

Telephone +44-20-7064-6032

Email [claire.gorman@markit.com](mailto:claire.gorman@markit.com)

### 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 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: 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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