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HSBC Czech Republic Manufacturing PMI

Operating conditions in Czech manufacturing sector stabilised in October.

Key findings:

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

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, as three of its five components – new orders, output and suppliers' delivery times – remained in positive territory, while the remaining two (employment and input stocks) both exerted weaker negative influences. 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 in the Czech manufacturing sector was signalled for the third successive month in October. This was driven by a third straight monthly rise in new orders received, although in both cases the rate of growth eased slightly since September. The overall improvement in demand was supported by a slightly faster increase in new export business during the month, although the pace of growth remained relatively weak compared to that in the domestic market.

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.

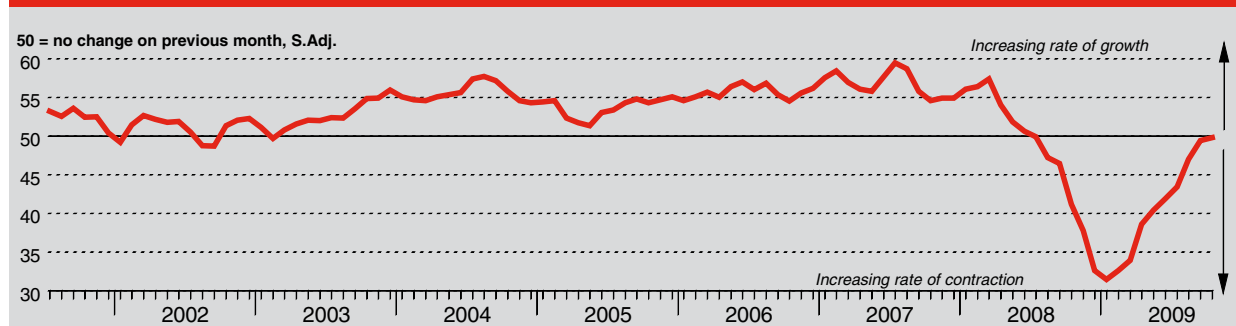
Manufacturers continued to pursue efforts to cut costs in October. Employment fell for the sixteenth month running, while both pre- and post-production stocks were cut further. That said, in all three cases the rates of reduction slowed, most noticeably for input inventories as a number of firms reported preparing for new orders.

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

Having resurfaced at the end of the third quarter, inflationary pressure on manufacturers' costs subsided in October. While paper and oil-related items such as plastics and gas were reported to have 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.

HSBC Czech Republic Purchasing Managers' Index (PMI[™])

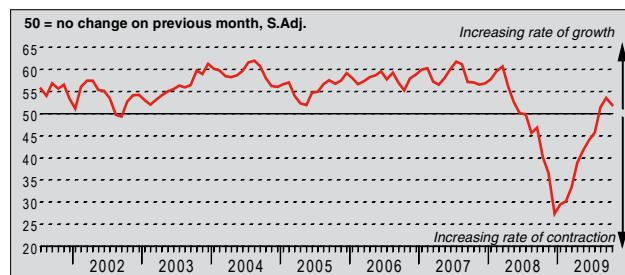


The HSBC Czech Republic Purchasing Managers' Index (PMI) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, 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	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
	Oct	28.1	54.3	17.6	10.6

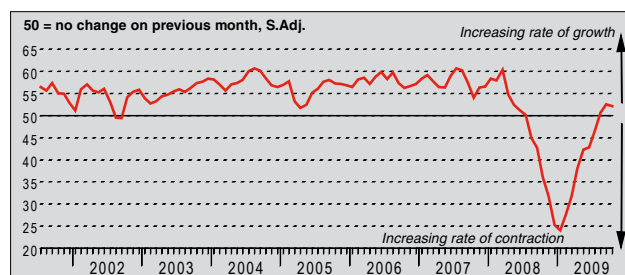


Production in the Czech manufacturing sector rose for the third month running in October. Panellists mainly attributed sustained growth of output to increases in new orders. More than one-quarter of firms surveyed reported higher production volumes in October. However, the rate of growth eased slightly compared to September, as signalled by a fall in the seasonally adjusted Output Index. It was the first month-on-month dip in the Index since it plunged in December 2008.

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	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
	Oct	32.3	47.7	19.9	12.4

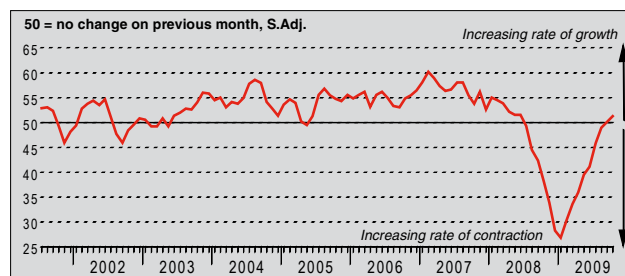


The seasonally adjusted New Orders Index remained above 50.0 for a third successive month in October. The latest figure signalled a moderate rate of growth in new work received by Czech manufacturers, only fractionally weaker than September's 17-month high. The proportion of firms citing higher new orders was more than one-and-a-half times the share that stated lower receipts of new business. Anecdotal evidence from the survey panel provided further signs of a general recovery in market demand.

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	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
	Oct	28.8	54.5	16.7	12.2

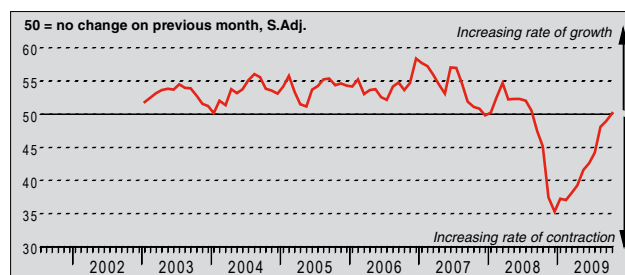


Export demand for Czech manufactured goods improved in October, but remained less robust than that from domestic markets. The seasonally adjusted New Export Orders Index rose for the ninth month running to its highest since June 2008, but the latest figure was indicative of only a modest rate of expansion in new work from international clients. New export orders have increased for two successive months following 14 straight months of decline.

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	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
	Oct	21.8	65.1	13.1	8.7

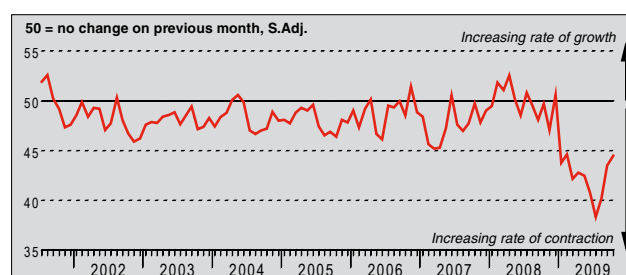


Survey data indicated an overall rise in outstanding business volumes for the first time in 14 months in October. Firms mainly attributed growing backlogs to higher production requirements. That said, the seasonally adjusted Backlogs of Work Index was at a level indicative of only a very marginal increase. More than one-fifth of firms surveyed reported increased levels of incomplete work-in-hand during the month.

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	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
	Oct	12.0	64.9	23.2	-11.2

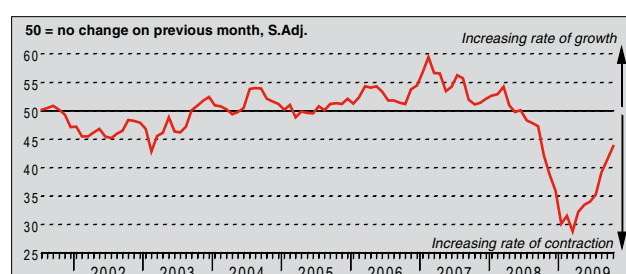


Post-production stocks fell for the tenth month running in October, the longest sequence for over three-and-a-half years. Despite rising order volumes and higher output, firms continued to streamline inventories in order to control costs. The rate of decline remained sharp compared to the long-run trend of the survey, but has eased for the past three months. In October, the seasonally adjusted Stocks of Finished Goods Index was at its highest level since February.

Employment Index

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

		Higher %	Same %	Lower %	Net +/-
2009	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
	Oct	8.4	71.7	19.9	-11.4

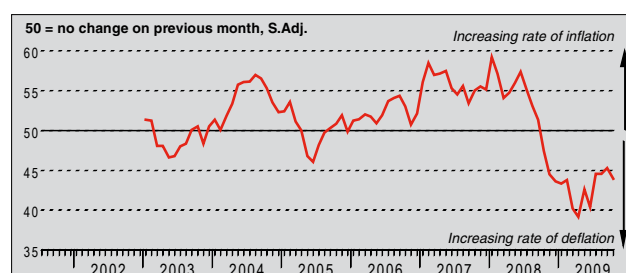


Manufacturing employment in the Czech Republic continued to fall in October. The current period of job shedding in the sector now stretches to 16 months. Firms reported that they had continued to adjust capacity downwards as workloads remained below pre-crisis levels, with a number of companies adopting a cautious approach to the nascent recovery in market demand. Efforts to cut costs and boost productivity were also cited as reasons for reducing workforces, although the overall rate of decline was the weakest since September 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 +/-
2009	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
	Oct	3.8	78.8	17.4	-13.6

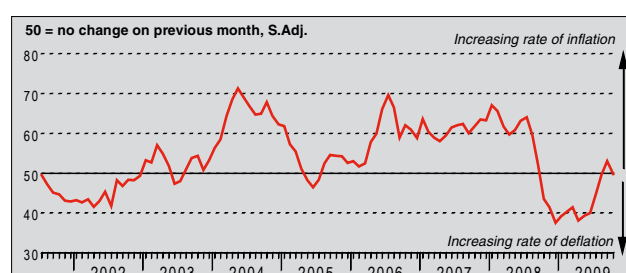


Substantial downward pressure on charges persisted in October. The seasonally adjusted Output Prices Index remained well below the neutral threshold of 50.0, and fell since September to indicate the sharpest reduction in selling prices since June. Firms reported that efforts to boost sales had involved offering discounts to customers. More than four times as many firms reported cutting charges as those that raised them during the latest period.

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	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
	Oct	12.1	72.4	15.5	-3.4

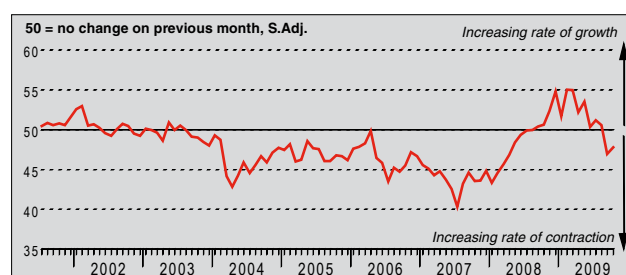


Having increased for the first time in a year in September, average input prices were largely unmoved in October. This was highlighted by the seasonally adjusted Input Prices Index posting close to the neutral 50.0 level. A number of firms reported that oil-related inputs such as plastics and gas were up in price, as was paper. However, inputs related to the autos and construction sectors, as well as foodstuffs, were reported as having become cheaper.

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	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
	Oct	4.8	85.5	9.7	-4.9

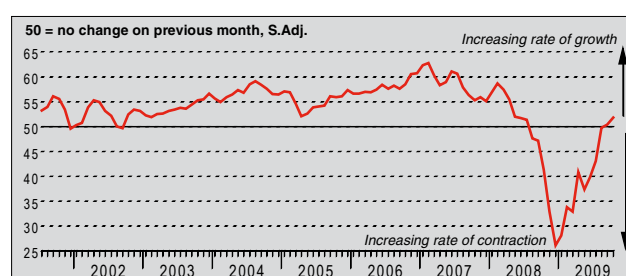


Supplier performance in the Czech manufacturing sector deteriorated for the second successive month in October. Delays in the delivery of inputs to manufacturers primarily reflected recovering demand in the sector that was not met by sufficient supplier stock levels. A number of firms commented that vendors were adopting cautious approaches to re-stocking, as the wider economic recovery remained in an uncertain phase. However, latest data indicated that the extent of lengthening of average lead times had eased slightly since September.

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	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
	Oct	31.9	50.8	17.2	14.7

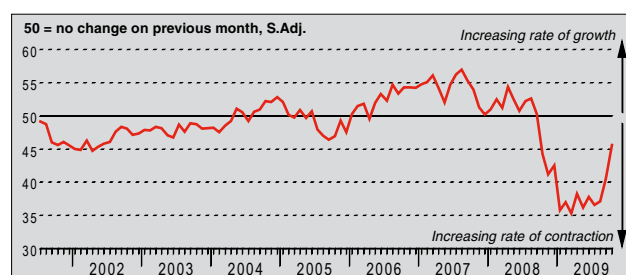


Purchasing activity in the Czech manufacturing sector showed further signs of recovery in October, rising for a second month running. The seasonally adjusted Quantity of Purchases Index rose to its highest level since June 2008, but still signalled only a modest rate of expansion when compared to the long-run survey trend. In the majority of cases, higher input volumes were directly linked by panellists to rising production requirements.

Stocks of Purchases Index

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

		Higher %	Same %	Lower %	Net +/-
2009	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
	Oct	13.1	64.5	22.4	-9.3



October marked a substantial slowdown in the rate of decline of input stocks in the Czech manufacturing sector. The seasonally adjusted Stocks of Purchases Index registered an unprecedented month-on-month gain to post its highest mark of the current 13-month sequence of sub-50 readings. While firms continued to report cutting warehouse stocks of inputs in order to control costs, there were also reports from companies who were preparing for new orders.

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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