

HSBC Czech Republic Manufacturing PMI

Growth of Czech manufacturing output maintained at modest rate in December.

Summary

The latest PMI data compiled by Markit for HSBC showed that operating conditions in the Czech manufacturing sector improved for the second successive month in December. The headline HSBC Czech Republic Manufacturing PMI® posted 50.8, little-changed from November. Any reading greater than 50.0 signals an overall improvement in business conditions. However, the headline figure remained well below its long-run trend of 52.1.

For the fifth month running in December, new orders received by Czech manufacturers increased. Data signalled a sharper increase in total new orders relative to new export business, indicating that the domestic market remained a key source of recovering demand. However, the rate of growth eased slightly compared to November and remained well below its long-run trend.

New order growth was the principal factor supporting a fifth consecutive monthly rise in manufacturing production in December, although the rate of expansion was slower than in November and weak compared to the survey's historic average. The rise in new business was sufficient to generate a rise in outstanding business. Backlogs have increased for the past three months, albeit at a modest rate.

Higher output requirements led to a rise in the volume of inputs purchased in December. Though weak overall, the latest expansion was the fourth in successive months. However, stocks of both pre- and post-production goods continued to fall as firms sought to control costs.

Growing demand for raw materials and other inputs placed pressure on suppliers, and average lead times lengthened to the greatest extent since February 2008 as a result. A number of firms reported that suppliers had failed to rebuild stocks in anticipation of the upturn in demand.

Input prices rose on average, but the rate of inflation was historically weak. Sources of upward pressure on costs included metals and timber, while some plastics prices were reported to have fallen. Meanwhile, firms failed to pass on higher costs to customers, as prices charged fell for the fifteenth month running. That said, the rate of reduction slowed to an extent that was unprecedented in the survey history, further evidence of recovering market conditions.

Comment

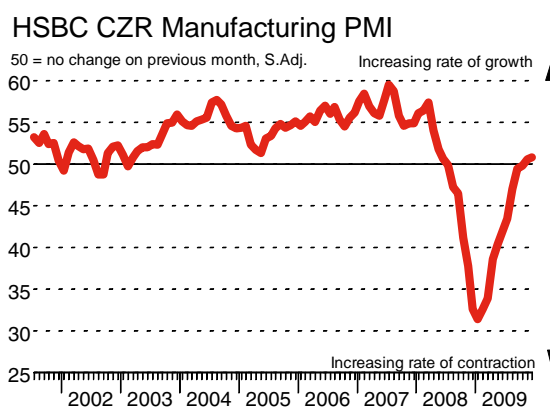
Commenting on the Czech Republic Manufacturing PMI survey, Kubilay Ozturk, economist at HSBC said:

"The headline index improved slightly and remained above the break-even level for the second month running in December, providing further evidence of recovering business conditions in the Czech manufacturing sector. Output and new orders advanced for the fifth consecutive month, underlining improved demand; while the rate of contraction in employment and output prices slowed considerably, further signs of a return to normality. External demand remains supportive, although below historical standards. A strong December Eurozone PMI suggests export performance may improve somewhat before the impact of fiscal stimulus packages fades completely in the first half of 2010."

Key points

- PMI little-changed from November, at 50.8.
- Growth of output and new orders maintained, but at slower rates.
- Rate of job shedding continued to ease.

Historical Overview



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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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About Markit Economics:

Markit Economics is a specialist compiler of business surveys and economic indices, including the Purchasing Managers' Index (PMI) series, which is now available for 26 countries and key regions including the Eurozone and BRIC. The PMIs have become the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.

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