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HSBC Czech Republic Manufacturing PMI

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

Key findings:

- 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.

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. Underpinning the overall improvement in business conditions was a fifth straight monthly increase in new orders, albeit at a modest rate. Production continued to rise and backlogs were accumulated for the third month running, while firms shed staff at the slowest rate since August 2008.

The headline HSBC Czech Republic Manufacturing PMI[®] is a composite single-figure indicator of overall performance in the manufacturing sector. Any reading greater than 50.0 signals an overall improvement in business conditions. At 50.8, the latest reading was little-changed from November and signalled a further mild improvement in the sector. Three of the PMI's five components – output, new orders and suppliers' delivery times – provided positive contributions, while the remaining two (employment and stocks of purchases) exerted weaker negative effects. 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.

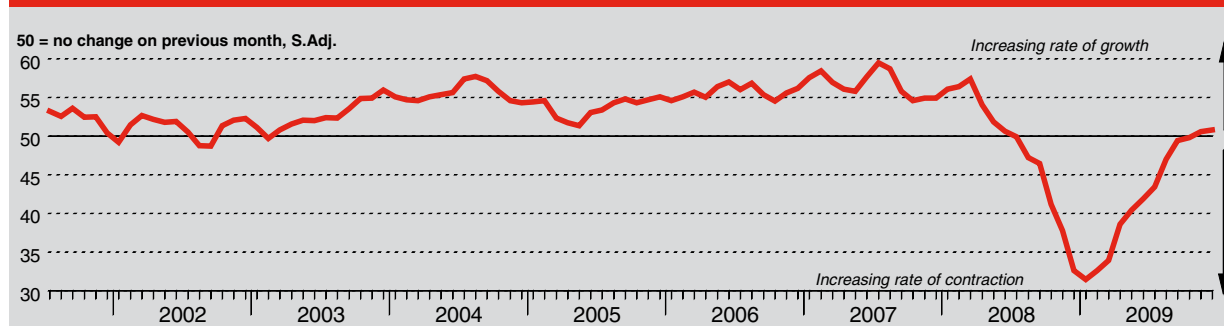
New order growth was the principal factor supporting a fifth consecutive monthly rise in manufacturing production in December, although the rate of expansion was slower than in November and weak compared to the survey's historic average. The rise in new business was sufficient to generate a rise in outstanding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

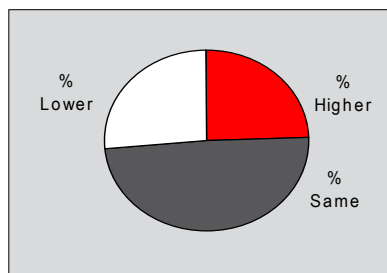
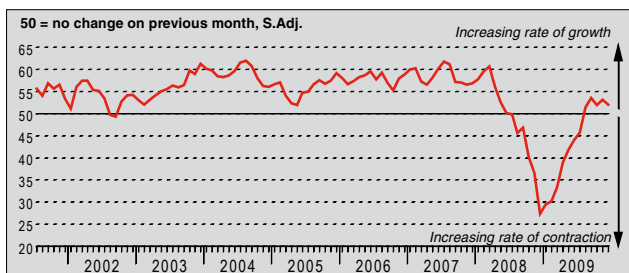
HSBC Czech Republic Purchasing Managers' Index (PMI[®])



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

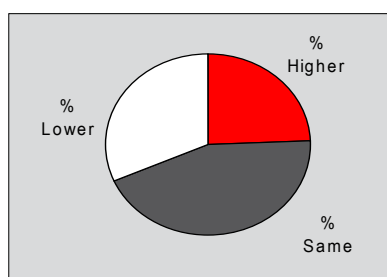
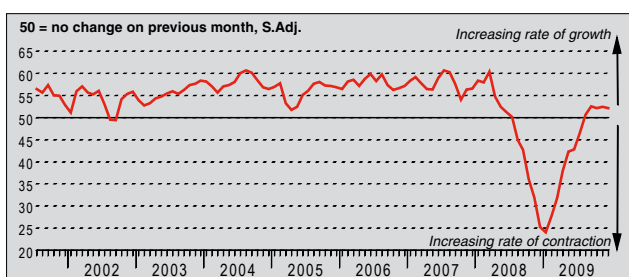
Q. Please compare your production/output this month with the situation one month ago.



Manufacturing output in the Czech Republic expanded for the fifth month running in December. Higher production volumes were primarily linked to rising new orders. However, the rate of growth eased to a moderate pace, as signalled by a fall in the seasonally adjusted Output Index. The Index remained below its eight-and-a-half-year long-run average in the latest period.

New Orders Index

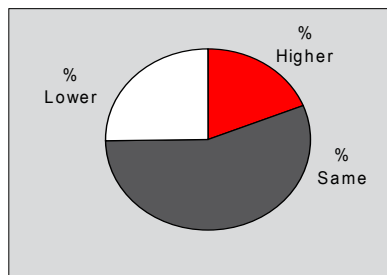
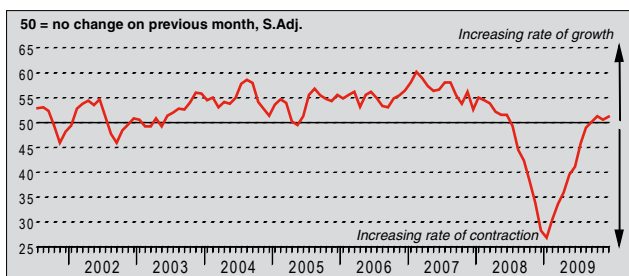
Q. Please compare the level of new orders received this month with the situation one month ago.



The seasonally adjusted New Orders Index remained above the no-change mark of 50.0 for the fifth consecutive month in December, signalling growth of new work received by Czech manufacturers. Firms reported higher new business from both domestic and export clients, while a number noted higher autos-related demand. That said, the Index has stabilised over the past four months at a level indicative of only a modest rate of expansion.

New Export Orders Index

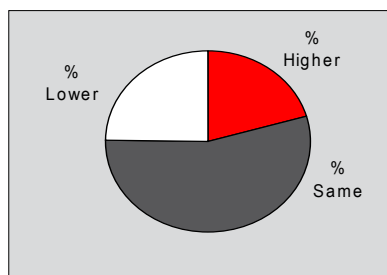
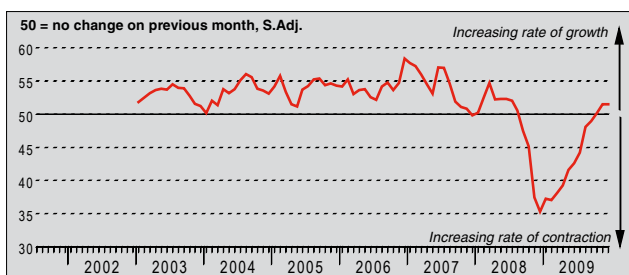
Q. Please compare the level of new export orders received this month with the situation of one month ago.



New export business in the Czech manufacturing sector increased for the fourth successive month in December. There were reports from some survey respondents of improving demand from the key German market. The rate of expansion sharpened slightly since November, but was only modest overall and remained below that for total new orders.

Backlogs of Work Index

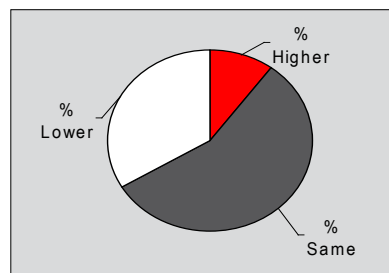
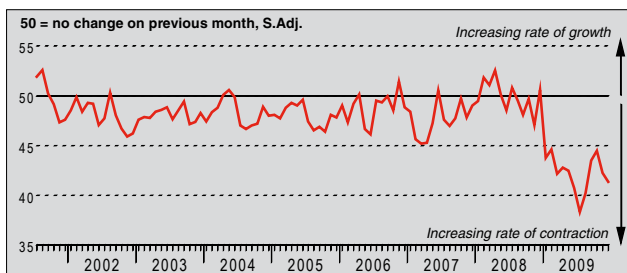
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The latest increase in new orders was sufficient to generate a further rise in the level of incomplete workloads in December. The seasonally adjusted Backlogs of Work Index was little-changed from November and broadly in line with its historic average. Firms mainly linked higher backlogs to a combination of rising output requirements and shortages of raw materials at suppliers.

Stocks of Finished Goods Index

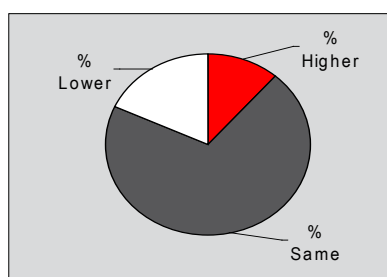
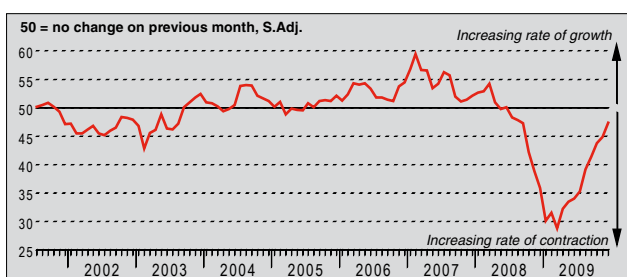
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



The seasonally adjusted Stocks of Finished Goods Index remained indicative of a sharp contraction in manufacturers' post-production stocks in December, sinking to its lowest since August and the fourth-lowest in the series history. Declining stock levels were linked by survey respondents to rising sales and efforts to clear out warehouses.

Employment Index

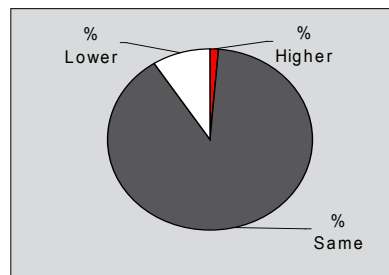
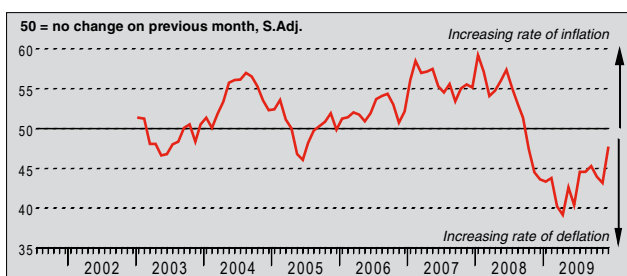
Q. Please compare the level of employment at your unit with the situation one month ago.



Czech manufacturers continued to shed jobs in December. The current sequence of reductions now extends to a year-and-a-half. Firms continued to adjust capacity downwards from pre-crisis levels, citing cost saving measures. That said, the overall rate of decline in employment slowed further from March's series record, to the weakest since August 2008.

Output Prices Index

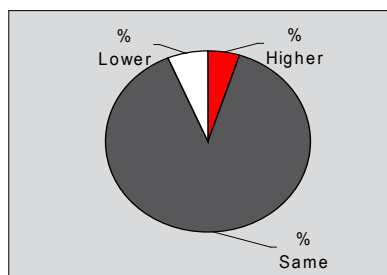
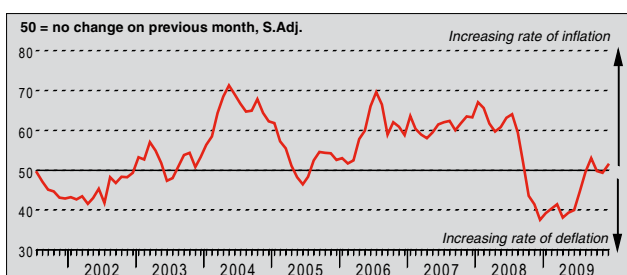
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



December data marked another month of falling prices charged for manufactured goods. The current sequence of decline now extends to fifteen months. Lower tariffs were attributed by panellists to discounts aimed at securing sales and, in some cases, lower raw material prices (notably for plastics). However, the overall rate of reduction in tariffs was the slowest in the current sequence. The seasonally adjusted Output Prices Index posted a record one-month gain during the latest period.

Input Prices Index

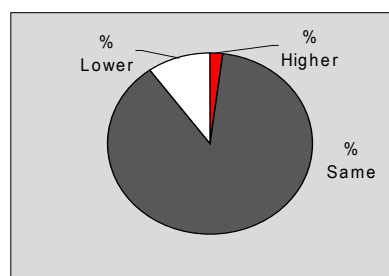
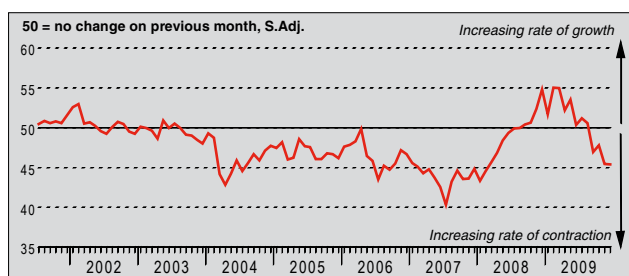
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



The seasonally adjusted Input Prices Index rose back above the no-change mark of 50.0 in December, signalling higher average input costs at Czech manufacturers for the first time since September. According to anecdotal evidence from panellists, the main sources of upward pressure on costs were rising metals prices and timber shortages. That said, the overall rate of input price inflation was only marginal, and well below the long-run survey average.

Suppliers' Delivery Times Index

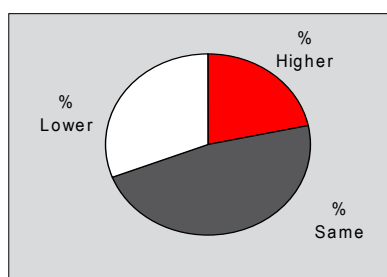
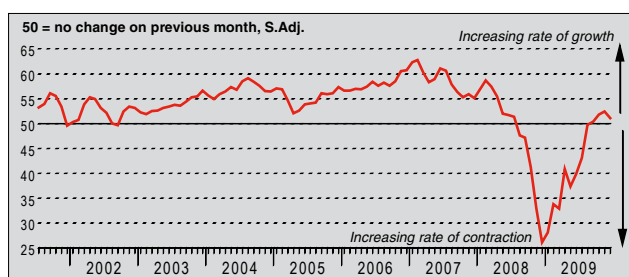
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Vendor performance continued to deteriorate in December. The seasonally adjusted Suppliers' Delivery Times Index remained below 50.0 for the fourth successive month, and signalled the greatest overall lengthening in lead times since February 2008. A number of manufacturers commented that suppliers had been unprepared for the recent recovery in demand conditions and, as such, had not sufficiently replenished stocks.

Quantity of Purchases Index

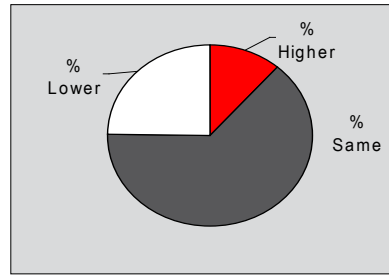
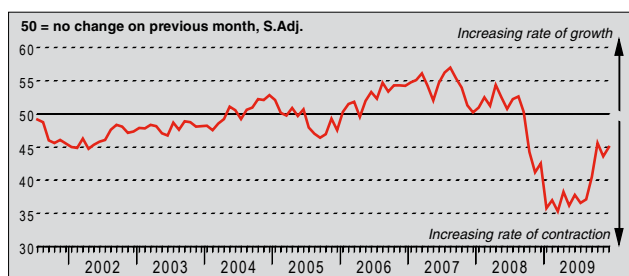
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Czech manufacturers increased the volume of inputs purchased in December. The current sequence of growth now extends to four months. Anecdotal evidence linked the latest increase in purchases to rising new order volumes. That said, the seasonally adjusted Quantity of Purchases Index fell on the month, and signalled the slowest rate of expansion since September. It also remained well below its long-run average.

Stocks of Purchases Index

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



The level of inputs held in stock by Czech manufacturers declined in December, despite the overall increase in purchasing activity. Firms continued to report running down warehouses, as newly purchased raw materials were directed at current production requirements. Pre-production inventories have declined every month since October 2008, although the latest rate of contraction was the second-slowest of this sequence.

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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