

## HSBC Czech Republic Manufacturing PMI

Czech manufacturing output grew at fastest rate since March 2008

### Summary

The latest PMI data compiled by Markit for HSBC showed an overall improvement in business conditions for the third month running in January. Moreover, the rates of growth for both output and new orders accelerated, and were sharper than the averages over eight-and-a-half years of data collection for the survey. Meanwhile, manufacturers shed jobs at a slower pace and continued to cut charges to support sales drives. Supply delays were again registered as firms raised purchasing volumes. The headline HSBC Czech Republic Manufacturing PMI<sup>®</sup> rose to 53.1, signalling a robust overall improvement in business conditions.

January data signalled a strong rise in Czech manufacturing production. Output has risen for the past six months, and the latest rate of expansion was the fastest since March 2008.

Although production rose more sharply than the long-run survey average, backlogs of work also increased in January. Rising pressure on production capacity reflected a robust increase in new work during the month. Total new orders rose at the fastest pace in twenty-one months, with the domestic and export markets both showing firm gains.

Although output and new orders rose sharply during the latest survey period, data signalled a further decline in manufacturing employment. The sector's workforce has contracted every month since July 2008. However, the rate at which firms released staff was the slowest in the current sequence.

Manufacturers stepped up their purchasing operations in January, in expectation of future demand growth and higher raw material prices. The volume of inputs ordered rose at the fastest pace since April 2008, and this led to the greatest lengthening of suppliers' delivery times in almost two years. Input prices rose, but the rate of inflation remained historically weak as vendors competed for business.

Though underlying market demand was reported to have improved further during the month, growth of new orders was partly fuelled by price discounting. Prices charged for manufactured goods fell for the sixteenth month running, albeit at a relatively modest rate compared to the steep cuts registered for much of 2009.

### Comment

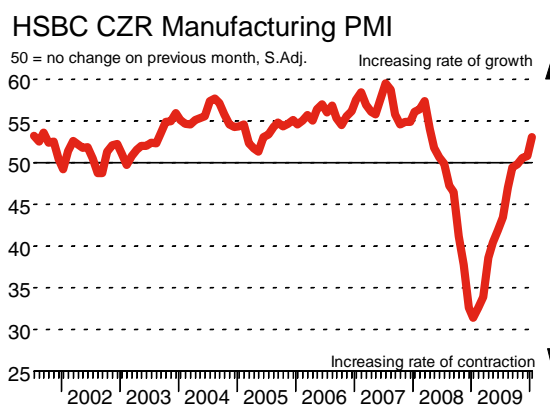
Commenting on the Czech Republic Manufacturing PMI survey, Kubilay Ozturk, economist at HSBC said:

*"The headline index improved noticeably in the first month of 2010 on the back of a remarkable increase in output and a solid rise in new orders, underlining the uninterrupted improvement in demand. Both external and domestic markets appear to have been on the mend in January, suggesting a wider economic recovery is under way. The latter was also confirmed by a leap in firms' purchasing volumes over the month. However, subdued increase in EMU manufacturing PMI in January and the downside surprise in a flash estimate for German 2009 growth suggest the impact of fiscal stimuli and car-scrappage schemes in Western Europe may fade earlier than expected, implying recovery may be gradual and bumpy."*

### Key points

- PMI rose to 53.1, reflecting faster gains in output and new orders.
- Manufacturing employment fell only modestly.
- Price discounting continued.

### 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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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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