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HSBC Czech Republic Manufacturing PMI

Czech manufacturing output grew at fastest rate since March 2008.

Key findings:

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

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[®] 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. In line with the pattern in December, three of the PMI's five components – output, new orders and suppliers' delivery times – provided positive contributions in the latest period, while the remaining two (employment and stocks of purchases) exerted weaker negative effects.

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. The level of outstanding business has risen for the past four months, and the latest increase was the sharpest since March

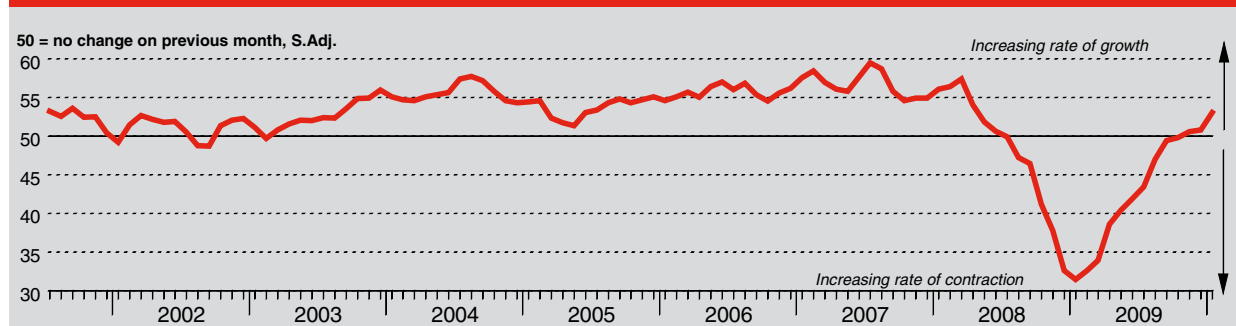
2008. Rising pressure on production capacity reflected a robust increase in new work during the month. Total new orders rose at the fastest pace in twenty-one months, with the domestic and export markets both showing firm gains. Germany and Russia were reported in the latest anecdotal evidence as sources of export growth.

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 in the Czech Republic 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 on average for the second month running, 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.

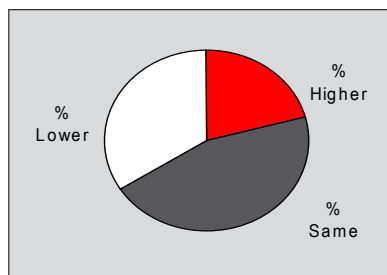
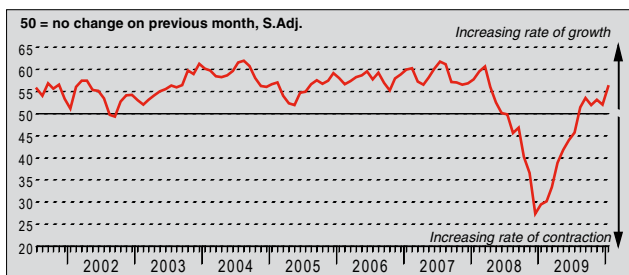
HSBC Czech Republic Purchasing Managers' Index (PMI[®])



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

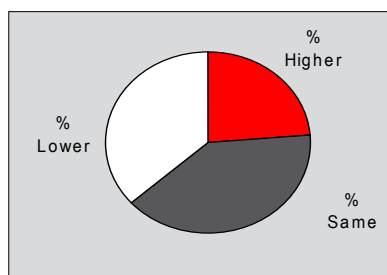
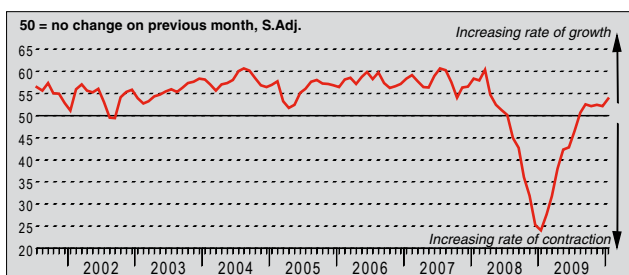
Q. Please compare your production/output this month with the situation one month ago.



January marked a further expansion of Czech manufacturing production. The current sequence of growth now extends to six months. Moreover, having weakened in December, the rate of increase accelerated at the start of 2010. The seasonally adjusted Output Index rose to its highest since March 2008. Firms reported better market conditions, with new business rising as underlying demand improved and customers began replenishing stocks having delayed purchases in 2009.

New Orders Index

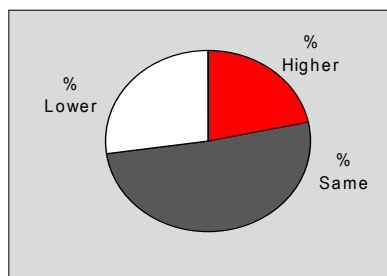
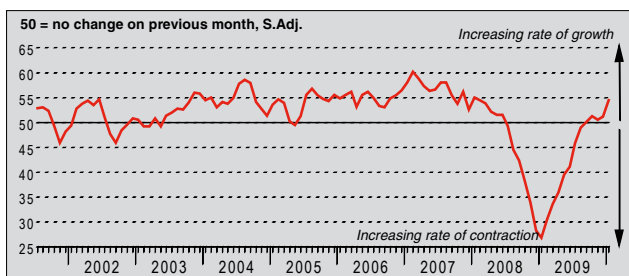
Q. Please compare the level of new orders received this month with the situation one month ago.



The volume of new orders received by Czech manufacturers rose at a solid pace in January. The seasonally adjusted New Orders Index was above the no-change mark of 50.0 for the sixth month running, at a level slightly greater than its long-run average. Higher volumes of new work reflected client restocking, and the latest data suggested strengthening demand from both domestic and export markets. The rate of growth of overall new business in January was the fastest since April 2008.

New Export Orders Index

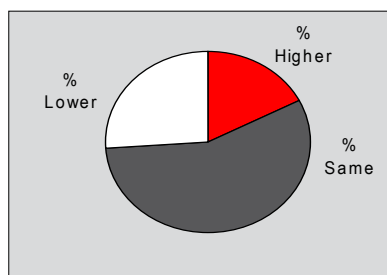
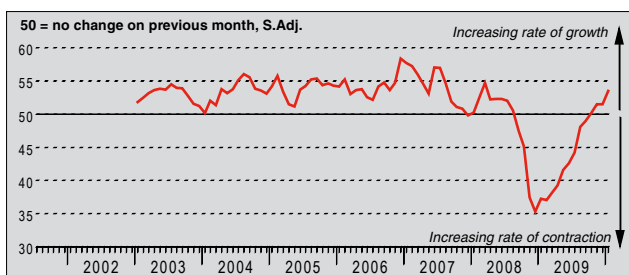
Q. Please compare the level of new export orders received this month with the situation of one month ago.



New export business rose for the fifth month running in January. Having signalled only weak expansion in the final four months of 2009, the seasonally adjusted New Export Orders Index rose to signal the fastest rate of growth since February 2008. The Index was also above its long-run trend level. A number of firms reported Germany and Russia as sources of improving export demand in January.

Backlogs of Work Index

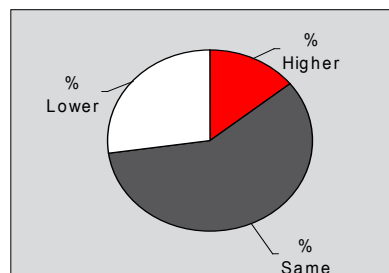
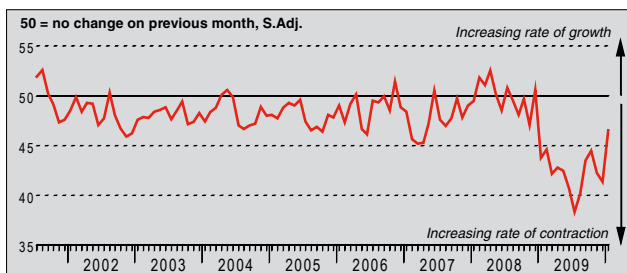
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



For the fourth successive month in January, backlogs of work at Czech manufacturers rose. This reflected strengthening growth of new orders, and was registered despite an accompanying acceleration in production. The seasonally adjusted Backlogs of Work Index pointed to the sharpest rate of growth in outstanding business since March 2008, and was comfortably above its 85-month average.

Stocks of Finished Goods Index

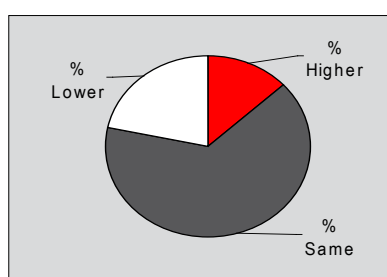
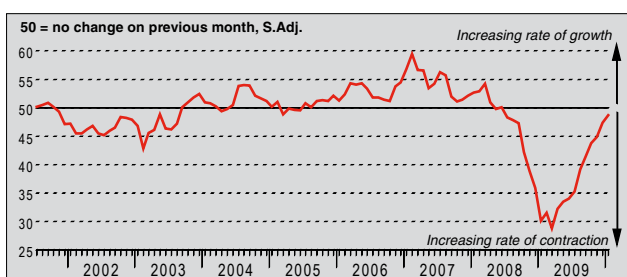
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Czech manufacturers continued to reduce their stocks of finished goods in January. Post-production inventories have declined continuously since January 2009, the longest sequence since that registered from June 2004 to March 2006. However, the rate of reduction slowed, reflecting a faster rise in output. The seasonally adjusted Stocks of Finished Goods Index was at its highest level since December 2008.

Employment Index

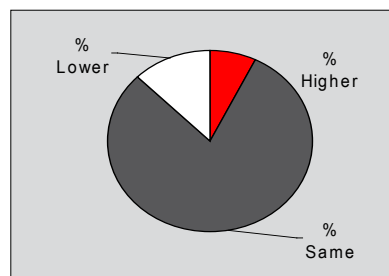
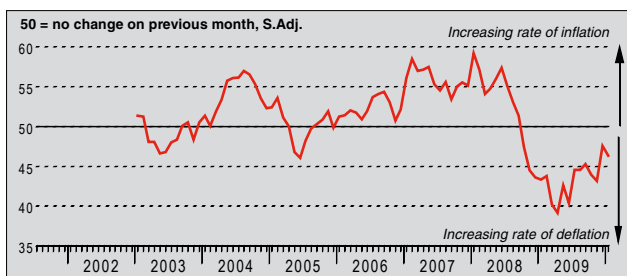
Q. Please compare the level of employment at your unit with the situation one month ago.



Manufacturing employment in the Czech Republic contracted further in January. The non-replacement of leavers was commonly reported as a method of reducing headcounts. The manufacturing workforce has declined in every month since July 2008. That said, the seasonally adjusted Employment Index has risen continuously since reaching a record low in March 2009, and the latest figure signalled the slowest rate of job shedding in the current sequence.

Output Prices Index

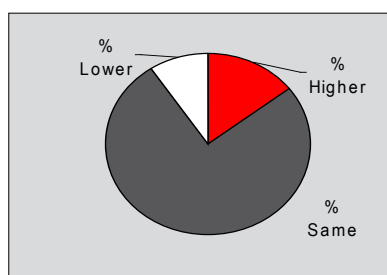
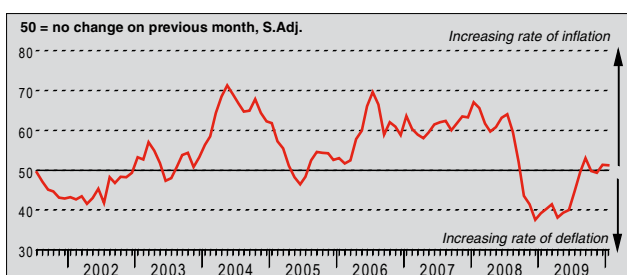
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Czech manufacturers continued to lower their output prices in January. The seasonally adjusted Output Prices Index has remained below the neutral threshold of 50.0 for sixteen months, indicating a sustained period of discounting in the sector as firms have attempted to stimulate sales. The rate of reduction in prices charged was slightly sharper than in December, but still weaker than in any other survey period since October 2008.

Input Prices Index

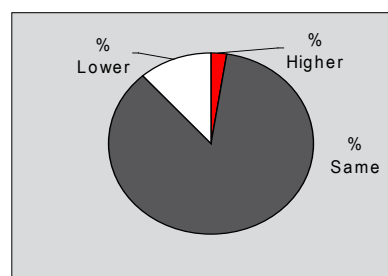
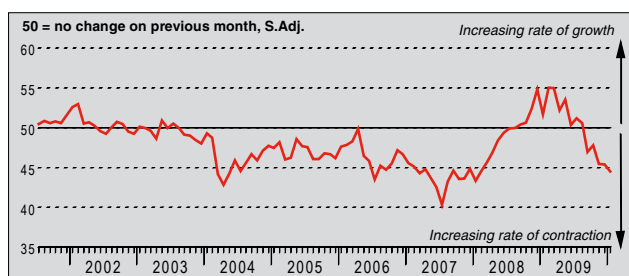
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input prices paid by Czech manufacturers rose on average for the second month running in January. Sources of higher prices included oil, foodstuffs, copper, steel and other metals. However, the seasonally adjusted Input Prices Index remained at a level indicative of a modest overall rate of inflation, reflecting intense competition at suppliers.

Suppliers' Delivery Times Index

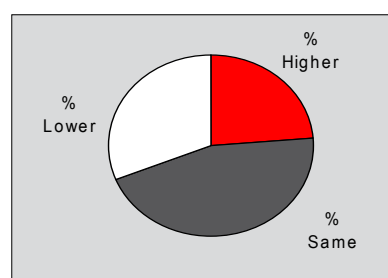
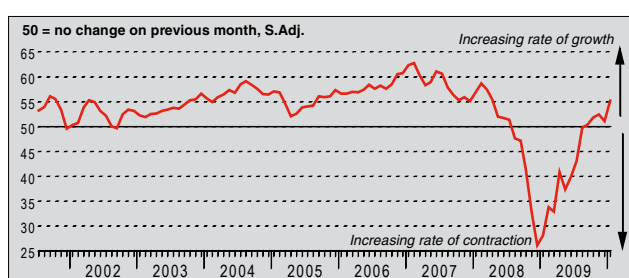
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Reflecting growth of new orders and an associated rise in demand for raw materials, suppliers to Czech manufacturers recorded longer average delivery times in January. The current period of declining vendor performance now stretches to five months. Moreover, the seasonally adjusted Suppliers' Delivery Times Index fell to a near-two year low, indicating the steepest lengthening of lead times since February 2008. More than one-in-ten firms reported slower receipts of purchases in January.

Quantity of Purchases Index

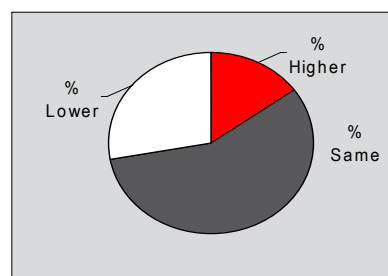
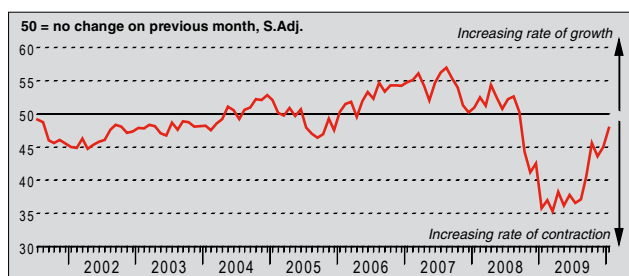
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Purchases made by Czech manufacturers rose strongly in January. The seasonally adjusted Quantity of Purchases Index signalled expansion for the fifth successive month, and the fastest rate of growth since April 2008. Firms reported higher purchasing volumes as they sought to accommodate rising new orders, and also in advance of expected price increases for raw materials.

Stocks of Purchases Index

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



Manufacturers' stocks of pre-production goods declined in January. Input inventories have fallen every month since October 2008. However, a rise in the seasonally adjusted Stocks of Purchases Index signalled a slower overall rate of reduction, reflecting improving underlying demand and faster growth of purchases. The pace of contraction was the slowest in the current sequence of decline.

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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