

HSBC Czech Republic Manufacturing PMI

Czech manufacturing business climate improved at fastest rate for almost two years.

Summary

Czech PMI data compiled by Markit for HSBC continued to point to a recovery in the manufacturing sector mid-way through the first quarter of 2010. New business rose at the fastest rate for almost two years, leading to a further acceleration in production growth.

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. The PMI remained above the no-change mark of 50.0 for the fourth successive month in February, and rose to 54.3. That signalled the strongest overall growth of the sector since March 2008.

Growth of new orders was maintained for the seventh successive month in February. The rate of expansion continued to sharpen and was above the average for the survey which began in July 2001. Data signalled robust demand from both domestic and export markets, with the key German and French markets cited as sources of growth.

Production also rose for the seventh month running, and the rate of growth was the fastest since April 2008. Despite this, the level of outstanding business continued to increase, with the latest data signalling the fastest pace of backlog growth since July 2007. February marked an end to a nineteen-month sequence of job shedding.

Purchasing activity was stepped up in February to meet rising output requirements. The rate of expansion was the strongest for almost two years, and generated a rise in input stocks for the first time since September 2008. Post-production inventories continued to fall, but the rate of decline remained weaker than in 2009. Meanwhile, pressure on vendors was again evident as suppliers' delivery times lengthened sharply.

Inflationary pressure on manufacturers' costs rose in February. Average input prices increased for the third month running, and at the fastest pace since August 2008. There was a broad range of sources of upward pressure on costs, including metals, plastics, wood and electronic components. Input cost inflation was also greater than the long-run series average in February. Despite these cost pressures, firms continued to cut their output prices on average, as competition for business remained strong.

Comment

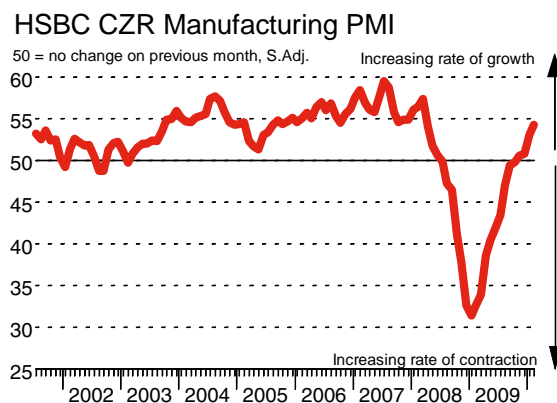
Commenting on the Czech Republic Manufacturing PMI survey, Kubilay Ozturk, economist at HSBC said:

"Czech manufacturing apparently gained more traction in February. Output advanced at the fastest pace in nearly two years. Both domestic and external markets appear to have supported growing demand, and the magnitude of improvement in the latter is encouraging. More important, job shedding has finally ended, auguring well for private consumption. Despite a whopping increase in input prices, output prices continued to retreat, underlining the lack of any meaningful demand-side pressure on inflation. Combined with the sizeable downside surprise in Q4 2009 growth, that underscores the need to maintain monetary stimulus for now by leaving rates at 1.0%. All in all, the release is upbeat, especially following the better-than-expected EMU manufacturing PMI in February. But whether the improvement can be sustained hinges on economic recovery in Western Europe, which is coming very gradually."

Key points

- PMI rose to 54.3, reflecting faster growth of both output and new orders.
- Manufacturing workforce stabilised.
- Input stocks rose for first time since September 2008.

Historical Overview



For further information, please contact:

HSBC

Kubilay Ozturk, EEMEA Economist, HSBC Bank plc.

Telephone +44-20-7991-1360

Email kubilay.ozturk@hsbcib.com

Petr Plocek, PR Manager, HSBC Bank (Prague)

Telephone +420-221-033-724

Email petr.plocek@hsbc.com

Filip Koutný, Director Treasury

Telephone +420-221-033-510

Email filip.koutny@hsbc.com

Markit

Trevor Balchin, Senior Economist

Telephone +44-1491-461-065

Email trevor.balchin@markit.com

Caroline A. Lumley, Director, Corporate Communications

Telephone +44-20-7260-2047

Email caroline.lumley@markit.com

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.

HSBC:

HSBC Holdings plc, the parent company of the HSBC Group, is headquartered in London. The Group serves customers worldwide from around 8,500 offices in 86 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa. With assets of US\$2,422 billion at 30 June 2009, HSBC is one of the world's largest banking and financial services organisations. HSBC is marketed worldwide as 'the world's local bank'.

About Markit:

Markit is a leading, global financial information services company with over 1,400 employees. The company provides independent data, valuations and trade processing across all asset classes in order to enhance transparency, reduce risk and improve operational efficiency. Its client base includes the most significant institutional participants in the financial market place. For more information, see www.markit.com

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.

The intellectual property rights to the HSBC Czech Republic Manufacturing PMI provided herein is owned by Markit Group Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Markit, PMI and Purchasing Managers' Index are all trademarks owned by The Markit Group.