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## HSBC Czech Republic Manufacturing PMI

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

### Key findings:

- 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.

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 strength of underlying market conditions was further highlighted by a ceasing of the contraction of the workforce that had been evident since the second half of 2008, and a first rise in input stocks for almost a year-and-a-half.

The headline HSBC Czech Republic Manufacturing PMI<sup>®</sup> 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. Four of the five components of the headline index exerted positive influences in the latest period. The fifth – employment – was neutral.

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,

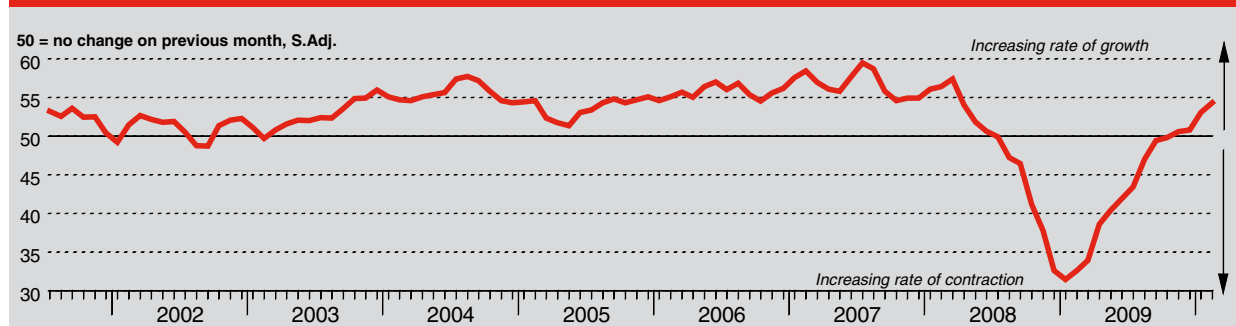
the level of outstanding business continued to increase, with the latest data signalling the fastest pace of backlog growth since July 2007.

Purchasing activity by manufacturers 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 during the month.

February marked an end to a nineteen-month sequence of job shedding by Czech manufacturers. Those firms who took on more staff to cope with rising workloads were offset by streamlining at others (often through the non-replacement of leavers).

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.

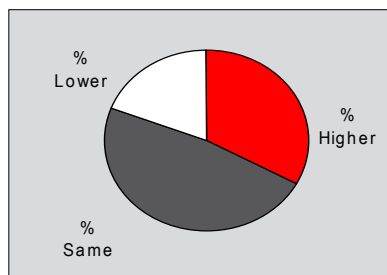
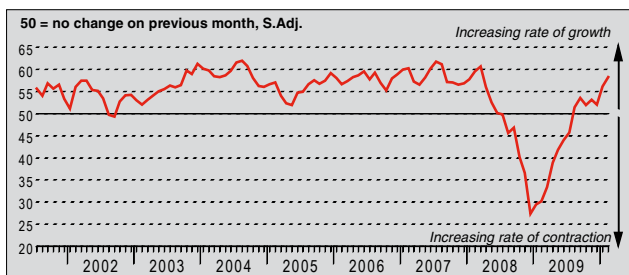
HSBC Czech Republic Purchasing Managers' Index (PMI<sup>®</sup>)



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

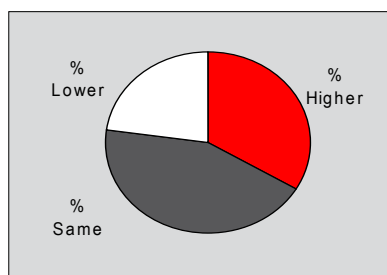
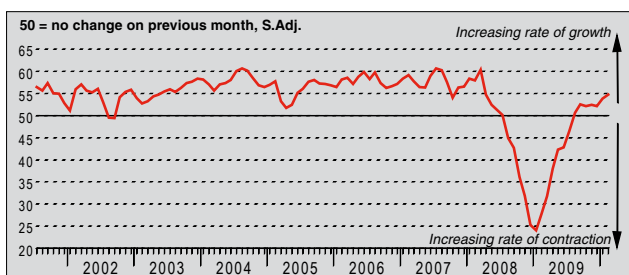
Q. Please compare your production/output this month with the situation one month ago.



Production in the Czech manufacturing sector increased for the seventh successive month in February. Moreover, the seasonally adjusted Output Index rose further, to signal the fastest rate of expansion since March 2008. Almost one-third of survey respondents reported higher production compared to one month earlier. Anecdotal evidence highlighted rising new orders from both domestic and export markets as the key factors driving output growth in February. The Output Index was comfortably above its long-run trend in the latest period.

### New Orders Index

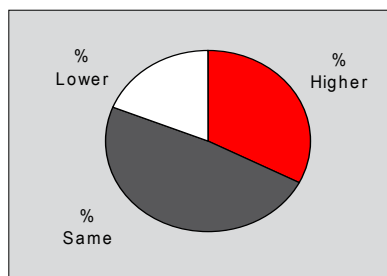
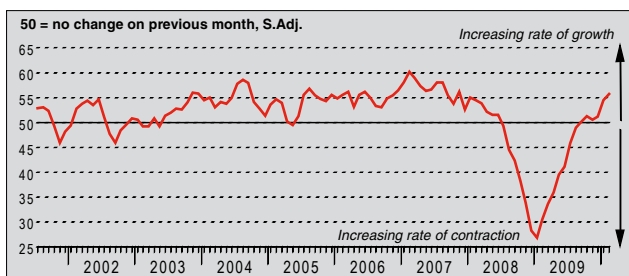
Q. Please compare the level of new orders received this month with the situation one month ago.



February data pointed to a further robust increase in the volume of new work received by Czech manufacturers. The seasonally adjusted New Orders Index rose for the second month running and was at its highest since April 2008, signalling the strongest rate of growth for almost two years. The current recovery in new order growth now stretches to seven months. Firms reported that market conditions continued to improve, and were supported by growing demand from key export markets.

### New Export Orders Index

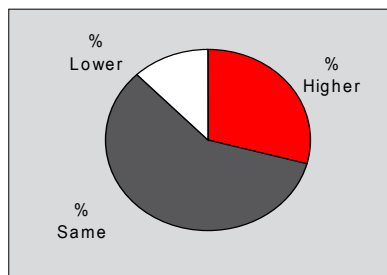
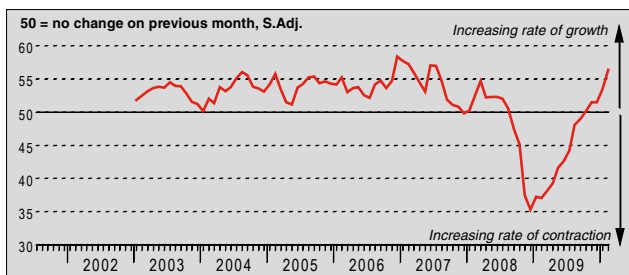
Q. Please compare the level of new export orders received this month with the situation of one month ago.



The volume of new export contracts received by Czech manufacturers rose for the sixth month running in February. A third successive monthly gain in the seasonally adjusted New Export Orders Index pointed to a strengthening rate of expansion. The latest figure was well above the long-run historic trend for the series, and signalled the fastest growth since November 2007. Germany, France, Poland and Bulgaria were all specifically mentioned as sources of new order growth during the month.

### Backlogs of Work Index

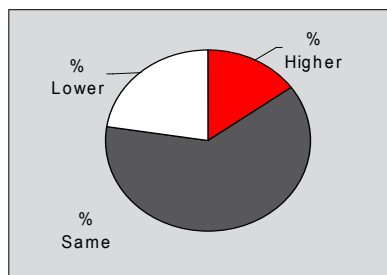
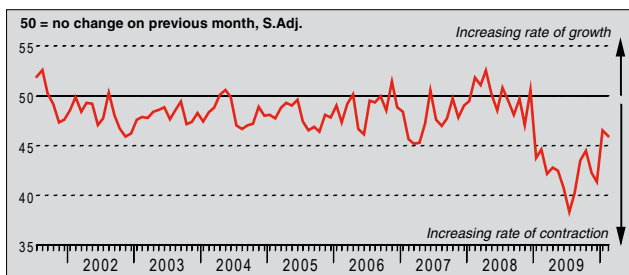
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The seasonally adjusted Backlogs of Work Index rose sharply in February, and signalled a marked increase in outstanding business at Czech manufacturers with growing pressure on capacity. The latest figure was the sixth-highest since the series started in January 2003, as 29% of companies reported rising backlogs. Anecdotal evidence linked higher outstanding business to strong gains in new work during the month.

### Stocks of Finished Goods Index

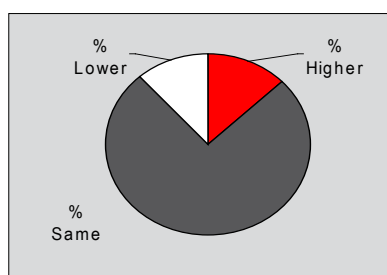
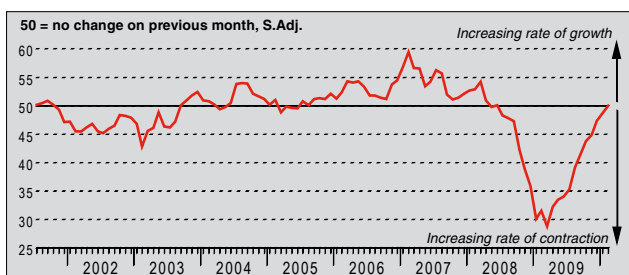
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Czech manufacturers continued to streamline their stocks of finished products in February. The current sequence of contraction now extends to fourteen months. The seasonally adjusted Stocks of Finished Goods Index fell slightly since January, but still signalled a slower rate of decline than those posted throughout the whole of 2009. The relatively weak fall in stocks primarily reflected higher output.

### Employment Index

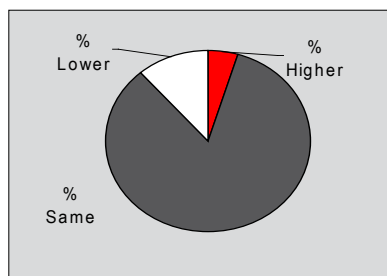
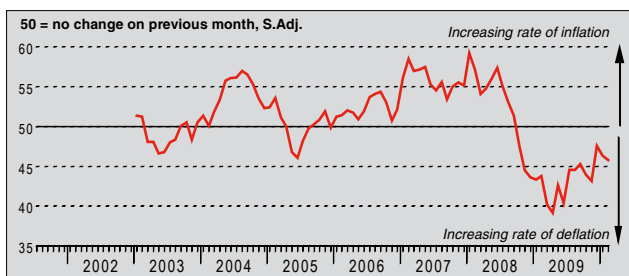
Q. Please compare the level of employment at your unit with the situation one month ago.



The Czech manufacturing workforce was unchanged from one month previously in February. Having spent nineteen months below 50.0, the seasonally adjusted Employment Index rose for the eleventh month running to reach the no-change threshold. Where firms took on more staff, the most commonly cited reason was higher production linked to rising new orders. Lower workforces reflected the non-replacement of leavers and voluntary redundancies.

### Output Prices Index

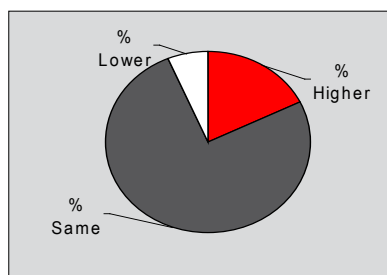
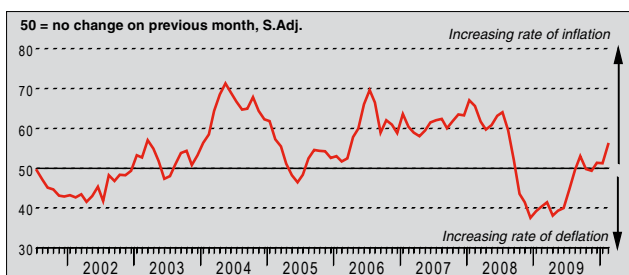
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Downward pressure on manufacturers' charges was maintained in February. Output prices in the Czech manufacturing sector have fallen every month since October 2008. The seasonally adjusted Output Prices Index signalled a faster reduction in charges than in January, although it was weaker than the average for the current sequence of decline. Where lower prices were reported, firms mainly attributed this to competitive pressures.

### Input Prices Index

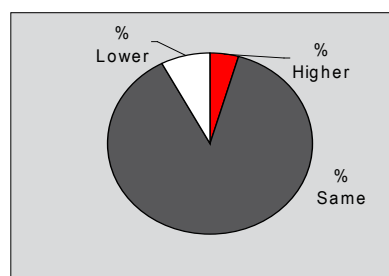
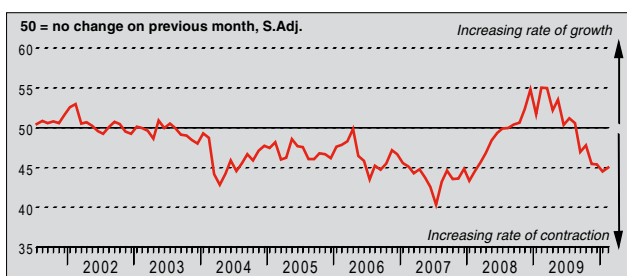
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



February data pointed to rising cost inflationary pressures in the Czech manufacturing economy. The seasonally adjusted Input Prices Index posted its steepest one-month gain in six months, and signalled the fastest rate of inflation since August 2008. The Index was also above its long-run trend in the latest period. A wide range of inputs were reported as having risen in price during the month, including steel, copper, plastics, hardwood and electronic components.

## Suppliers' Delivery Times Index

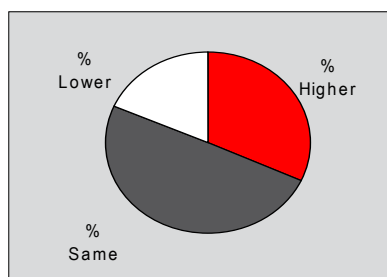
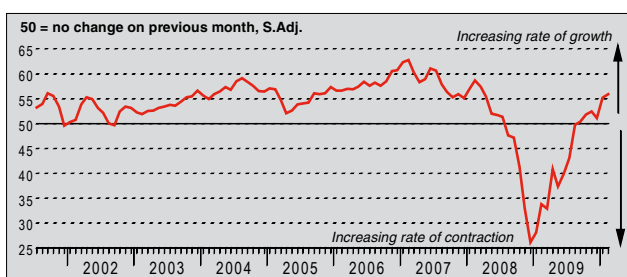
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Suppliers to Czech manufacturers took longer on average to deliver inputs in February. The seasonally adjusted Suppliers' Delivery Times Index registered below the no-change mark of 50.0 for the sixth month running, indicating deteriorating vendor performance. Firms linked delays to recovering market demand, and shortages of specific items including electronic components and timber.

## Quantity of Purchases Index

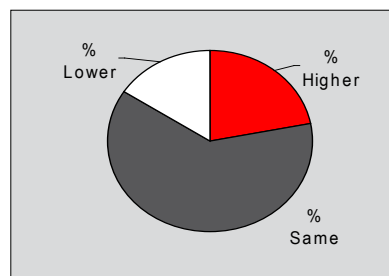
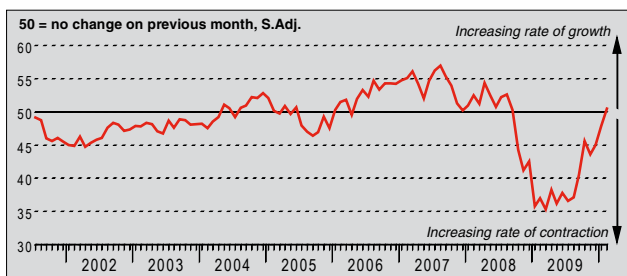
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Markedly higher production requirements resulted in a sharp increase in Czech manufacturers' purchases of inputs in February. The seasonally adjusted Quantity of Purchases Index has signalled growth for the past six months, and the latest rate of expansion was the fastest since March 2008. The Index was also above its eight-and-a-half year average. A number of firms reported that they had expanded purchases in preparation for new projects.

## 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 at Czech manufacturers rose in February, following a sixteen-month period of continuous decline. Renewed stockbuilding in the sector reflected growing order books and a strong rise in output. However, the seasonally adjusted Stocks of Purchases Index pointed to only a very weak overall increase.

## 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.

## Warning

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