

HSBC Czech Republic Manufacturing PMI

Marked strengthening of Czech manufacturing sector driven by record rise in new orders

Summary

PMI data for the Czech manufacturing sector, compiled by Markit for HSBC, pointed to a marked improvement in business conditions in April. 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 posted above 50.0 for the sixth month running and continued its ascent, recording 57.3. That was the highest reading since March 2008 and the ninth-highest in the survey history.

The latest upward movement in the PMI reflected three component indices – new orders, output and suppliers' delivery times. Of the two remaining contributing indices, employment was broadly stable while stocks of purchases declined modestly.

The rate of growth in total new orders accelerated to the fastest since the survey began in July 2001. This was accompanied by a record increase in new export business. The total level of new work has increased every month since August 2009.

Strong growth in demand led to a further rapid increase in production during April. Output has risen for nine successive months, and the latest rate of expansion was the eighth-fastest in the survey history. Meanwhile, backlogs grew for the seventh month running and the rate of expansion picked up.

Manufacturing employment repeated the growth seen one month earlier. The nascent expansionary sequence follows no-change in jobs recorded in February, and nineteen previous months of job shedding.

Renewed pressure on suppliers was evident in April, as average delivery times for inputs lengthened to the greatest extent since July 2007. Shortages of raw materials also generated inflationary pressures, as input prices rose at the fastest rate since January 2008. A wide range of items were reported to have risen in price during the month, including metals, chemicals, plastics, fuel, wood, paper, coke, foodstuffs and other oil-related raw materials.

April data highlighted growing pressure on firms' margins, as output prices declined for the nineteenth month running. Moreover, the gap between the indices for input and output prices was the greatest in the survey to date.

Comment

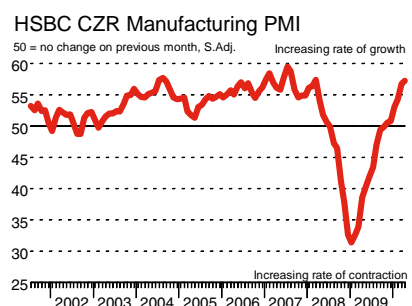
Commenting on the Czech Republic Manufacturing PMI survey, Kubilay Ozturk, economist at HSBC said:

"Recovery in the Czech manufacturing sector continued at full speed in April – output, new and export orders advanced noticeably on the back of further improvement in domestic and external markets. However, the fading impact of severe winter conditions too may probably have played a role. Nearly all sub-indices confirm that a wide scale recovery is already underway, and the undisrupted improvement in employment is particularly encouraging. Output prices retreated again, but the surge in input costs was unexpectedly much steeper, pointing to possible supply-side inflationary pressures before long and, hence, the lack of need to lower rates further. Meanwhile, new export orders, which grew at a record pace, suggest concerns about a strong CZK are a bit overdone, while upbeat April EMU PMIs, along with the recent sharp improvement seen in German business expectations, underline that the ongoing upward momentum will likely remain intact in the coming months."

Key points

- Total new orders and new export orders both increased at survey-record rates.
- Employment growth maintained for second successive month.
- Unprecedented gap between input and output price indices.

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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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.

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