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## HSBC Czech Republic Manufacturing PMI

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

### Key findings:

- 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.

PMI data for the Czech manufacturing sector, compiled by Markit for HSBC, pointed to a marked improvement in business conditions in April. Underpinning this was a series-record increase in new orders, which in turn partly reflected a record rise in new export business. Consequently, backlogs rose at a robust pace despite a rapid increase in production, and supplier delays were at their most noticeable since July 2007 as firms stepped up purchasing activity. The survey data also signalled a further rise in manufacturing employment, and a growing gap between changes in firms' input and output prices.

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 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 received by Czech manufacturers 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 in the manufacturing sector has increased every month since August 2009.

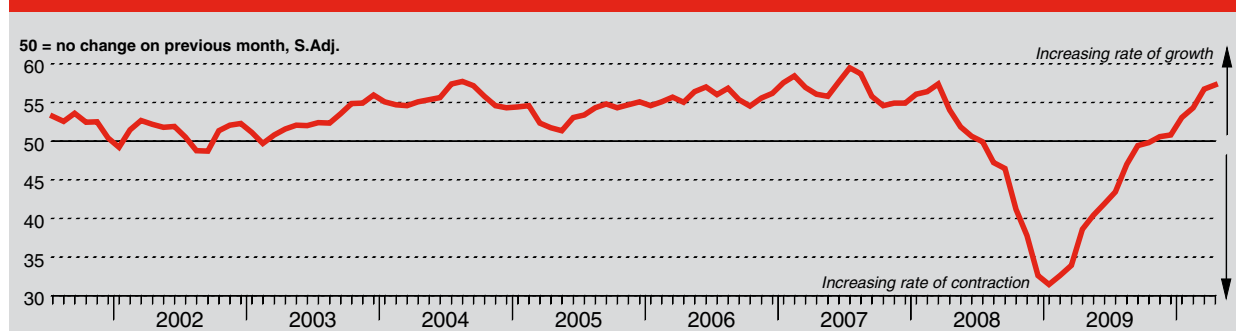
Strong growth in demand led to a further rapid increase in production during April. Output has risen for nine successive months, and the latest rate of expansion was the eighth-fastest in the survey history. Although output rose at a rapid pace during the month, backlogs of work grew for the seventh month running. Moreover, the rate of expansion picked up to match February's thirty-one month high.

Manufacturing employment in the Czech Republic repeated the growth seen one month earlier in April. 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.

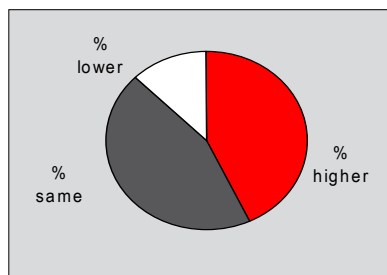
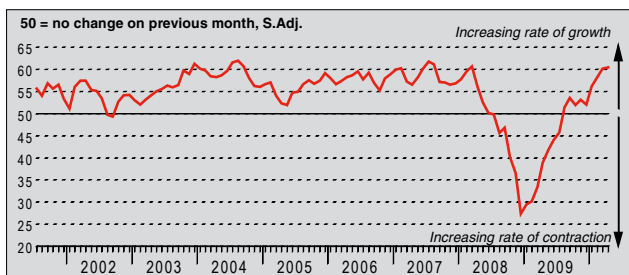
HSBC Czech Republic Purchasing Managers' Index (PMI<sup>®</sup>)



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

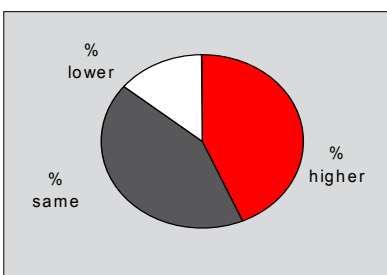
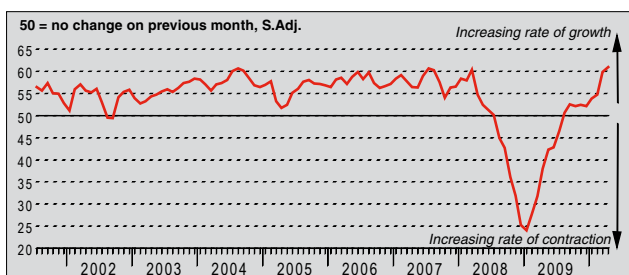
Q. Please compare your production/output this month with the situation one month ago.



Czech manufacturing production continued to rise at a rapid pace in April. The seasonally adjusted Output Index edged up to its highest since March 2008, and has now signalled growth for the past nine months. Among the reasons given for growth of output were new tenders, greater capacity utilisation, rising export demand and a rebound following unusually poor winter weather conditions. The latest data also signalled a growth rate that remained comfortably above the long-run survey average.

### New Orders Index

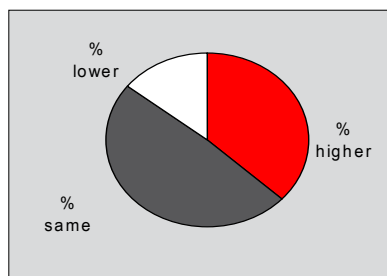
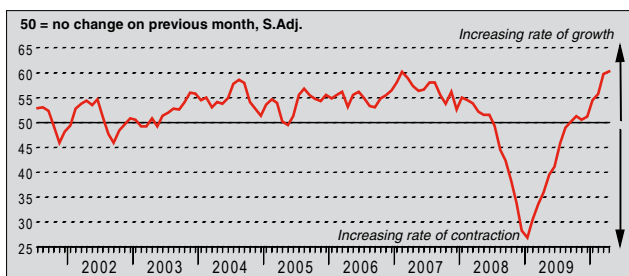
Q. Please compare the level of new orders received this month with the situation one month ago.



New orders received by Czech manufacturers rose for the ninth successive month in April. Moreover, the rate of expansion accelerated for the fourth month in a row to its fastest since the survey began in July 2001. The anecdotal evidence from survey respondents suggested a strong link between new order growth and improving demand, both in domestic and export markets.

### New Export Orders Index

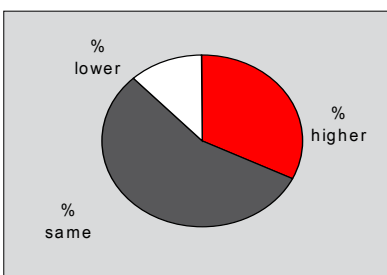
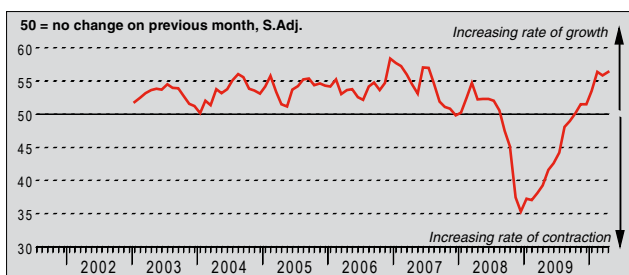
Q. Please compare the level of new export orders received this month with the situation of one month ago.



The seasonally adjusted New Export Orders Index remained well above the no-change mark of 50.0 in April, and rose to a survey-record high. This signalled a rapid rate of growth in new business received by Czech manufacturers from export markets. EU demand was specifically mentioned in the latest anecdotal evidence. The current sequence of new export order growth now stretches to eight months.

### Backlogs of Work Index

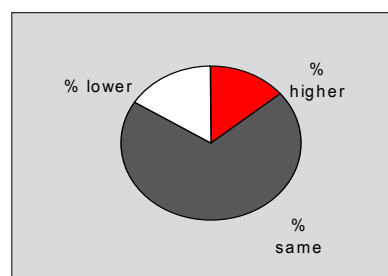
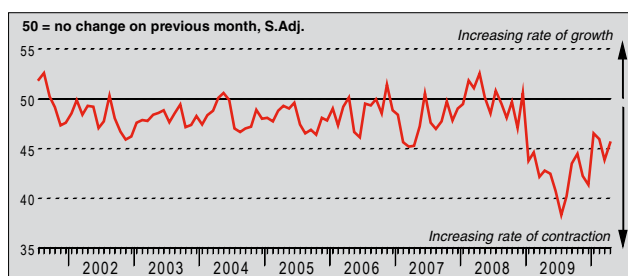
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Outstanding workloads in the Czech manufacturing sector rose for the seventh successive month in April. The seasonally adjusted Backlogs of Work Index rose on the month, and the latest reading equalled February's two-and-a-half year high. Growing backlogs primarily reflected marked increases in new work, while shortages of raw materials was also mentioned as a contributory factor.

## Stocks of Finished Goods Index

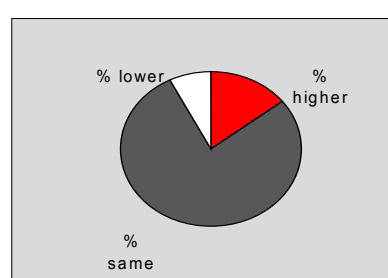
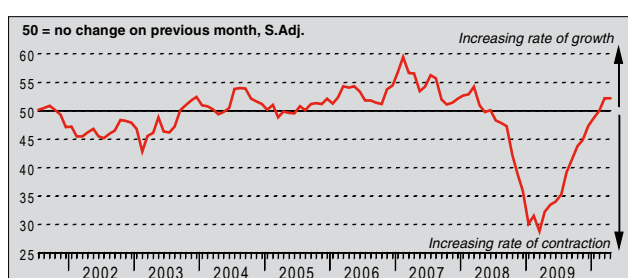
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Post-production stocks at Czech manufacturers continued to fall sharply in April. Adjusted for seasonal factors, the Stocks of Finished Goods Index rose on the month, but still indicated a marked rate of decline and remained below its long-run trend. Falling warehouse stocks were linked to streamlining efforts and rising sales volumes.

## Employment Index

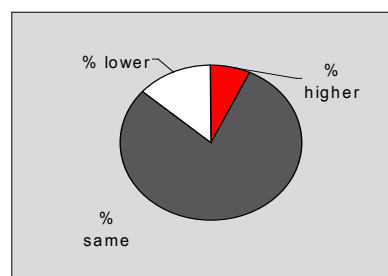
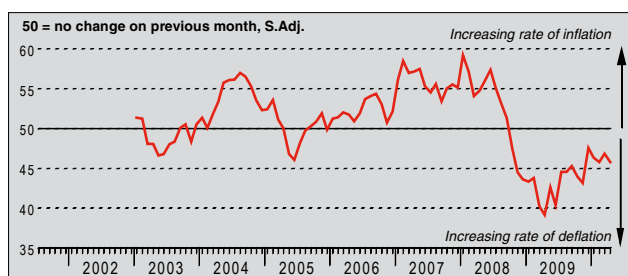
Q. Please compare the level of employment at your unit with the situation one month ago.



Jobs growth in the Czech manufacturing sector was maintained for the second month running in April. The seasonally adjusted Employment Index was little-changed from March, indicating a moderate increase in staffing levels. Firms generally linked recruitment of additional staff to rising workloads, or the restoration of pre-crisis headcounts as market conditions recovered.

## Output Prices Index

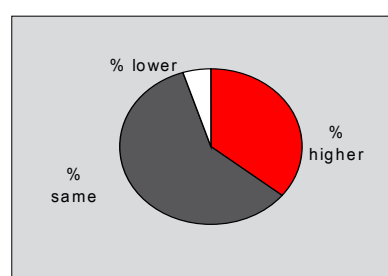
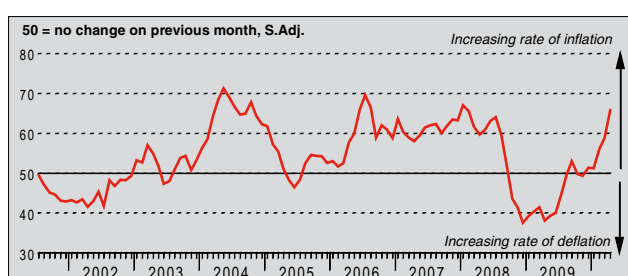
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Downward pressure on output prices was maintained in April. The current sequence of falling charges now stretches to nineteen months. The rate of reduction sharpened slightly in the latest period, and was marginally stronger than the trend seen over the first quarter. Those firms that lowered their charges during the month (13.5%) primarily attributed reductions to stiff competition for sales despite the general recovery in demand.

## Input Prices Index

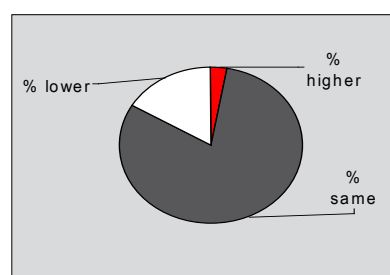
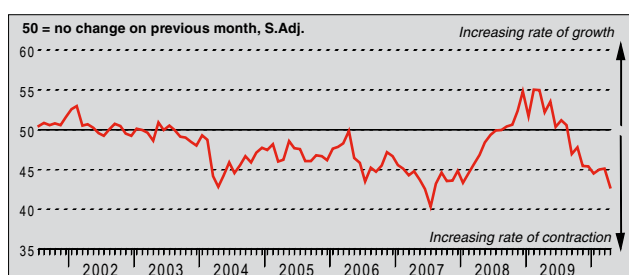
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input price inflation at Czech manufacturers accelerated sharply in April. The seasonally adjusted Input Prices Index posted a record one-month gain, and signalled the strongest rise in average input costs since January 2008. Almost 36% of survey respondents reported growing cost burdens, compared to just 5% that reported lower average input prices. A wide range of items were reported by companies as having increased in price over the month, including metals (especially steel, copper and aluminium), resins, plastics, fuel, wood, paper, coke, foodstuffs and oil-related products.

## Suppliers' Delivery Times Index

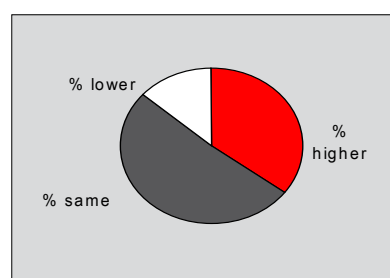
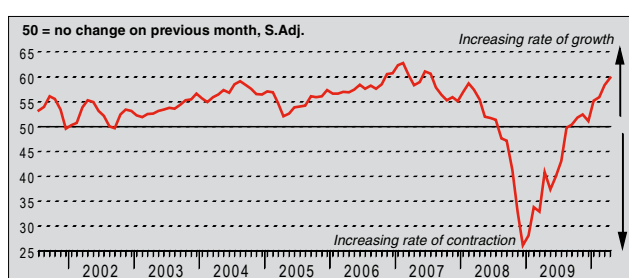
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



The seasonally adjusted Suppliers' Delivery Times Index sank to a thirty-three month low in April, indicating the greatest increase in average vendor delivery times since July 2007. There was widespread mention of stock shortages at suppliers. Delivery times have lengthened every month since September 2009 as market conditions have recovered, placing strain on vendor capacity.

## Quantity of Purchases Index

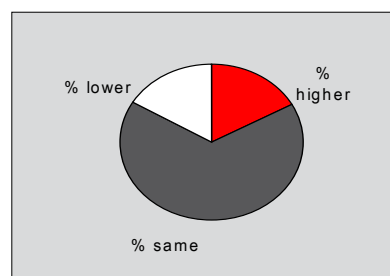
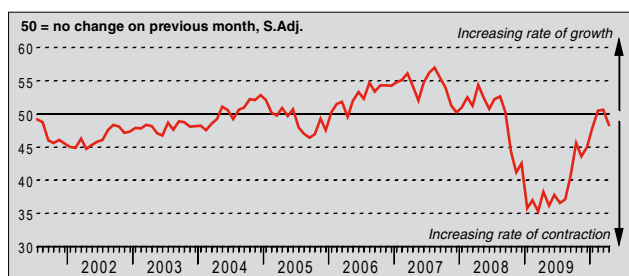
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



The volume of inputs purchased by Czech manufacturers rose for the eighth month running in April. The seasonally adjusted Quantity of Purchases Index rose for the fourth successive month, to signal the fastest rate of expansion since July 2007. It was also at its eighth-highest level in 106 months of data collection, as just over 35% of firms reported higher purchasing activity. A number of companies reported faster-than-expected growth of production requirements.

## Stocks of Purchases Index

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



Pre-production inventories fell in April, following a two-month period of marginal growth. That said, the seasonally adjusted Stocks of Purchases Index signalled only a modest rate of decline, reflecting marked growth of input volumes during the month. Lower stocks were either linked to streamlining or faster-than-expected growth of production, while those companies that raised inventory levels linked growth to preparation for future projects and expected increases in input prices.

## 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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