

# HSBC Czech Republic Manufacturing PMI

Further sharp manufacturing growth accompanied by rising inflationary pressures.

## Summary

PMI data for the Czech manufacturing sector, compiled by Markit for HSBC, pointed to a further strong improvement in operating conditions in May. The headline HSBC Czech Republic Manufacturing PMI®, a composite single-figure indicator of overall performance in the manufacturing sector, posted 57.6 in May, the highest reading since August 2007 and the sixth-highest in the survey history.

The upward movement in the PMI was the smallest for five months, reflecting weaker (but still considerable) positive contributions from the output and new orders components. The overall rise in the headline index mainly reflected contributions from the employment and suppliers' delivery times indices.

New business growth remained at an elevated rate in May, despite easing since April. New orders have increased for the past ten months, driven by both export and domestic demand. According to survey respondents, European markets remained key sources of rising demand, including Germany, Slovakia and Scandinavia.

Higher incoming new orders supported a further marked increase in production in May, extending the current sequence of growth to ten months. Autos production was highlighted as a key driver of expansion in the latest period.

To support rising workloads, Czech manufacturers boosted their workforces in May. Employment in the sector has increased for the past three months, and the latest rate of expansion was the fastest since August 2007. Despite the latest increase in staffing, backlogs rose at the fastest rate since July 2007.

A key finding from the latest survey was a record increase in firms' average input prices. Inflationary pressure was driven by a range of raw materials including metals, chemicals and wood products. Correspondingly, suppliers' delivery times lengthened at a survey-record rate as supply shortages grew. Delivery delays partly reflected disruption from the volcanic ash cloud.

Despite the record increase in input prices during the month, Czech manufacturers' pricing power remained limited. Charges rose on average since April, but at only a modest rate. This reflected competitive pressures in both domestic and export markets.

## Comment

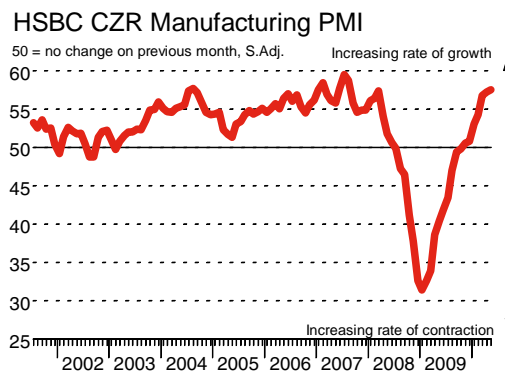
Commenting on the Czech Republic Manufacturing PMI survey, Kubilay Ozturk, economist at HSBC said:

*"The upbeat trend in the Czech manufacturing sector appears to have remained intact in May. Despite decelerating slightly, output, new and export orders all continued to expand at levels faster than their respective long-term trends. Both external and domestic demand conditions remained favourable with the ratio of new orders to outstanding finished goods reaching its highest level since June 2001. Employment improved encouragingly further, in line with the sooner-than-expected improvement in unemployment at the national level, which bodes well for private consumption during the rest of the year. However, the recent drop in confidence indicators underlines the limited upside potential. Input prices surged further in May and reached survey-record levels, on the back of higher global commodity prices and a weaker CZK in the month; output prices also increased, albeit only modestly, for the first time since September 2008, pointing to more pronounced inflationary pressures ahead, and hence the lack of need for further easing. Going forward, the notable decline in May EMU PMIs and a slight negative surprise in German business climate suggest that the ongoing upward momentum is unlikely to remain unscathed."*

## Key points

- Growth rate of new orders eased from April's record, but remained sharp.
- Employment growth strongest since August 2007.
- Input price inflation accelerated to survey record.

## 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](mailto:kubilay.ozturk@hsbcib.com)

Petr Plocek, PR Manager, HSBC Bank (Prague)

Telephone +420-221-033-724

Email [petr.plocek@hsbc.com](mailto:petr.plocek@hsbc.com)

Filip Koutný, Director Treasury

Telephone +420-221-033-510

Email [filip.koutny@hsbc.com](mailto:filip.koutny@hsbc.com)

### Markit

Trevor Balchin, Senior Economist

Telephone +44-1491-461-065

Email [trevor.balchin@markit.com](mailto:trevor.balchin@markit.com)

Caroline A. Lumley, Director, Corporate Communications

Telephone +44-20-7260-2047

Email [caroline.lumley@markit.com](mailto: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.

Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact [economics@markit.com](mailto:economics@markit.com).

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