HSBC Purchasing Managers' Index 2010

compiled by markit

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HSBC Czech Republic Manufacturing PMI

Further sharp manufacturing growth accompanied by rising inflationary pressures.

Key findings:
- 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.

PMI data for the Czech manufacturing sector, compiled by Markit for HSBC, pointed to a further strong improvement in operating conditions in May. The rates of increase in new orders and output moderated from April, but nevertheless remained substantial. This was supported by the fastest job creation in the sector for thirty-three months. The survey findings also showed growing inflationary pressure on firms' input prices, although the pass-through to clients remained muted.

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 seventh month running and rose to 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.

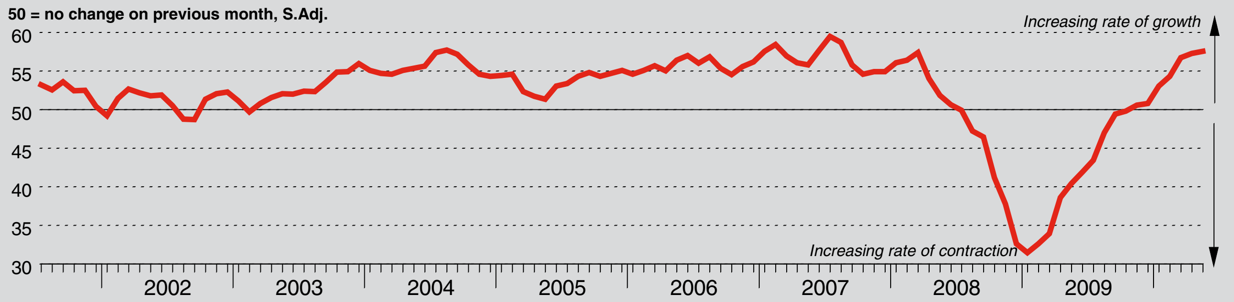
To support rising workloads, Czech manufacturers boosted their workforces in May. Employment in the sector has increased for the past three months, and the latest rate of expansion was the fastest since August 2007. Despite the latest increase in staffing, backlogs rose at the fastest rate since July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

Stocks of both pre- and post-production goods declined during May. The fall in the former, albeit only modest, was in spite of the fastest increase in purchasing activity for nearly three years.

HSBC Czech Republic Purchasing Managers' Index (PMI®)



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.

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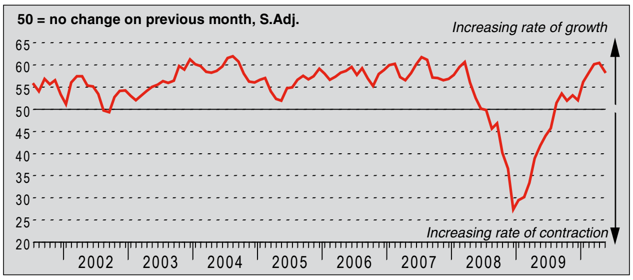
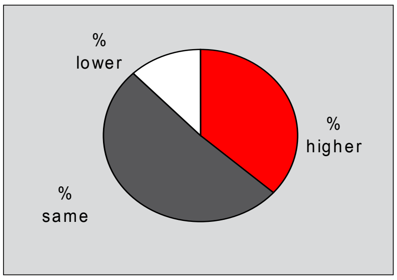
Output Index

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

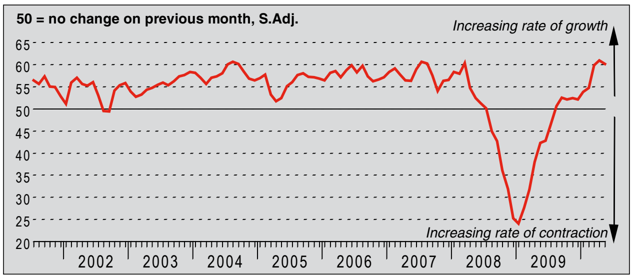


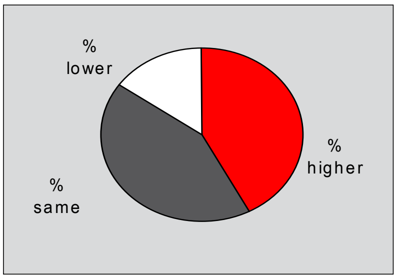


The rate of growth of Czech manufacturing production eased in May from April's twenty-five month peak. Nevertheless, the seasonally adjusted Output Index remained indicative of a marked rate of expansion that was greater than the long-run trend for the series. Output has risen continuously since August 2009, following a thirteen-month period of decline. Higher production was mainly attributed to growth of new orders, with output relating to the key autos sector specifically mentioned as having increased during the month.

New Orders Index

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

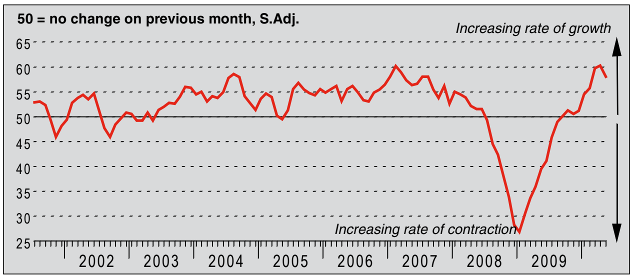


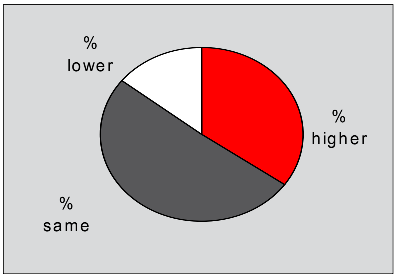


Falling only slightly from April's survey record, the seasonally adjusted New Orders Index remained at a level indicative of rapid growth in new business received by Czech manufacturers in May. The latest data signalled further strong growth in demand for Czech manufactured goods, with both domestic and export markets cited as sources of new order growth. The current sequence of expansion now stretches to ten months.

New Export Orders Index

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

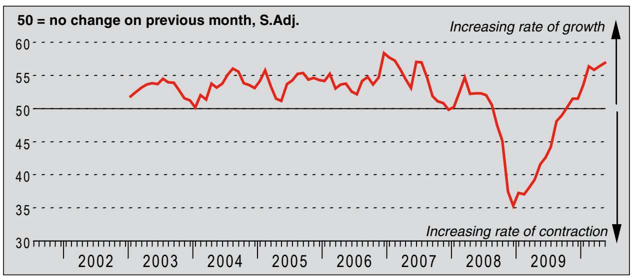


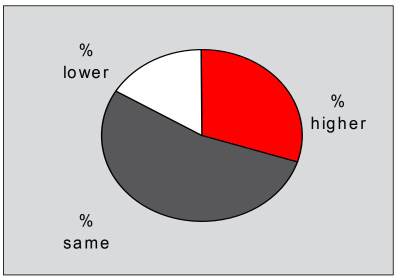


New export order growth eased to a three-month low in May. However, the seasonally adjusted New Export Orders Index was still at the seventh-highest level in the series history, signalling marked growth. New orders from export clients have risen every month since September 2009. The European market was quoted by a number of panellists as a key source of improving demand, including Germany, Slovakia and Scandinavia.

Backlogs of Work Index

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

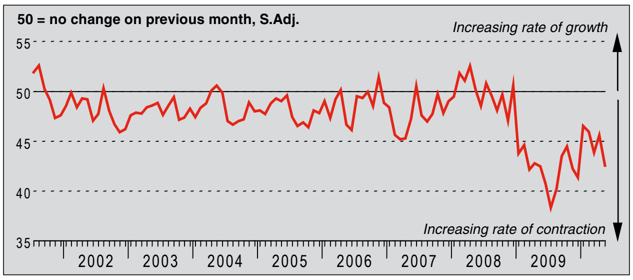


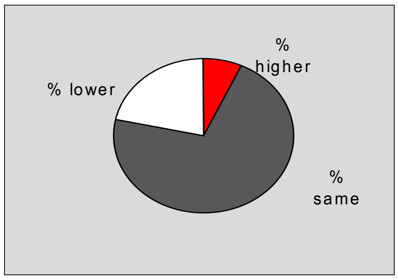


The seasonally adjusted Backlogs of Work Index rose for the second month in a row in May, indicating a steeper rise in outstanding business at Czech manufacturers. The latest figure signalled the fastest rate of expansion since July 2007. Backlogs in the manufacturing sector have risen every month since last October. Higher levels of incomplete work were mainly linked to growing volumes of new orders, while firms also noted lengthening supplier delivery times resulting from transportation disruptions and shortages of raw materials.

Stocks of Finished Goods Index

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

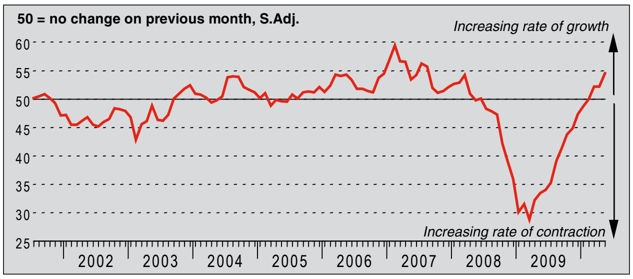


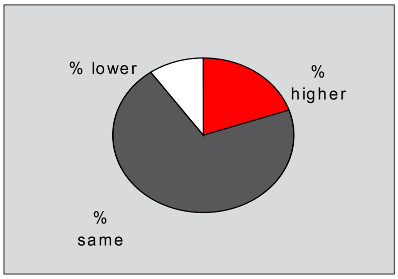


May data signalled a sharp and accelerated drop in Czech manufacturers' stocks of completed products. The seasonally adjusted Stocks of Finished Goods Index slumped to its eighth-lowest level in almost nine years of data collection, as around 22% of firms reported lower inventories compared to April. Anecdotal evidence provided by panellists linked falling stocks to sales rising more quickly than production, and shortages of inputs.

Employment Index

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

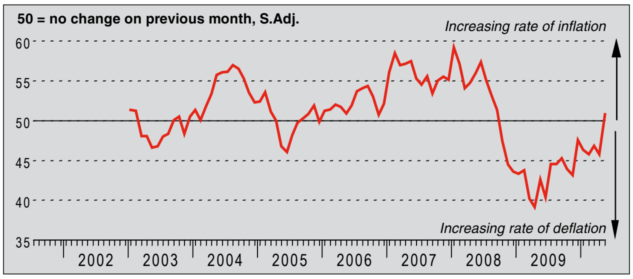


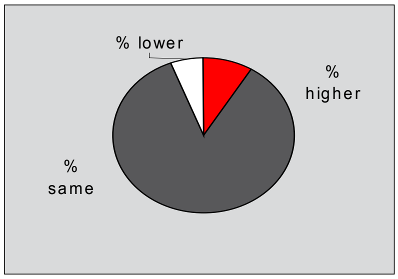


Manufacturing employment in the Czech Republic rose for the third month running in May. Firms reported ongoing efforts to boost production capacity and support rising workloads. Moreover, the rate of job creation accelerated since April, reaching the sharpest pace since August 2007. Around one-in-five survey respondents reported raising workforce levels during the month (19.8%), twice the proportion that cut staff (9.7%).

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.

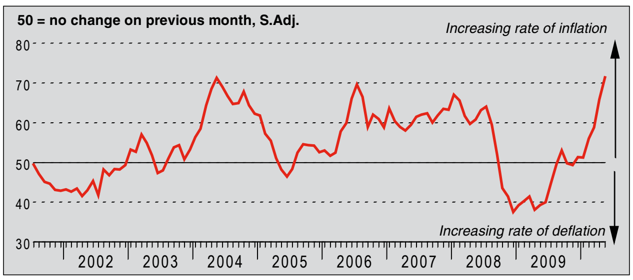


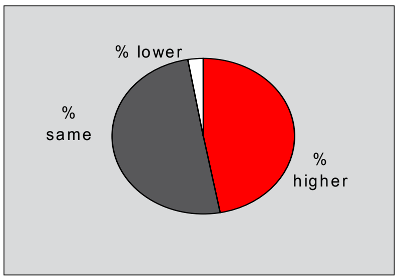


The seasonally adjusted Output Prices Index posted a record one-month gain in May, and surpassed the no-change level of 50.0 for the first time since September 2008. This signalled higher average charges from Czech manufacturers compared to one month earlier. Firms mainly linked higher output prices to rising raw material costs. However, the rate of inflation was weak overall, reflecting ongoing competitive pressures in both domestic and export markets.

Input Prices Index

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

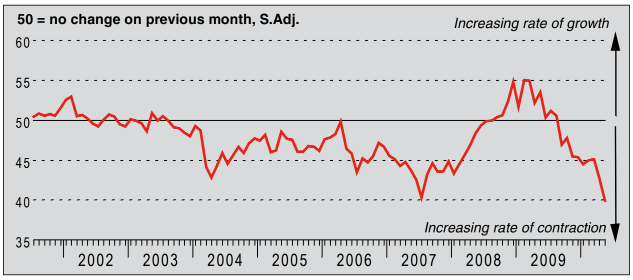


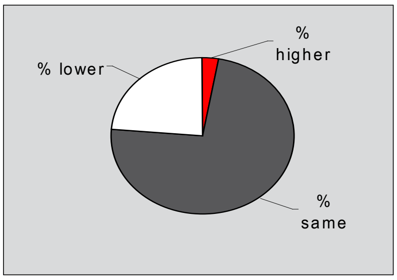


Input price inflation accelerated sharply in May to a new survey record. The seasonally adjusted Input Prices Index rose for the fourth successive month, just surpassing the previous peak set in May 2004. In the latest survey period, around 47% of firms reported higher average input prices compared to one month previously. Sources of rising input costs included metals (steel, copper, aluminium, iron), plastics, timber, paper, oil and fuel. The weaker koruna was also reported as a factor driving up prices.

Suppliers' Delivery Times Index

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

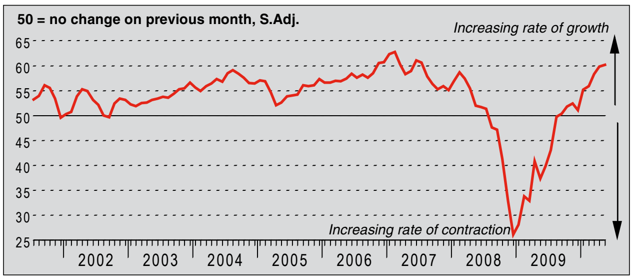


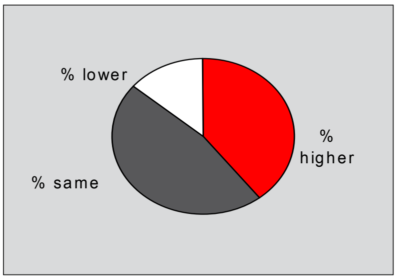


Average lead times for Czech manufacturers lengthened at a survey-record pace in May. The seasonally adjusted Suppliers' Delivery Times Index has now signalled delays on average for the past nine months as demand for raw materials and other inputs has recovered. Firms widely reported shortages of a range of raw materials during the month, linked mostly to demand outstripping supply but also other factors including transport disruptions related to the volcanic ash cloud.

Quantity of Purchases Index

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

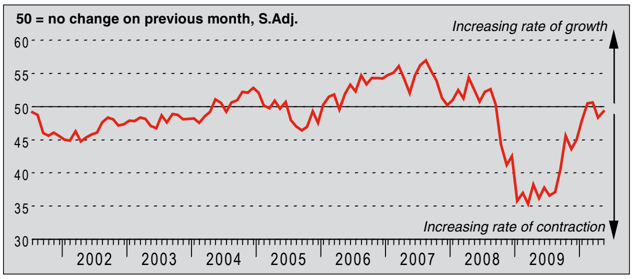


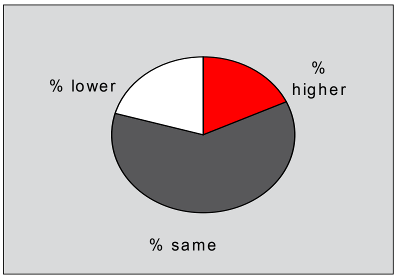


Purchasing activity by Czech manufacturers increased at a rapid pace in May. The rate of growth accelerated – as it has throughout 2010 to date – and reached the fastest pace since July 2007. The current sequence of growth in input buying now extends to nine months. Firms linked higher purchases of inputs to efforts to address rising backlogs, new order intakes and attempts to replenish stock levels. Companies also ordered items well in advance to combat potential delays from suppliers.

Stocks of Purchases Index

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





The volume of inputs held in stock at Czech manufacturers declined for the second month running in May. Firms linked lower stocks to rising output requirements and shortages of raw materials. However, the seasonally adjusted Stocks of Purchases Index rose on the month, to a level indicative of only a marginal rate of contraction.

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. 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.

Warning