

# HSBC Czech Republic Manufacturing PMI

PMI remained at elevated level in June, signalling strong manufacturing performance.

## Summary

June PMI data for the Czech manufacturing sector, compiled by Markit for HSBC, pointed to the same strong rate of improvement in overall operating conditions as that signalled in May. The headline HSBC Czech Republic Manufacturing PMI posted above 50.0 for the eighth month running and was unchanged from May's 57.6, the joint-sixth highest figure in the survey's nine-year history. Weaker influences from the new orders, employment and stocks of purchases components compared to May were matched by stronger contributions from output and suppliers' delivery times. Over the second quarter as a whole, the PMI averaged 57.5, the highest since Q3 2007.

The volume of new orders received by Czech manufacturers rose for the eleventh successive month in June. The rate of growth eased further from April's record, but was marked nevertheless. In particular, new export orders rose at the fastest rate since survey data were first collected in July 2001. Firms reported strong demand from both European and Asian markets.

Higher intakes of new orders drove output growth in June. The rate of expansion accelerated since May and was among the sharpest indicated by the series to date. Despite this, backlogs rose as firms reported capacity constraints and delays in receiving inputs. Suppliers' delivery times lengthened at a survey-record pace during the month. Firms utilised existing stocks of inputs and ran down stocks of finished goods to meet schedules, resulting in lower pre- and post-production inventories overall across the sector.

Manufacturing employment in the Czech Republic rose for the fourth month running in June. The rate of job creation eased fractionally since May, but was still sharper than in any other period since March 2008.

June data signalled another month of intense upward pressure on firms' input costs. Input price inflation eased from May's record, but was still the third-fastest in 108 survey periods to date. Items reported to have risen in price included metals, plastics, chemicals, timber, paper, oil, textiles, car parts and electronic components. Manufacturers' output prices increased for the second month running, but the rate of charge inflation remained very weak. This reflected sales drives and wider competitive pressures across the sector.

## Comment

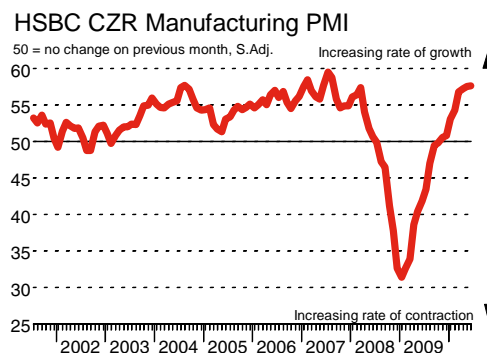
Commenting on the Czech Republic Manufacturing PMI survey, Kubilay Ozturk, economist at HSBC said:

*"The headline Czech manufacturing PMI index edged up further in June on the back of a slight pick-up in the pace of expansion in output mainly thanks to renewed upbeat trend in export orders, reflecting the ongoing recovery in external market conditions, while a strong USD may have played a role here via increased competitiveness of Western European production cycle, on which Czech manufacturing sector heavily depends. A negligible deceleration notwithstanding, rate of job creation remained encouragingly high, in line with the recent notable decline in unemployment, although 1Q10 data points to a continued slowdown in wage growth, underlining the possibly weak private consumption over the course of 2010. On the inflation front, input and output prices both advanced again over the month, albeit at a slightly lower rate than in May, which still argues for further normalisation of CPI figures in tandem with recovery conditions. Looking ahead, the negligible decline seen in the June EMU manufacturing PMI and the slight positive surprise in business climate in Germany suggest that near-term downside risks emanating from the EMU sovereign-debt crisis may be limited. However, the impact of the latter remains to be seen, particularly in the second half of the year when cyclical recovery may lose steam and the effect of a tight fiscal environment starts to kick in."*

## Key points

- Survey-record increase in new export orders.
- Employment rose for fourth month running.
- Input price inflation eased since May but remained substantial.

## 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.

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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