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HSBC Czech Republic Manufacturing PMI

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

Key findings:

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

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. Output and new orders both continued to rise rapidly, while new export business increased at a survey-record pace. This supported further job creation in the sector, while the latest findings also showed further marked inflationary pressure on a wide range of inputs. Rising prices for inputs reflected supply shortages, resulting in a record lengthening of suppliers' delivery times during the month.

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 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

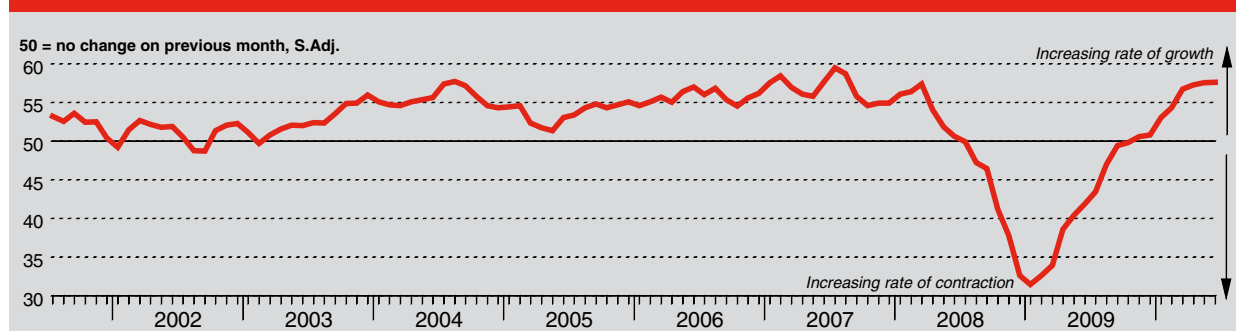
rate since survey data were first collected in July 2001. Firms reported strong demand from both European and Asian markets.

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.

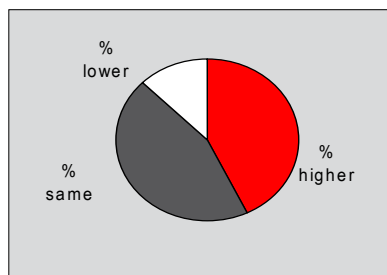
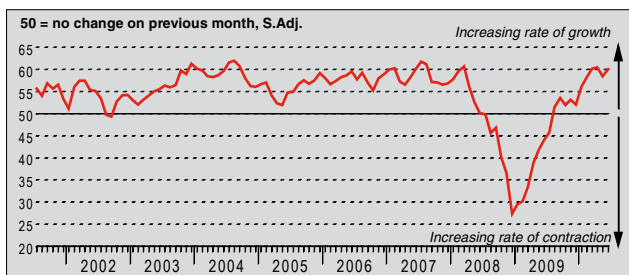
HSBC Czech Republic Purchasing Managers' Index (PMI[®])



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.

Output Index

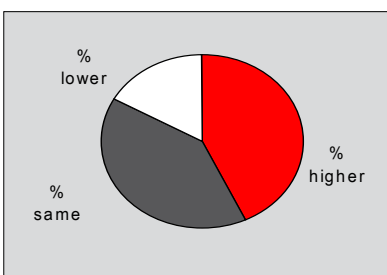
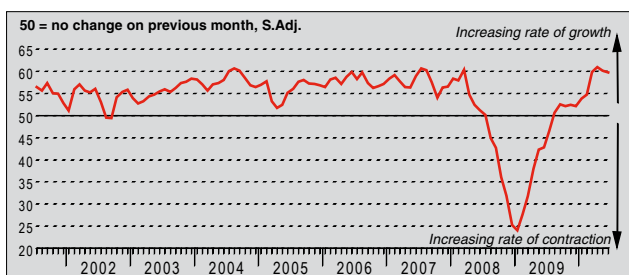
Q. Please compare your production/output this month with the situation one month ago.



Production in the Czech manufacturing sector rose for the eleventh month running in June. Having eased in the previous month, the rate of expansion picked up slightly, and remained well above the long-run survey average. Anecdotal evidence widely attributed higher output to rising levels of new orders. Over the second quarter as a whole, the rate of production growth was the strongest since Q3 2007.

New Orders Index

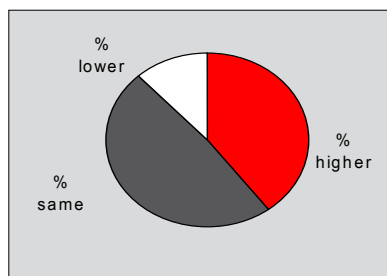
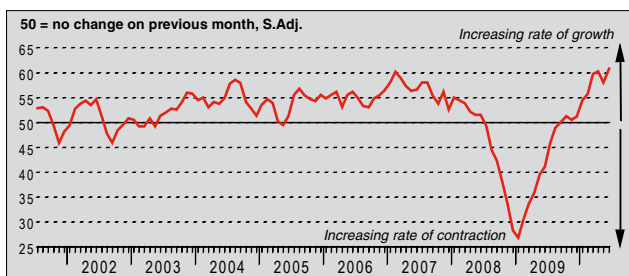
Q. Please compare the level of new orders received this month with the situation one month ago.



The seasonally adjusted New Orders Index eased slightly for the second month running in June from April's survey record high. That said, the latest figure still signalled marked growth of new work received by Czech manufacturers mid-way through 2010. The Index was well above its long-run trend level of 54.0 in the latest period. New order growth over Q2 as a whole equalled the series-record pace set in Q3 2004. Firms linked higher new orders to recovering market conditions, with EU and Asian demand both cited as sources of growth.

New Export Orders Index

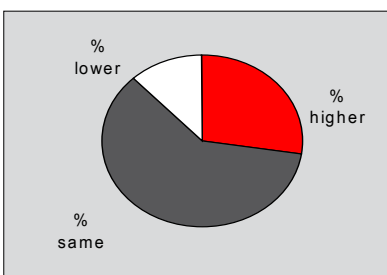
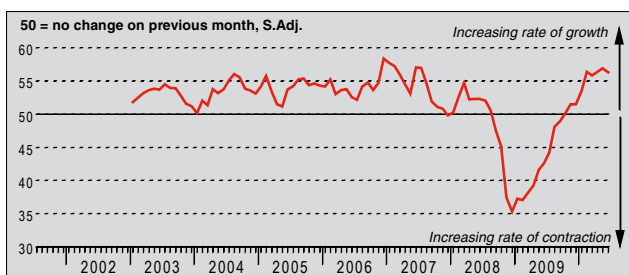
Q. Please compare the level of new export orders received this month with the situation of one month ago.



The seasonally adjusted New Export Orders Index rose to a new record high in June, signalling rapid growth of new business received by Czech manufacturers from export markets. Almost 40% of responding panellists reported higher intakes of export contracts during the month, linked to both Asian and European demand. The current sequence of expansion now extends to ten months.

Backlogs of Work Index

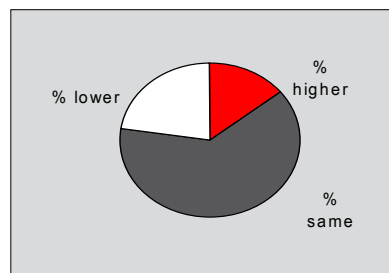
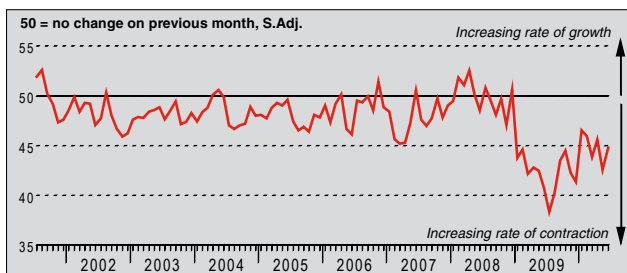
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The current strength of new order growth led to a further accumulation of outstanding business at Czech manufacturers in June. The rate of expansion eased for the first time since March, but remained sharp. The seasonally adjusted Backlogs of Work Index remained well above its long-run trend of 52.0. Backlogs have risen in every month since last October. Latest anecdotal evidence linked rising outstanding business either to specific contracts or improving underlying demand which placed pressure on capacity.

Stocks of Finished Goods Index

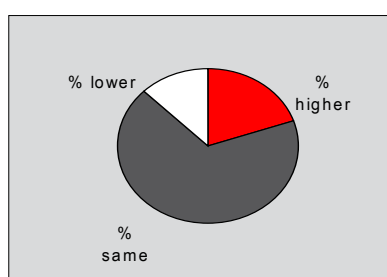
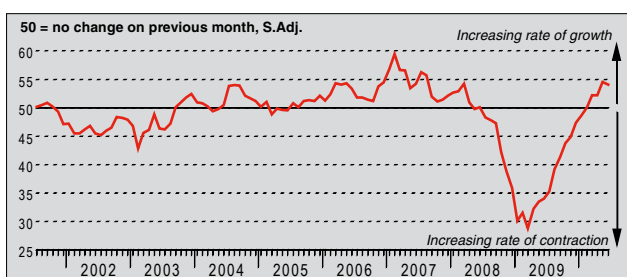
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



The seasonally adjusted Stocks of Finished Goods Index remained below the no-change mark of 50.0 for the eighteenth successive month in June, signalling a further contraction in post-production inventories in the Czech manufacturing sector. The rate of decline slowed since May, but remained strong overall. Firms linked falling warehouse levels to order-only production schedules, productivity improvements and clearance sales. Around 23% of survey respondents reported lower finished goods stocks in June.

Employment Index

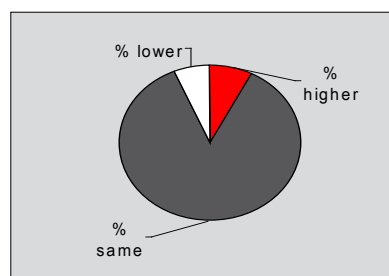
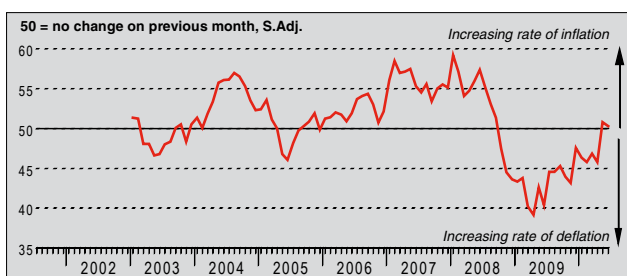
Q. Please compare the level of employment at your unit with the situation one month ago.



Manufacturing employment in the Czech Republic rose for the fourth successive month in June. The seasonally adjusted Employment Index eased fractionally from May's thirty-three month high, but was still indicative of a strong rate of job creation in the sector. Reasons given for higher employment included rising production and new orders as well as investment in new capacity. Around one-in-five firms reported expanded workforces in the latest period.

Output Prices Index

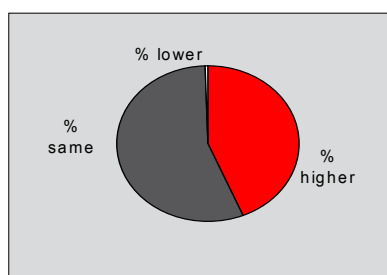
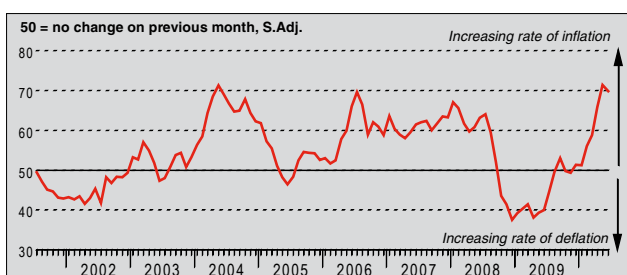
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Czech manufacturers raised their prices charged only marginally in June. The seasonally adjusted Output Prices Index has been slightly above the neutral threshold of 50.0 for two consecutive months, following a nineteen-month period of falling charges. Where companies increased their selling prices compared to one month previously, the main reason given was higher input prices. Where charges fell, this was linked to competitive pressures and sales drives.

Input Prices Index

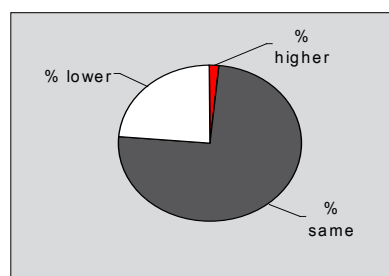
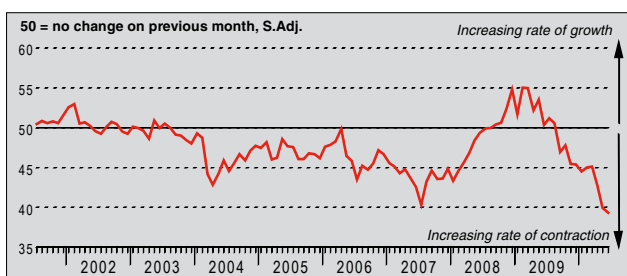
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



The seasonally adjusted Input Prices Index eased from May's survey-record high in June, but was still at its third-highest level to date. The reading signalled a rapid rate of input cost inflation faced by Czech manufacturers. The current inflationary sequence now stretches to seven months. A wide range of items were reported to have risen in price during the month, including metals, plastics, chemicals, oil, timber, paper, textiles, automobile parts and electronic components.

Suppliers' Delivery Times Index

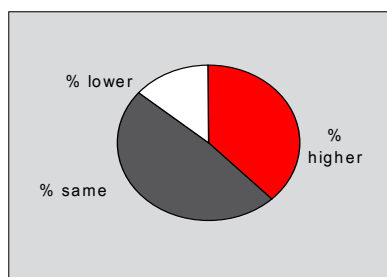
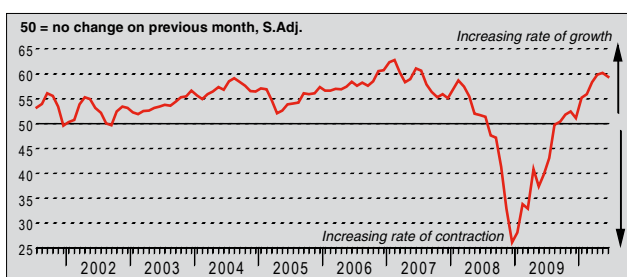
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



The seasonally adjusted Suppliers' Delivery Times Index sank to a new record low in June, and indicated a substantial lengthening of input shipment times for Czech manufacturers. Vendor performance has deteriorated continuously since September 2009. Almost 24% of firms reported slower delivery times than one month previously, against less than 2% that reported an improvement. Firms mainly linked delays to supply shortages.

Quantity of Purchases Index

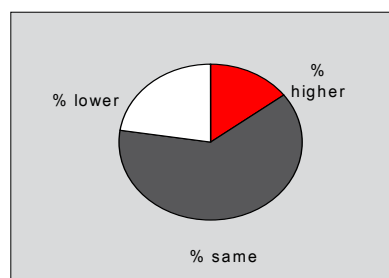
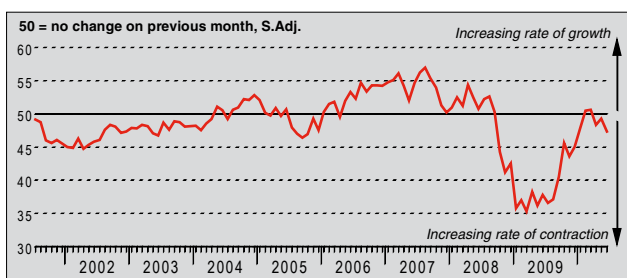
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Purchasing activity in the Czech manufacturing sector rose for the tenth month running in June. The rate of growth was the weakest in three months, but still marked overall. The seasonally adjusted Quantity of Purchases Index was at its tenth-highest level in the latest period. Rising purchasing volumes were attributed to higher production requirements.

Stocks of Purchases Index

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



In line with the trend throughout the second quarter, the volume of pre-production stocks at Czech manufacturers declined in June. Moreover, the seasonally adjusted Stocks of Purchases Index signalled the fastest rate of contraction in this sequence. The overall decline reflected production growth outstripping the increase in inputs during the month, exacerbated by ongoing raw material shortages.

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.

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