HSBC Purchasing Managers' Index™ Press Release
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compiled by markit

HSBC Czech Republic Manufacturing PMI™

Further strong growth of Czech manufacturing sector indicated in July

Summary

PMI™ data for Czech manufacturing, compiled by Markit for HSBC, signalled another strong performance from the sector in July. The headline HSBC Czech Republic Manufacturing PMI eased to a four-month low of 56.8 in July, but remained well above its historic average of 52.4.

Four of the five component indices contributed to the fall in the headline PMI in July. The exception was stocks of purchases. The most substantial downward influences were from suppliers' delivery times, new orders and employment, though all remained strongly positive overall.

Manufacturing production in the Czech Republic rose for the twelfth successive month in July. The rate of expansion eased since June, but remained sharper than the average over the current expansionary sequence.

Driving the increase in output in July was a further marked gain in new orders. This was despite a sharp slowdown in the growth rate of new export business, which partly reflected a strengthening of the koruna against the euro during the month. The total increase in new work remained stronger than the average for the survey history.

The volume of outstanding business in the Czech manufacturing sector rose further in July. The rate of expansion was unchanged from June's strong pace, reflecting sharp gains in new orders. Backlogs rose despite a further increase in employment.

In response to rising workloads, Czech manufacturers raised purchasing activity at a rapid rate in July. Moreover, the increase in purchases of new inputs was sufficiently strong to prevent a further decline in pre-production inventories. Overall, stocks of purchases were broadly unchanged from June, following three straight months of contraction.

Strong demand for manufacturing inputs placed further pressure on vendors in July. Suppliers' delivery times lengthened substantially, albeit to a lesser extent than in June. Also reflecting demand pressures, average input prices rose sharply during the latest period. Firms particularly mentioned metals, oil-based products and wood products as having become more expensive. Output prices were increased as a result but the rate of inflation remained muted, reflecting competitive pressures.

Comment

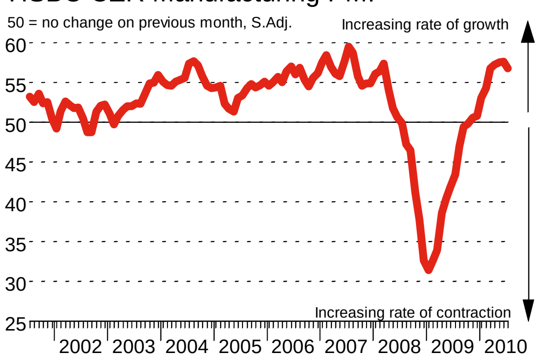
Commenting on the Czech Republic Manufacturing PMI survey, Kubilay Ozturk, economist at HSBC said:

"The headline Czech Manufacturing PMI index edged down in July but remained strongly on the expansion side. Expansion of output appears to have slowed slightly, mainly on the back of an apparent drop in export orders; while a stronger koruna over the month may have played a role here. Notwithstanding the softening, the series has been resilient so far this year, and together with July's upbeat confidence indicators indicate the crisis conditions have continued to ease further. Increases in input and output prices continue to argue for undisrupted normalisation of consumer and producer prices ahead. On rate front, although the impact of recent swift koruna appreciation is likely to be somewhat offset by the weakness seen in April-June period compared to the central bank's 25.2/EUR estimate for end-1H2010, prolonged currency strength may rekindle the bank's concerns over sustainability of the recovery. All in all, the Czech economy continues to diverge favourably in the region. Positive surprises in July's EMU manufacturing PMI and business climate in Germany suggest the economy will maintain its sound footing in the near term."

Key points

- Growth rates of production and total new orders remained historically strong.
- Rate of increase in new export orders slowed sharply.
- Manufacturing employment rose for fifth straight month.

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.

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