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HSBC Czech Republic Manufacturing PMI™

Further strong growth of Czech manufacturing sector indicated in July.

Key findings:

- 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.

PMI data for Czech manufacturing, compiled by Markit for HSBC, signalled another strong performance from the sector in July. The overall improvement in business conditions softened slightly since June, driven by a less substantial deterioration in supplier performance, an export-led slowdown in new order growth and a weaker rise in staffing. But the rates of growth for output and total new orders remained sharp compared to their respective long-run trends, as did cost inflationary pressures.

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. Easing to a four-month low of 56.8 in July, the PMI remained well above its historic average of 52.4. The Index has registered above the neutral threshold of 50.0 for nine successive months.

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.

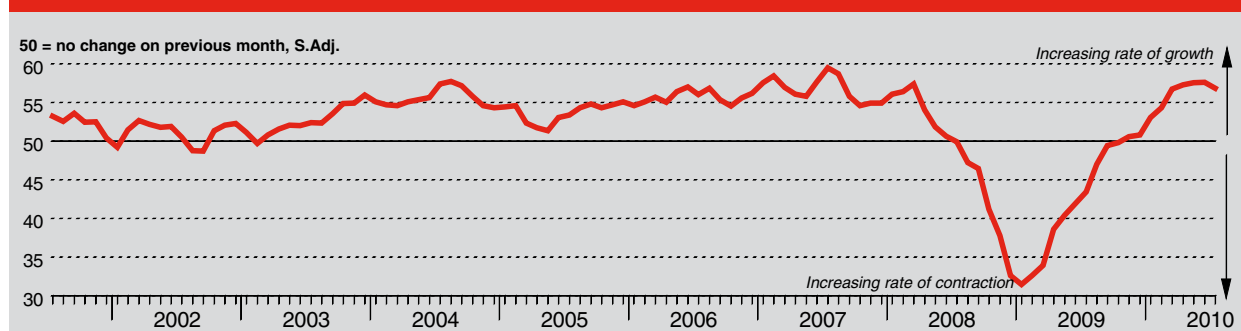
Driving the increase in output in July was a further marked gain in new orders. This was despite a sharp slowdown in the growth rate of new export business, which partly reflected a strengthening of the koruna against the euro during the month. The total increase in new work remained stronger than the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

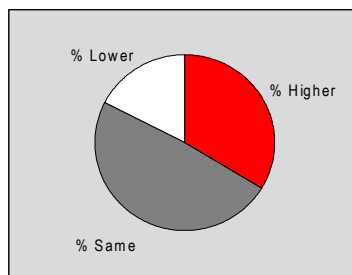
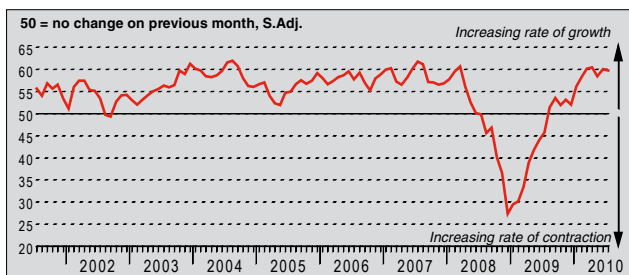
HSBC Czech Republic Purchasing Managers' Index (PMI™)



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

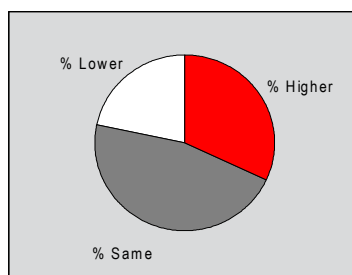
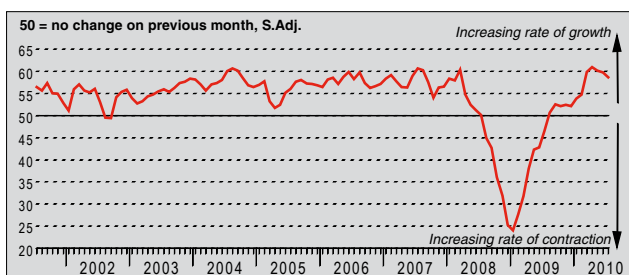
Q. Please compare your production/output this month with the situation one month ago.



Growth of manufacturing production in the Czech Republic was maintained in July. That extended the current growth sequence to twelve months. The seasonally adjusted Output Index fell marginally on the month, signalling a slightly weaker rate of expansion, but it remained sharp in the context of historic survey data. Firms primarily attributed rising output to improving market conditions.

New Orders Index

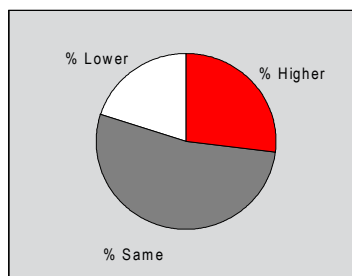
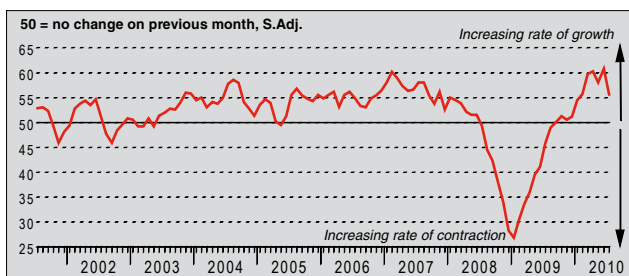
Q. Please compare the level of new orders received this month with the situation one month ago.



The total volume of incoming new work received by Czech manufacturers continued to rise sharply in July. The seasonally adjusted New Orders Index eased to a five-month low, but still signalled strong overall expansion. Around 32% of survey respondents reported higher intakes of new business during the month. Many firms reported that the economic crisis was easing and workloads were returning to normal levels. New orders have risen continuously for one year (on a seasonally adjusted basis).

New Export Orders Index

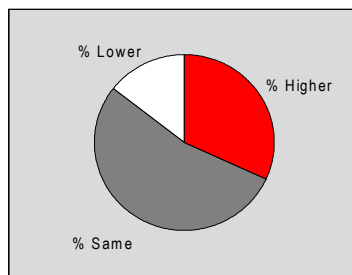
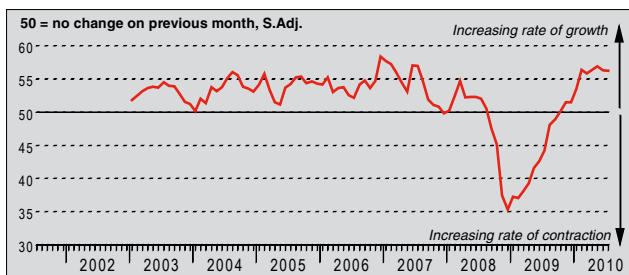
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Growth of new export business in the Czech manufacturing sector slowed sharply in July. The seasonally adjusted New Export Orders Index posted its second-steepest one-month fall to date (the record drop was in December 2008), to a six-month low. Nevertheless, it remained above its long-run trend level of 51.8, and has remained in expansionary territory for the past eleven months. Germany and Russia were both reported as sources of export growth during the month.

Backlogs of Work Index

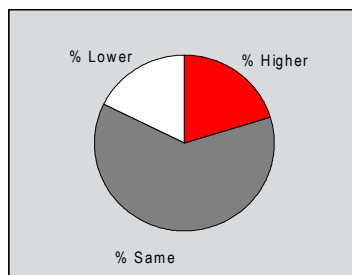
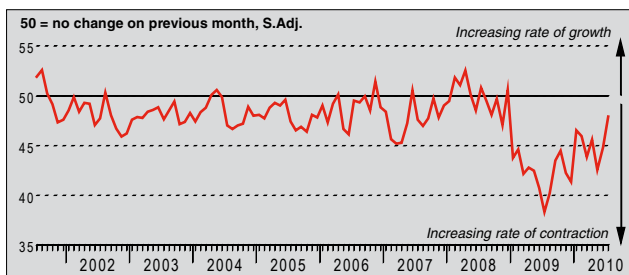
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Growth of new work was sufficiently marked to generate a further rise in outstanding business in the Czech manufacturing sector in July. The seasonally adjusted Backlogs of Work Index was unchanged from June, remaining well above its long-run trend. Incomplete workloads have risen every month since October 2009.

Stocks of Finished Goods Index

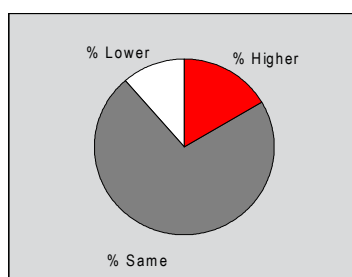
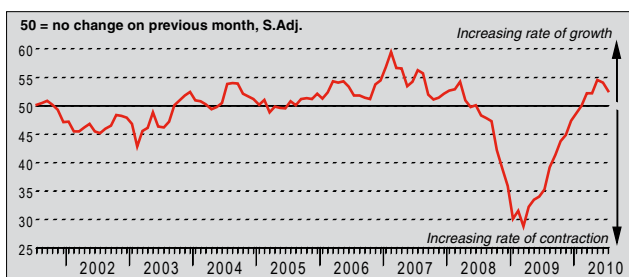
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



The seasonally adjusted Stocks of Finished Goods Index remained below the no-change mark of 50.0 in July, indicating declining inventories of final products in the Czech manufacturing sector. Falling stocks were mainly attributed to rising sales volumes. That said, the rate of contraction slowed, as signalled by a rise in the Index. Moreover, the latest figure was the highest registered in the current nineteen-month sequence of decline.

Employment Index

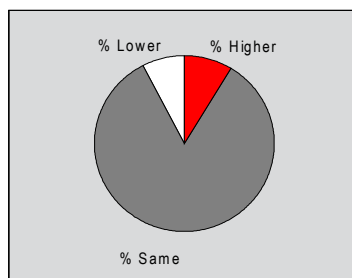
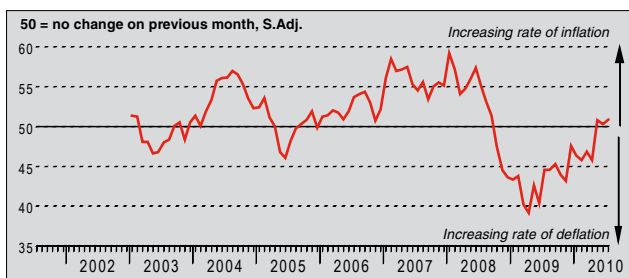
Q. Please compare the level of employment at your unit with the situation one month ago.



Manufacturing employment in the Czech Republic rose in July. Where workforces expanded, at 16.5% of panellists, the main reason given was rising new orders and production requirements. The seasonally adjusted Employment Index remained above neutrality for the fifth month running, but fell on the month to signal the weakest rate of job creation since April.

Output Prices Index

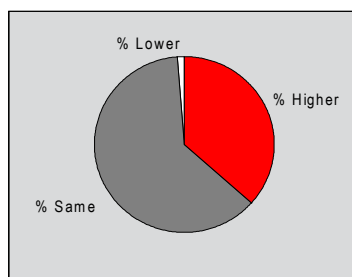
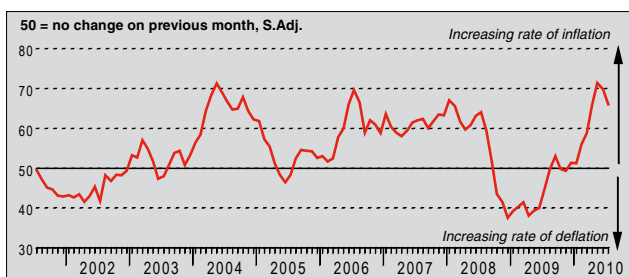
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Czech manufacturers raised their output prices for the third month running in July. However, the rate of change inflation was marginal, as the seasonally adjusted Output Prices Index remained only fractionally above the no-change mark of 50.0. The Index was in line with its average since January 2003. Where output prices rose, this was mainly linked to higher input costs. Falling charges were attributed to competitive pressures.

Input Prices Index

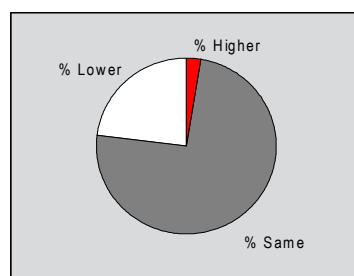
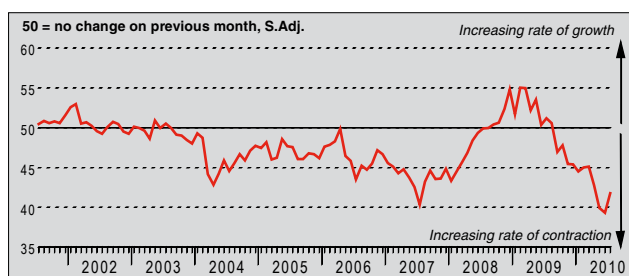
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input prices paid by Czech manufacturers continued to rise sharply in July. The current inflationary sequence now stretches to eight months. That said, the seasonally adjusted Input Prices Index eased on the month to signal the slowest rate of input cost inflation since April. Items reported as having risen in price during the month included metals, oil-based products, wood, paper and coke. Input price inflation remained well above the long-run survey trend during July.

Suppliers' Delivery Times Index

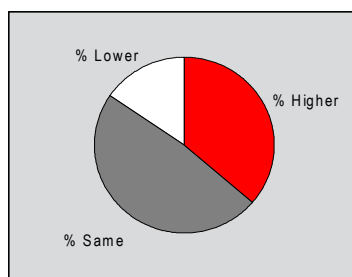
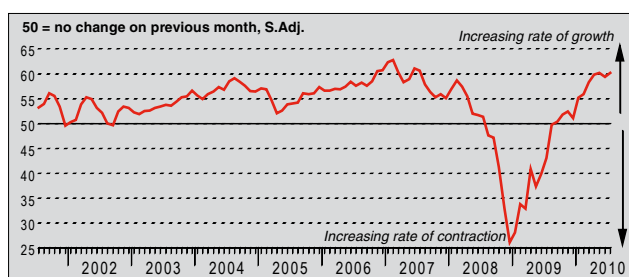
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Vendor performance continued to deteriorate in July. Average suppliers' delivery times have now lengthened every month since September 2009. The seasonally adjusted Suppliers' Delivery Times Index rose from June's record low, but was still the fourth-lowest in the survey history. The latest anecdotal evidence continued to reveal stock shortages at suppliers, particularly for metals and timber.

Quantity of Purchases Index

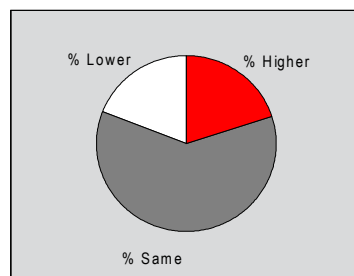
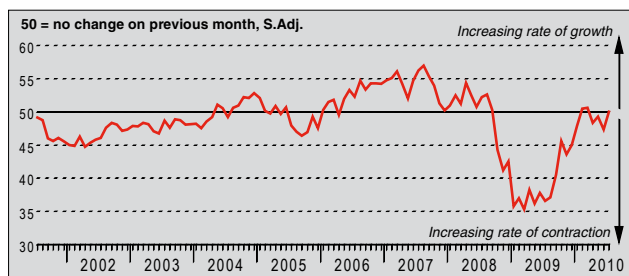
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



The seasonally adjusted Quantity of Purchases Index remained at an elevated level in July, pointing to rapid growth of purchasing activity by Czech manufacturers. The Index remained well above its historic average of 53.6, and has signalled continuous expansion since September 2009. Around 36% of firms reported ordering higher input volumes compared to one month previously, citing increased production requirements and efforts to build stocks.

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 in the Czech manufacturing sector was broadly unchanged from one month previously in July. That followed three successive months of contraction. One-in-five survey respondents reported higher inventories during the month, linked to preparation for new projects as demand improved. Those firms that cut stocks of purchases mainly linked this to rising production.

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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