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HSBC Czech Republic Manufacturing PMI™

Czech manufacturing continued impressive run of growth in August.

Key findings:

- Further rapid increases in both output and new orders.
- Expansion of new work from export markets regained momentum.
- Manufacturers continued to expand workforces.

The latest PMI data covering the Czech manufacturing economy, compiled by Markit for HSBC, signalled further impressive growth in August. Having eased in July, the overall rate of improvement in business conditions accelerated mid-way through the third quarter. Growth of output and new orders picked up, remaining at elevated levels, and firms added to their workforces for the sixth successive month. New export orders increased at a faster rate, despite the ongoing strength of the koruna.

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 rose to 57.3 in August, almost recovering to its June level having eased to a four-month low of 56.8 in July. The PMI has remained in expansionary territory for ten months running, and the latest figure was the eleventh-highest in 110 months of data collection to date.

The upward movement in the headline index reflected stronger growth of output and new orders and a greater lengthening in suppliers' delivery times. Partly offsetting this was a slightly weaker rise in staffing and a fall in input stocks.

Underpinning the overall improvement in the manufacturing business environment in August was a sharp rise in new work, the thirteenth expansion in as many months. The rate of growth

accelerated since July, and remained well above the long-run survey average. Domestic and export markets both supported the overall improvement in growth momentum during the month, with Germany cited as a key source of export demand.

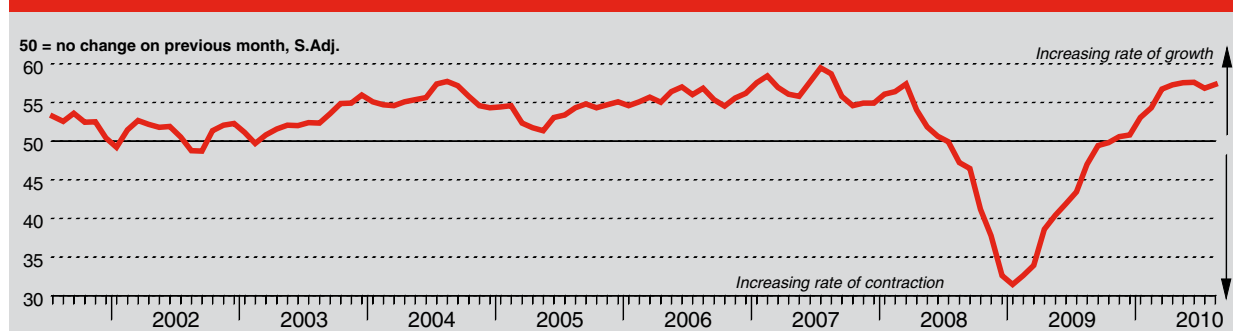
Production at Czech manufacturers rose for the thirteenth month running in August. Furthermore, the rate of increase accelerated to its highest since August 2007. Despite this, the volume of outstanding work rose further, extending the current sequence of backlog accumulation to eleven months.

With order books filling and positive expectations for future business growth, manufacturers in the Czech Republic invested in additional workers in August. The current run of employment growth in the sector now stretches to six months.

The rate of input price inflation eased for the third straight month in August, but remained sharp in the context of the history of the survey. Firms reported a wide range of inputs as having risen in price during the month, including metals, plastics, timber, paper and electronic components. Insufficient stocks at suppliers were partly behind the increase, and also led to lengthening delivery times.

Prices charged by Czech manufacturers fell for the first time in four months in August, albeit only modestly. A number of firms commented that they had lowered their koruna-denominated prices in order to offset the continued strength of the currency and maintain international competitiveness.

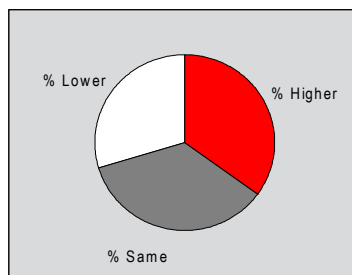
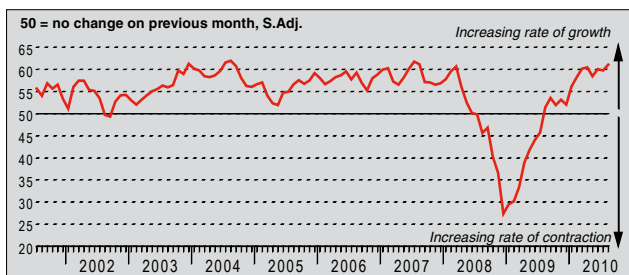
HSBC Czech Republic Purchasing Managers' Index (PMI™)



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

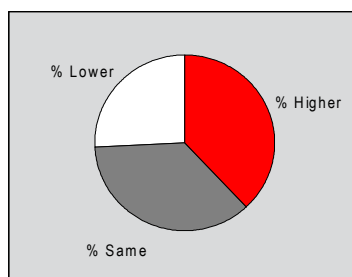
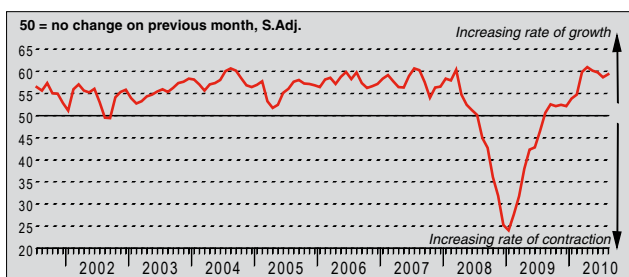
Q. Please compare your production/output this month with the situation one month ago.



Manufacturing production in the Czech Republic continued to rise sharply in August. Moreover, the seasonally adjusted Output Index increased to its sixth-highest level in over nine years of data collection to date, and indicated the fastest rate of expansion for three years. Firms continued to link rising production to a revival in market conditions, and some firms commented on receiving large new orders for the second half of the year. The current sequence of continuous growth now stretches to thirteen months.

New Orders Index

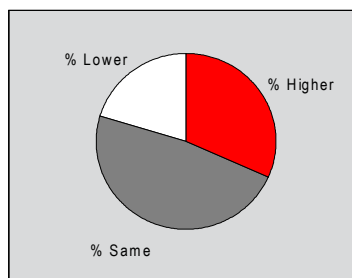
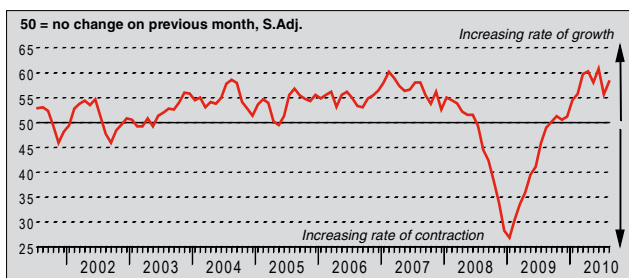
Q. Please compare the level of new orders received this month with the situation one month ago.



The rate of new order growth in the Czech manufacturing sector strengthened in August. The seasonally adjusted New Orders Index rose on the month, having eased to a five-month low in July. Mirroring the pattern for output, new orders have risen continuously since August 2009. Firms reported improving demand from both domestic and export markets. The pace of expansion in August was the second-weakest of the past six months, but still well above the long-run survey average.

New Export Orders Index

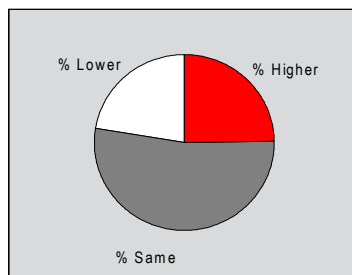
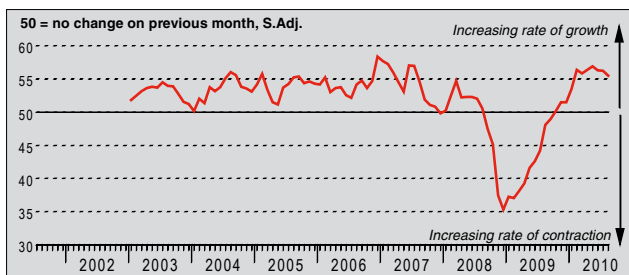
Q. Please compare the level of new export orders received this month with the situation of one month ago.



The latest survey data signalled an acceleration in growth of new export business received by Czech manufacturers. The rate of expansion picked up from July's six-month low, and remained comfortably above the long-run survey average. New export orders have grown continuously for one year. Germany, France, Russia and Slovakia were all reported as sources of new export business in the latest period.

Backlogs of Work Index

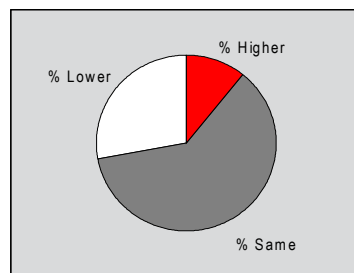
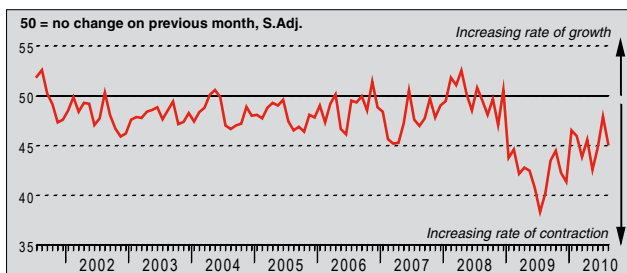
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Outstanding work at manufacturing plants in the Czech Republic continued to grow at a sharp pace in August. The seasonally adjusted Backlogs of Work Index remained historically high, despite easing to a seven-month low. The Index has remained above the no-change mark of 50.0 since October 2009. Reasons given for rising backlogs included higher new orders and shortages of inputs.

Stocks of Finished Goods Index

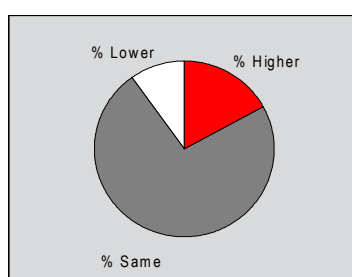
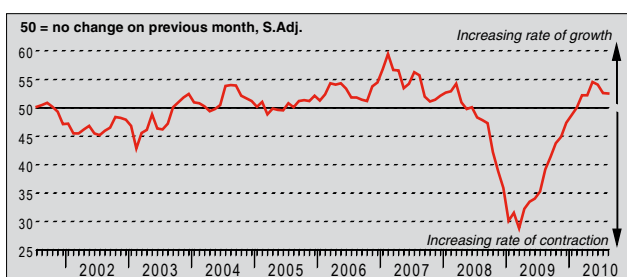
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



The seasonally adjusted Stocks of Finished Goods Index remained well below the neutral threshold in August, signalling a twentieth successive monthly reduction in the overall level of final products held in stock in the Czech manufacturing sector. Having slowed in July, the rate of decline accelerated to a sharp pace. Firms linked falling inventories to rising sales, the shipping of large completed orders and general efforts to clear warehouses.

Employment Index

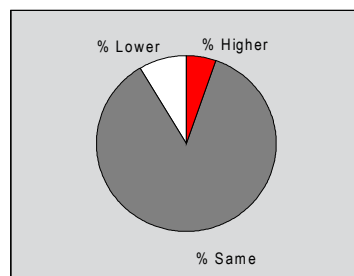
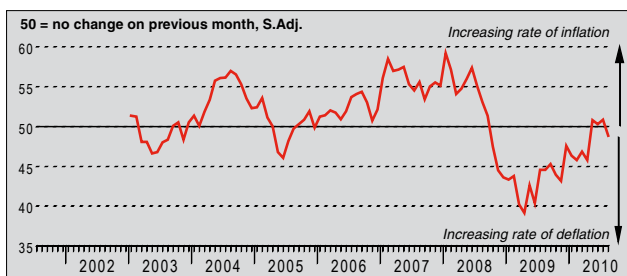
Q. Please compare the level of employment at your unit with the situation one month ago.



Employment growth in the manufacturing sector was maintained for the sixth successive month in August. Little-changed from July, the rate of job creation was slightly weaker than the average for the current sequence. Firms linked recruitment of additional staff to current production requirements, the intake of new business and expectations of further growth in demand in the autumn.

Output Prices Index

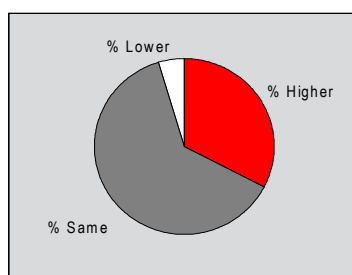
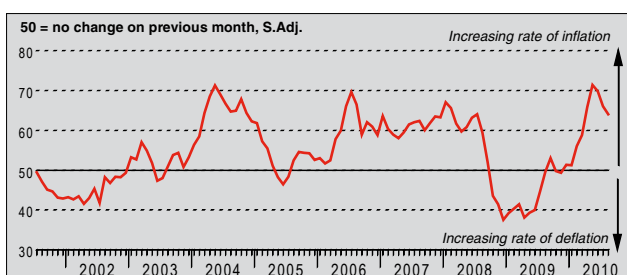
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Prices charged by Czech manufacturers declined in August. The seasonally adjusted Output Prices Index fell below the no-change mark of 50.0, ending a three-month sequence of rising factory gate prices. That said, the rate of reduction was only modest, with less than one-in-ten survey respondents reporting lower output prices. Where prices fell, this was often linked to companies offsetting the effects of the strong koruna against the euro and US dollar.

Input Prices Index

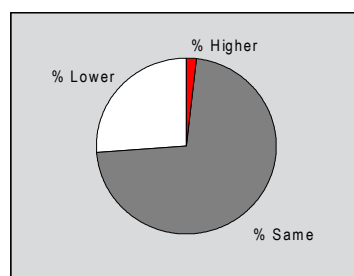
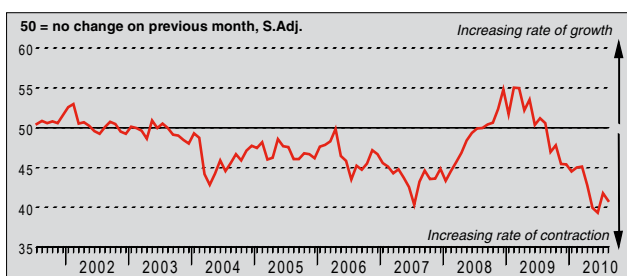
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input price inflation remained elevated in the context of historic survey data in August. Almost one-third of the survey panel reported that average input costs had risen, linking this to a wide range of raw materials including metals, plastics, timber, textiles, paper, grain and electronic components. The current sequence of input price inflation now stretches to nine months. However, the seasonally adjusted Input Prices Index eased to a five-month low in the latest period.

Suppliers' Delivery Times Index

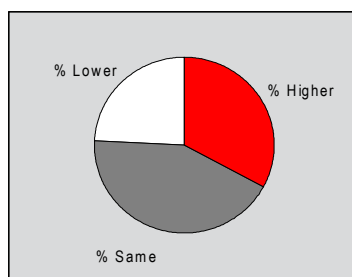
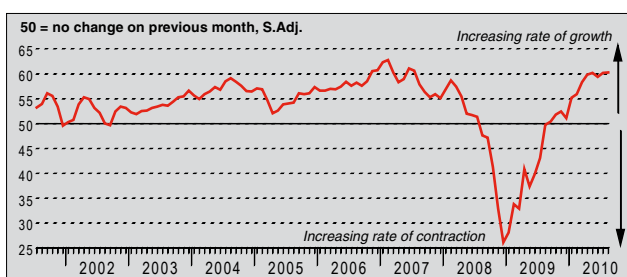
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Vendor performance in the Czech manufacturing sector continued to worsen in August, reflecting the ongoing improvement in demand conditions. The seasonally adjusted Suppliers' Delivery Times Index remained below the no-change mark of 50.0 for the twelfth month in succession, indicating longer lead times as firms reported insufficient supplier capacity and shortages of key inputs. More than one-quarter of the survey panel reported longer supplier delivery times than one month previously.

Quantity of Purchases Index

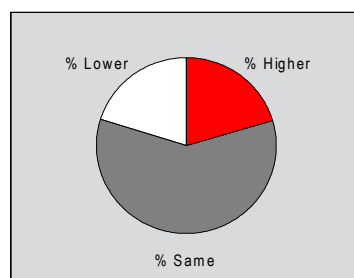
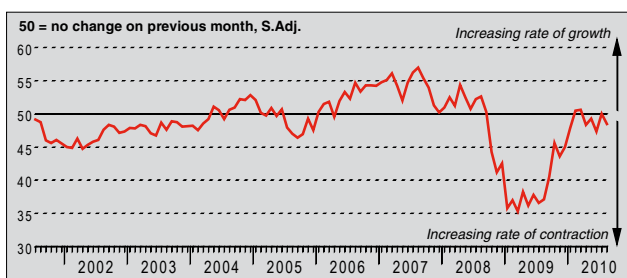
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



The volume of inputs ordered by Czech manufacturers continued to rise at a substantial rate in August. The seasonally adjusted Quantity of Purchases Index edged up fractionally since July to its highest since July 2007, indicating a rapid pace of expansion and a twelfth successive month of growth. Firms linked higher purchases to rising production and new orders.

Stocks of Purchases Index

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



For the fourth time in the past five months, manufacturers in the Czech Republic cut their pre-production inventories on average. The seasonally adjusted Stocks of Purchases Index was broadly in line with its long-run trend during the month (48.6), and indicative of a modest rate of decline. Where input stocks fell, this was generally linked either to rising output or deliberate efforts to streamline warehouses.

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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