

HSBC Czech Republic Manufacturing PMI™

Czech manufacturing continued impressive run of growth in August

Summary

The latest PMI data covering the Czech manufacturing economy, compiled by Markit for HSBC, signalled further impressive growth in August. 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.

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.

Comment

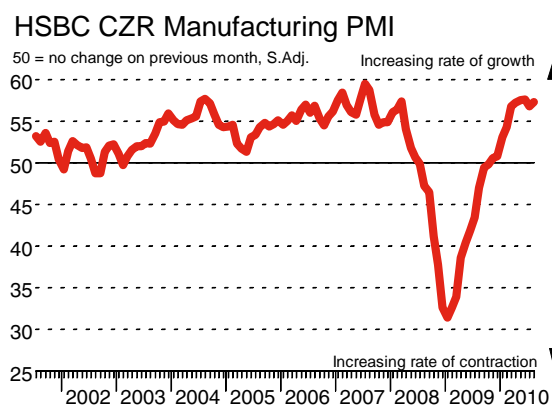
Commenting on the Czech Republic Manufacturing PMI survey, Kubilay Ozturk, economist at HSBC said:

"The headline Czech Manufacturing PMI index resumed its upward trend in August and remained in expansionary territory. Output, new orders, export orders and employment all advanced on the month, thanks mainly to externally driven improvement in demand. Output prices fell for the first time since April, as manufacturers apparently absorbed some of the impact of a stronger CZK since early July. That provides further evidence of a lack of meaningful inflationary pressures ahead despite the strong rebound. All in all, the Czech recovery continues to mimic a better-than-expected revival in Western Europe, and the August PMI suggests the economy will maintain its sound footing in the third quarter. The Czech economy will probably be affected by an expected slowdown in the Eurozone's rebound in Q4 2010 and next year. But the favourable divergence of the German economy, to which the Czech production cycle is most closely linked, will likely provide some comfort."

Key points

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

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.

HSBC:

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