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HSBC Czech Republic Manufacturing PMI™

PMI signalled best performance of Czech manufacturing sector since August 2007.

Key findings:

- Production and new orders both continued to rise rapidly.
- Employment grew at fastest rate for over three years.
- Shortages of raw materials led to higher input prices and delays from suppliers.

The latest PMI data covering the Czech manufacturing economy, compiled by Markit for HSBC, suggested that positive momentum was maintained in the sector at the end of the third quarter. Production, new orders and purchasing activity all grew at elevated rates, and firms added to their workforces at the fastest pace since August 2007. Subsequently, pressure on supply chains grew, resulting in longer input delivery times and further marked increases in input prices.

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 for the second month running in September and, at 58.0, signalled the fastest overall improvement in business conditions since August 2007.

Four of the five component indexes of the headline PMI contributed to the upward movement in September, namely employment, new orders, stocks of purchases and suppliers' delivery times.

New orders rose for the fourteenth successive month in September, and at a marked rate. Firms reported that both domestic and export markets had contributed to the improving outlook. Germany was mentioned as a key source of export growth during the latest period.

The fifth component of the headline PMI, output, registered

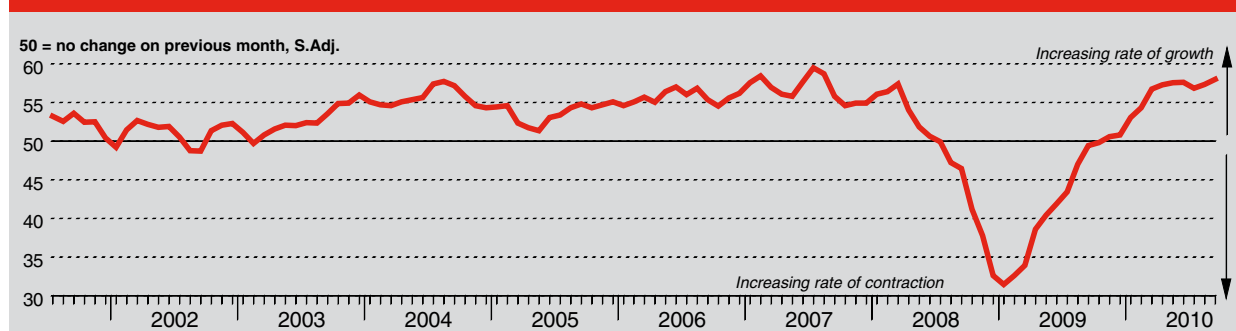
weaker growth than August, but a marked expansion nevertheless. Production has risen every month since August 2009. Despite the latest strong rate of output growth, backlogs of work continued to rise, reflecting capacity constraints and delayed deliveries from suppliers. Overall, delivery times from vendors rose at the fourth-strongest monthly rate since data were first collected in July 2001. Despite longer delivery times, the level of inputs held in stock rose slightly on the month, reflecting firms' efforts to prepare for new orders and build safety stocks.

Czech manufacturing employment rose for the seventh month running in September, and at the fastest pace since August 2007. Firms directly linked additional recruitment to rising workloads and an improving order outlook.

Shortages of raw materials led to rising input prices in September. Items reported as being up in price during the month included metals, plastics, paper, textile, foodstuffs and electronics. The rate of input cost inflation remained marked, but eased for the fourth successive month from May's survey record.

Higher average input prices led to an overall rise in prices charged for Czech manufactured goods in September. The latest rise was the fourth in the past five months, but remained very weak. The majority of panellists reported no change in charges during the month, citing competitive pressures.

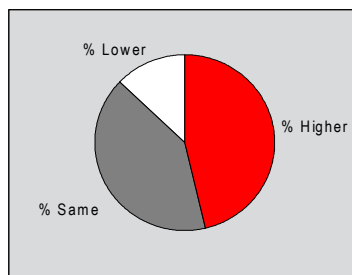
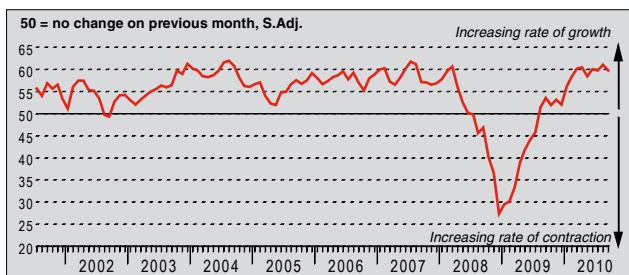
HSBC Czech Republic Purchasing Managers' Index (PMI™)



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

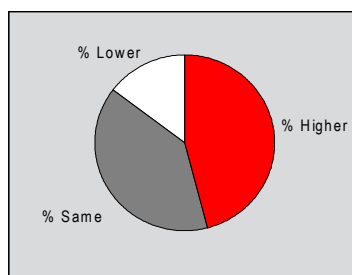
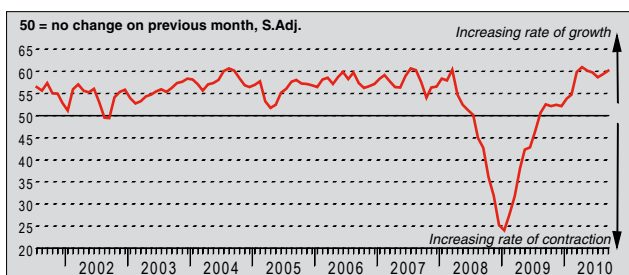
Q. Please compare your production/output this month with the situation one month ago.



Czech manufacturing production continued to rise sharply in September. The seasonally adjusted Output Index fell on the month, to match July's figure, but still remained well above its historic trend level of 54.7. The current sequence of production growth now stretches to fourteen successive months. Firms linked higher output to improving demand, notably from EU countries such as Germany.

New Orders Index

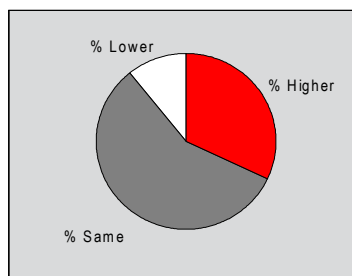
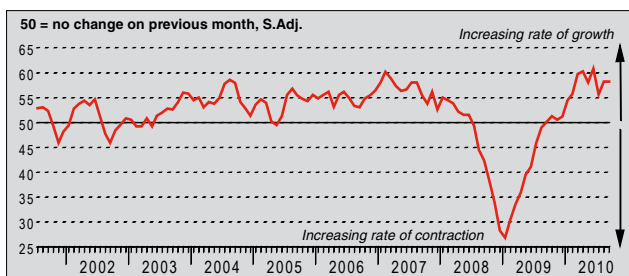
Q. Please compare the level of new orders received this month with the situation one month ago.



The volume of new orders received by Czech manufacturers rose for the fourteenth consecutive month in September. Moreover, the rate of growth accelerated for the second month running to match the rapid pace seen in May. Adjusting for seasonal factors, the New Orders Index was at its joint-second highest level of the past two-and-a-half years. Firms reported improving demand from both domestic and export markets. Germany was specifically mentioned as a source of growth, as was renewed demand from the domestic construction sector.

New Export Orders Index

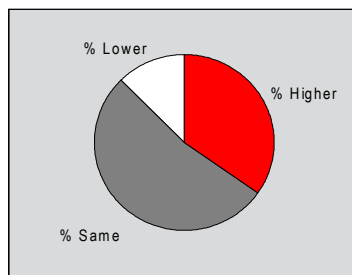
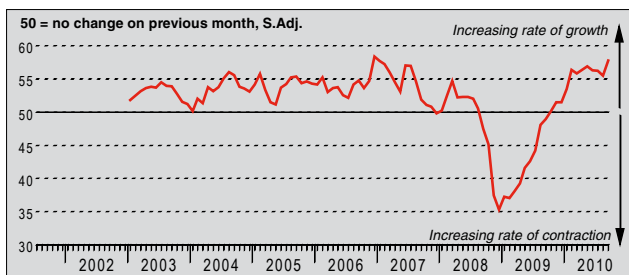
Q. Please compare the level of new export orders received this month with the situation of one month ago.



The seasonally adjusted New Export Orders Index was little-changed from August, signalling a further marked rise in new export contracts received by Czech manufacturers. The current growth sequence now stretches to thirteen months. Germany was reported as a key driver of export growth in September. The Index remained well above its long-term trend (52.0) during the latest period.

Backlogs of Work Index

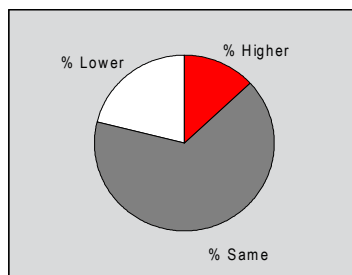
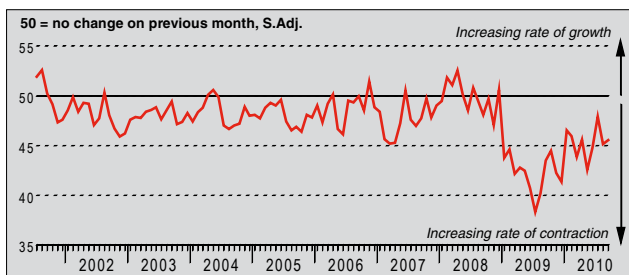
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Incomplete workloads in the Czech manufacturing sector rose at the fastest rate since January 2007 in September. This extended the current period of growing backlogs to twelve months. Anecdotal evidence suggested that the main reason outstanding business increased was growing demand and subsequent pressure on manufacturing capacity.

Stocks of Finished Goods Index

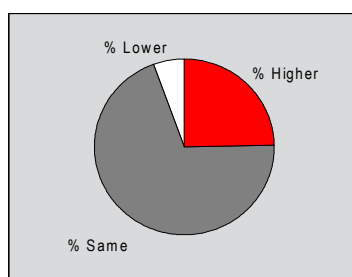
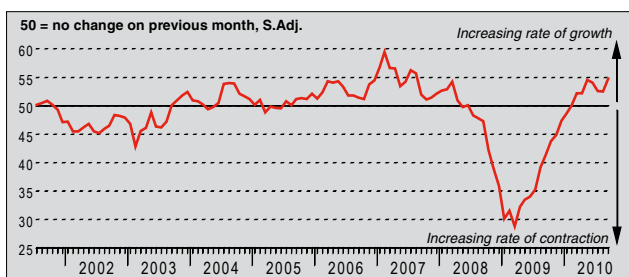
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Inventories of final products held by Czech manufacturers declined for the twenty-first successive month in September. The rate of contraction eased slightly since August, but remained sharp compared to the survey's historic standards. Reasons provided by firms for lower stocks included excess sales over production, cost cutting measures and quicker shipments of completed products to clients.

Employment Index

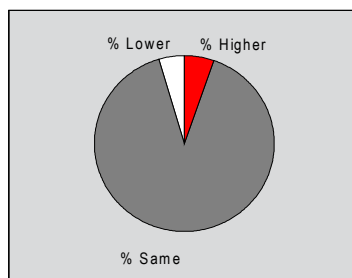
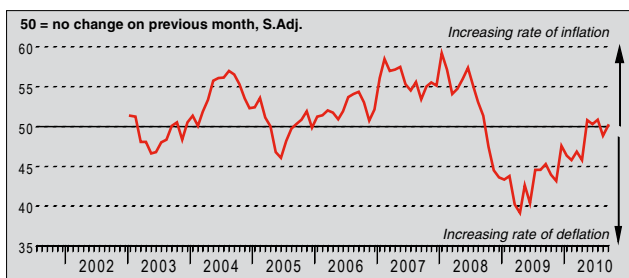
Q. Please compare the level of employment at your unit with the situation one month ago.



Manufacturing employment in the Czech Republic rose at the fastest rate since August 2007 in the latest survey period. Workforces have expanded on average throughout the past seven months. Survey respondents widely reported the need to expand capacity to meet current and expected workloads.

Output Prices Index

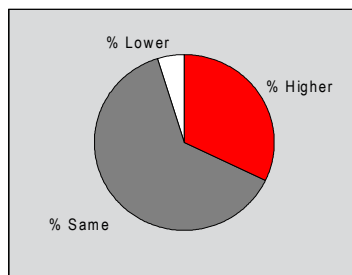
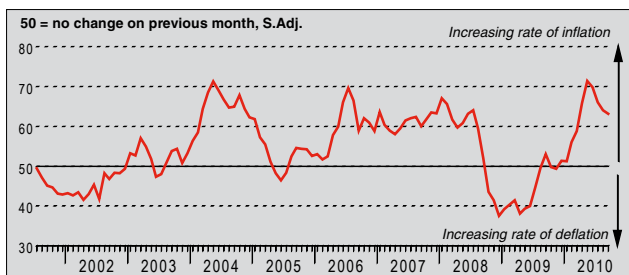
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Output prices charged by Czech manufacturers rose on average for the fourth time in five months in September. That said, the rate of charge inflation was very weak, as around 90% of the survey panel reported no change in selling prices since August. Anecdotal evidence linked higher output prices to rising input costs, while those firms that either cut or held their charges cited competitive pressures.

Input Prices Index

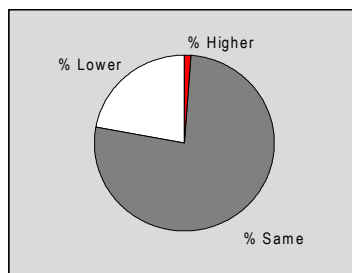
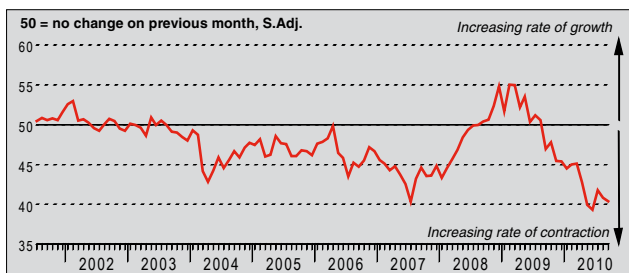
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input cost inflation in the Czech manufacturing sector remained sharp in September, despite weakening. The seasonally adjusted Input Prices Index moved down for the fourth successive month from May's survey record, but remained indicative of a rapid rate of input cost inflation. Almost one-third of survey respondents reported higher input prices compared to one month previously, citing a wide range of items. These included steel, plastics, paper and electronics. Foodstuffs and textiles were also mentioned as sources of inflationary pressure.

Suppliers' Delivery Times Index

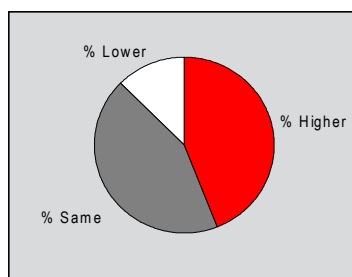
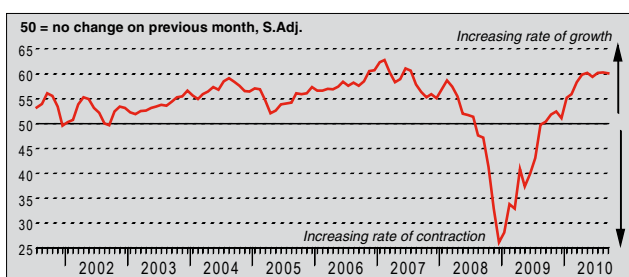
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



September data signalled a further marked deterioration in the performance of vendors supplying Czech manufacturers. The seasonally adjusted Suppliers' Delivery Times Index was at its fourth-lowest level in 111 months of data collection to date. Around 22% of firms reported longer delivery times, compared to only 1% that reported quicker deliveries of goods. Firms mainly attributed rising suppliers' delivery times to shortages of raw materials and insufficient capacity at vendors.

Quantity of Purchases Index

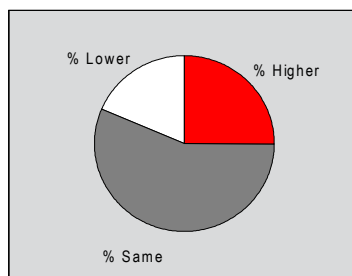
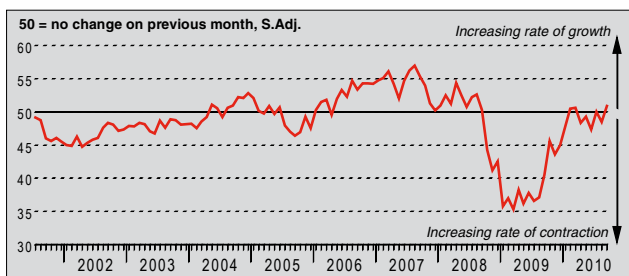
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



The rate of growth in purchases made by Czech manufacturers remained substantial in September. The seasonally adjusted Quantity of Purchases Index was little-changed for the second month running, and remained well above its long-run trend level (53.7). Input volumes have risen every month since September 2009. Survey respondents primarily linked greater purchasing activity to rising demand and safety stocks.

Stocks of Purchases Index

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



The seasonally adjusted Stocks of Purchases Index was above the no-change mark of 50.0 for the second time in three months in September, signalling an overall rise in the volume of inputs held in stock at Czech manufacturers. That said, the rate of growth was only marginal. Firms linked expanded inventories to expected growth of output requirements, and safety stocking aimed at preventing 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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