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HSBC Czech Republic Manufacturing PMI™

Czech manufacturing business climate improved strongly, albeit at a weaker pace.

Key findings:

- PMI at three-month low of 57.2, but still strong in context of historic data.
- New order growth eased to eight-month low.
- Manufacturers added jobs at fastest rate since March 2007.

October PMI data covering the Czech manufacturing economy, compiled by Markit for HSBC, signalled a further strong overall improvement in business conditions in the sector at the start of Q4. The overall rate of growth eased slightly, but was still sharp in the context of historic survey data since July 2001.

The headline HSBC Czech Republic Manufacturing PMI™ is a composite single-figure indicator of overall performance in the manufacturing sector, tracking changes in new orders, output, employment, supplier performance and stocks of purchases. Any reading greater than 50.0 signals an overall improvement in business conditions. The PMI fell for the first time in three months in October, to post 57.2. That was the lowest since July but still well above the long-run average of 52.5.

New orders – the biggest contributor to the headline PMI – continued to show marked overall growth in October. The current sequence of continuous expansion now stretches to fifteen months.

There was evidence from the latest survey that a slowdown in key Eurozone export markets and the recent strength of the koruna had limited Czech manufacturing growth in October. New export business increased at the slowest rate of 2010 so far, which contributed to a weakening in total new order growth to an eight-month low.

Czech manufacturing production increased at a strong rate in October, extending the current sequence to fifteen months. Though it was the slowest since May, the pace of growth remained

sharp compared to the survey's long-run average.

Employment increased at the fastest rate for over three-and-a-half years in October. Czech producers have added to their workforces, on average, every month since March.

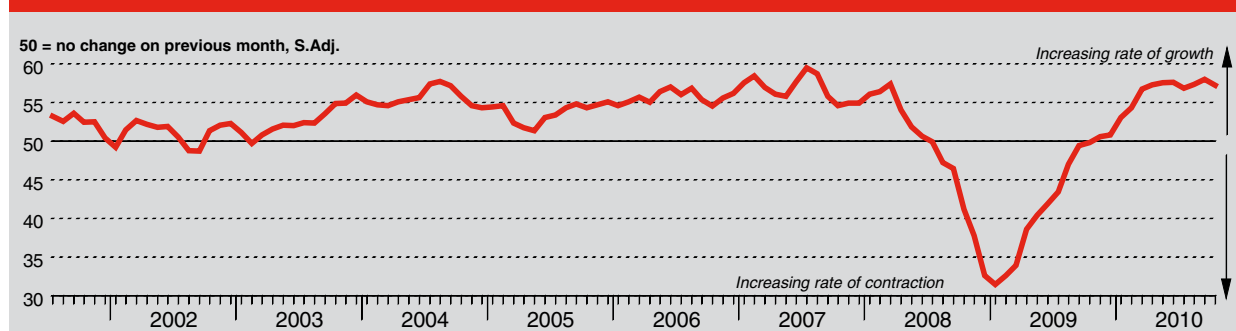
Despite the increase in capacity resulting from growth in staffing, and reflecting the current strength of demand, backlogs of work continued to grow. Rising volumes of outstanding business were also partly linked to expanded ranges and more complex products. Backlogs have increased for thirteen successive months.

Supplier performance continued to deteriorate in October, underlining the overall strength of market conditions in the manufacturing sector. Delays commonly resulted from raw material shortages and insufficient vendor capacity.

Upward pressure on Czech manufacturers' average input prices remained intense in October. The rate of input cost inflation accelerated to a three-month high, and was significantly sharper than the long-run survey average. This was reflected in the range of inputs reported as having increased in price during the month, including metals, wood, plastics, textiles, food and electronic components.

Manufacturers in the Czech Republic increased their output prices for the fifth time in six months in October. The rate of inflation remained weak, however, partly reflecting the impact of the strong koruna on export tariffs.

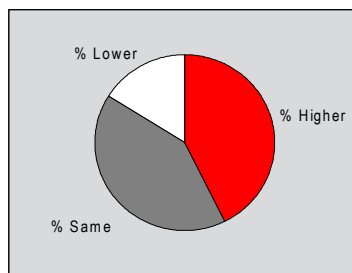
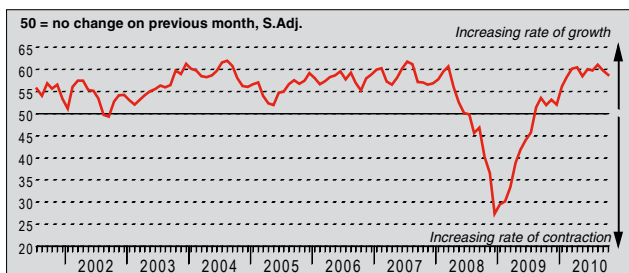
HSBC Czech Republic Purchasing Managers' Index (PMI™)



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

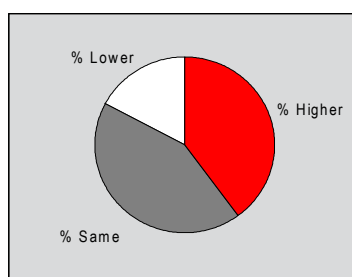
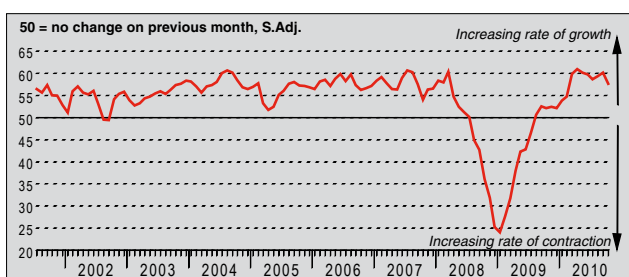
Q. Please compare your production/output this month with the situation one month ago.



Czech manufacturing production rose for the fifteenth month running in October. The seasonally adjusted Output Index signalled a marked rate of expansion that remained comfortably above the long-run trend for the survey. Firms mainly attributed higher output to rising new order volumes amid strengthening underlying demand. The Index, however, eased for the second month running, to signal the weakest rate of growth since May.

New Orders Index

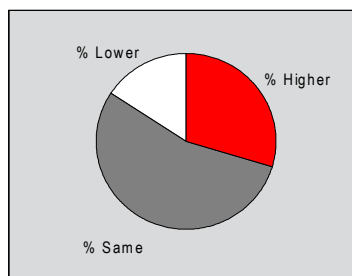
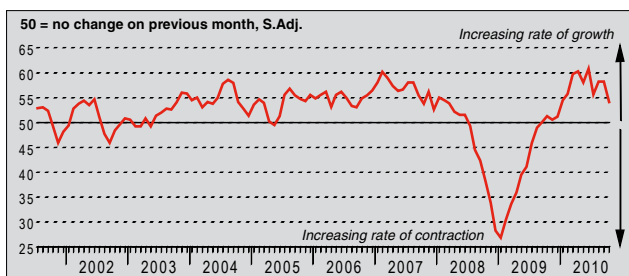
Q. Please compare the level of new orders received this month with the situation one month ago.



Growth of new work at Czech manufacturers was maintained for the fifteenth month in succession in October. Rising new order volumes were driven by both domestic and external sources of demand. Having signalled one of the fastest rates of expansion in the series history the previous month, the seasonally adjusted New Orders Index fell to an eight-month low in the latest period. The October figure still, however, pointed to a marked overall rate of growth.

New Export Orders Index

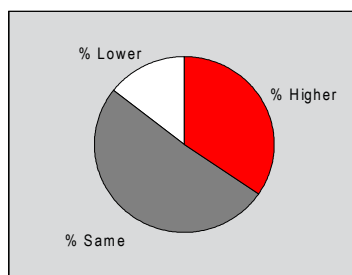
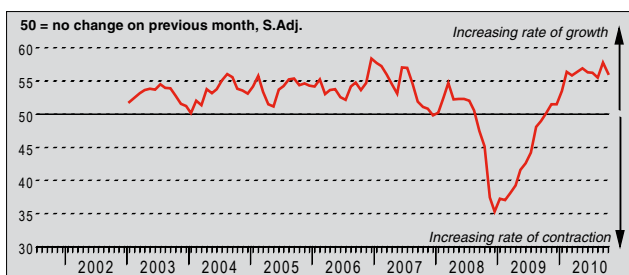
Q. Please compare the level of new export orders received this month with the situation of one month ago.



The current sequence of rising new export contracts in the Czech manufacturing sector was extended to fourteen months in October. The rate of growth slowed to the weakest in ten months, but was solid nonetheless. The seasonally adjusted New Export Orders Index remained comfortably above the no-change threshold of 50.0, and its long-run average (51.0). Some firms linked the recent softening in export growth to the strength of the koruna against the euro.

Backlogs of Work Index

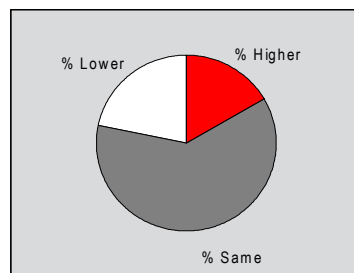
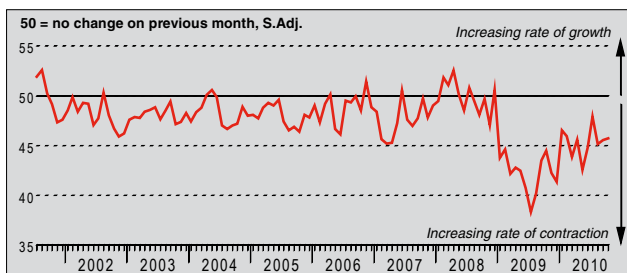
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The rate of growth in backlogs at Czech manufacturers remained sharp in October. Outstanding business in the manufacturing sector has risen every month since October 2009. The main reasons given by firms for higher backlogs included strengthening demand, increasingly complex products and expanded product ranges. The rate of expansion eased during the month, to the second-weakest since March.

Stocks of Finished Goods Index

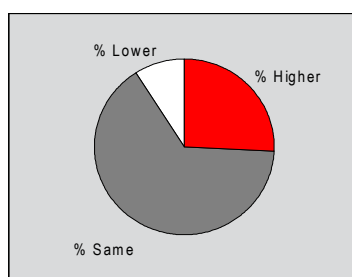
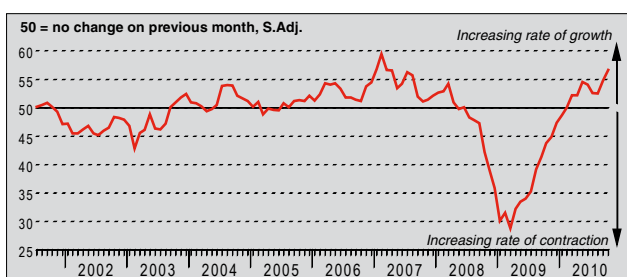
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Czech manufacturers continued to reduce their stocks of finished goods on average in October. The rate of inventory depletion remained sharp, and faster than the long-run survey trend since July 2001. A number of panel members stated that they had made productivity gains which resulted in faster shipments of goods to customers.

Employment Index

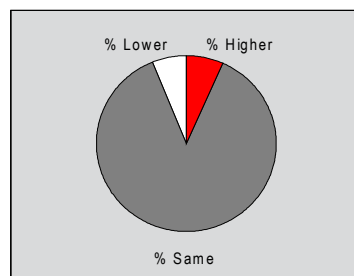
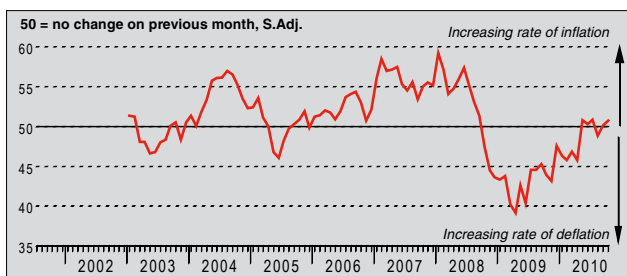
Q. Please compare the level of employment at your unit with the situation one month ago.



Manufacturing employment in the Czech Republic rose sharply in October. The seasonally adjusted Employment Index signalled the fastest rate of job creation in the sector since March 2007. It was also at its joint-third highest level in nearly nine-and-a-half years of data collection. Just over one-quarter of the survey panel reported increasing workforces compared to the previous month. Anecdotal evidence linked recruitment to rising production requirements and positive expectations for business in the coming months.

Output Prices Index

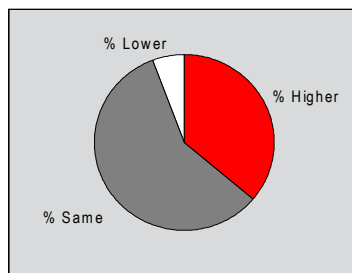
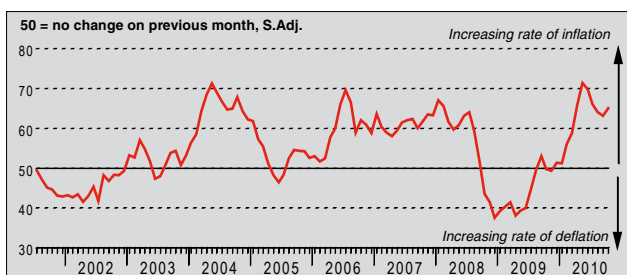
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Czech manufacturers increased their output charges for the fifth time in six months in October. That said, the rate of inflation remained weak, as signalled by the seasonally adjusted Output Prices Index registering only just above the no-change mark of 50.0. Around 87% of panellists reported no change in their average tariffs during the month. Some firms reported downward pressure on charges resulting from the strength of the koruna against the euro and US dollar.

Input Prices Index

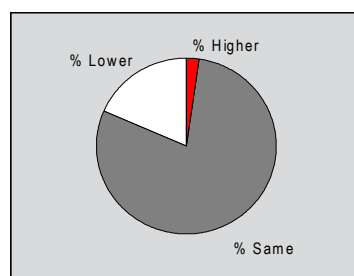
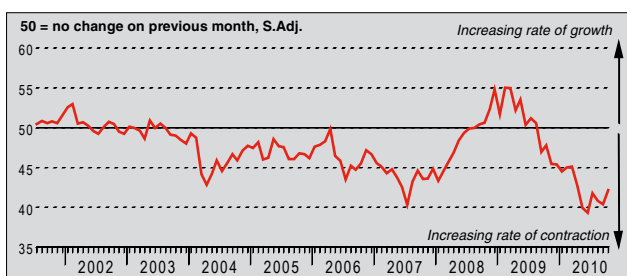
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Average input prices paid by Czech manufacturers rose substantially in October. The seasonally adjusted Input Prices Index remained well above 50.0 and moved up to a three-month high, signalling a rapid rate of inflation that was sharper than the long-run series trend. The latest anecdotal evidence listed a wide range of items as having risen in price, including steel, copper, aluminium, plastics, foodstuffs, electronic components, wood, paper and textiles.

Suppliers' Delivery Times Index

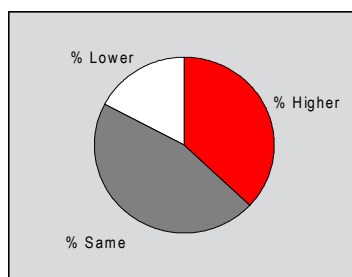
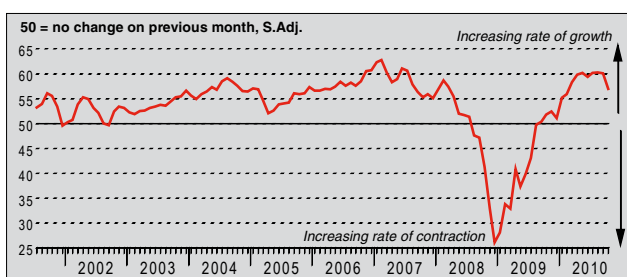
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



The performance of vendors supplying inputs to Czech manufacturers worsened further in October. This was mainly attributed to the ongoing strengthening in demand for inputs, shortages of raw materials and insufficient capacity at suppliers. The seasonally adjusted Suppliers' Delivery Times Index rose on the month, but still indicated a marked lengthening of average lead times.

Quantity of Purchases Index

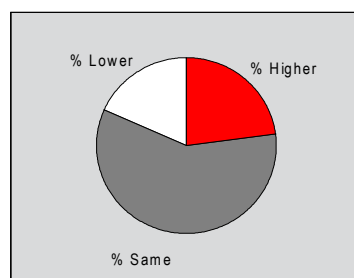
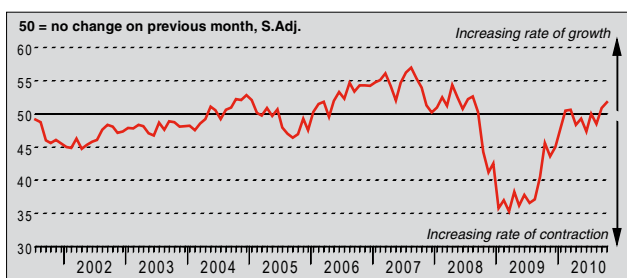
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



The volume of inputs purchased by Czech manufacturers rose for the fourteenth successive month in October. The rate of growth slowed to an eight-month low, but was sharp nonetheless. The seasonally adjusted Quantity of Purchases Index remained comfortably above its long-run trend. Growth of purchasing activity reflected higher output requirements.

Stocks of Purchases Index

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



Pre-production inventories at Czech manufacturers increased for the third time in four months in October. Though modest overall, the rate of expansion was the fastest since August 2008. Firms linked the stocking of inputs to growing new business volumes and rising input prices. Around 23% of survey respondents reported higher input stocks compared to September.

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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