

HSBC Czech Republic Manufacturing PMI™

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

Summary

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 headline HSBC Czech Republic Manufacturing PMI™, a single-figure indicator of overall manufacturing performance, fell for the first time in three months in October to 57.2. That was the lowest since July, but still well above the long-run average of 52.5. Any figure above 50.0 signals overall growth.

New orders 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 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. Supplier performance continued to deteriorate in October, underlining the overall strength of market conditions in the manufacturing sector.

Upward pressure on manufacturers' average input prices remained intense. The rate of 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 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.

Comment

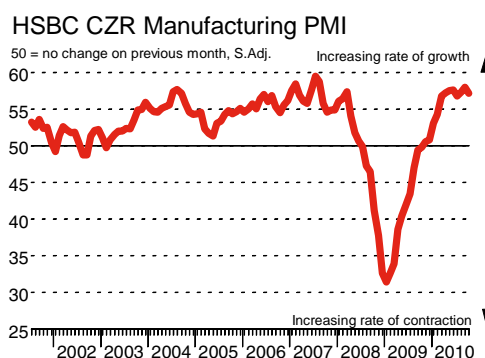
Commenting on the Czech Republic Manufacturing PMI survey, Dr Murat Ulgen, HSBC Chief Economist, Central & Eastern Europe and sub-Saharan Africa, said:

"Manufacturing activity remains strong in the Czech Republic in October, expanding for the twelfth month on the trot and at a pace well above the historical average. However, there has been some moderation in growth as compared to September, in line with trends seen elsewhere in the region, and reflects modest deceleration in both actual output as well as the new orders component. The latter in turn could primarily be explained by slower new export order growth possibly on the back of Eurozone weakness and koruna strength despite Germany's better than expected performance. Overall, the picture remains one of strength however, with healthy demand conditions being reflected in rising stocks of purchases as well as longer suppliers' delivery times. Both input and output prices continued to rise, suggesting a likely build-up in pricing pressures going forward. Though the pace of increase in output prices was much slower compared to that of input prices, possibly hinting at margin squeeze in the manufacturing sector. Labour market conditions improved further as well, with the employment component rising back to levels just below the pre-crisis highs."

Key points

- 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.

Historical Overview



For further information, please contact:

HSBC

Dr Murat Ulgen, HSBC Chief Economist
Central & Eastern Europe and sub-Saharan Africa
Telephone +90-212-376-4619
Email muratulgen@hsbc.com.tr

Petr Plocek, PR Manager, HSBC Bank (Prague)
Telephone +420-225-024-743
Email petr.plocek@hsbc.com

Filip Koutný, Director Treasury
Telephone +420-225-024-701
Email filip.koutny@hsbc.com

Markit

Trevor Balchin, Senior Economist
Telephone +44-1491-461-065
Email trevor.balchin@markit.com

Caroline A. Lumley, Director, Corporate Communications
Telephone +44-20-7260-2047
Email caroline.lumley@markit.com

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:

Headquartered in London, HSBC is one of the largest banking and financial services organisations in the world. Its international network comprises some 8,000 offices in 87 countries and territories in Europe; Hong Kong; Rest of Asia-Pacific; the Middle East; North America and Latin America. With assets of US\$2,418 billion at 30 June 2010, HSBC is one of the world's largest banking and financial services organisations. HSBC is marketed worldwide as 'the world's local bank'.

About Markit:

Markit is a leading, global financial information services company with over 1,900 employees. The company provides independent data, valuations and trade processing across all asset classes in order to enhance transparency, reduce risk and improve operational efficiency. Its client base includes the most significant institutional participants in the financial market place. For more information, see www.markit.com

About PMIs:

Now available for 26 countries and key regions including the Eurozone and BRIC, Purchasing Managers' Indexes™ (PMIs™) have become the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to www.markit.com/economics.

The intellectual property rights to the HSBC Czech Republic Manufacturing PMI provided herein is owned by Markit Group Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Markit, PMI and Purchasing Managers' Index are all trademarks owned by The Markit Group.