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HSBC Czech Republic Manufacturing PMI™

Czech manufacturing sector remained on strong growth trajectory in November.

Key findings:

- Output and new orders both increased at historically marked rates.
- Input price inflation quickened.
- Employment growth remained strong.

The latest PMI data covering the Czech manufacturing economy, compiled by Markit for HSBC, pointed to sustained growth momentum in November. Growth rates for both output and new orders remained historically strong, despite easing to nine-month lows, while jobs continued to be added at a sharp pace. Inflationary pressure on firms' input costs remained marked, reflecting supply shortages.

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. At 57.3, the PMI was little-changed from October and well above its long-run average of 52.5.

Continuing to drive the current bout of impressive growth in November was a further marked increase in new orders. Although the rate of expansion eased slightly to the weakest since February, it remained strong in the context of historic survey data. Moreover, growth of new export business accelerated slightly since October. The current run of continuous growth in total new work now stretches to sixteen months.

Sustained increases in new business prompted another marked overall rise in manufacturing output in the Czech Republic in November. In line with the trend for new orders, the rate of expansion eased to a nine-month low, but remained sharp

overall. Underlining the current strength of market conditions, the volume of outstanding business in the sector rose at the joint-second highest rate in the survey history during the month.

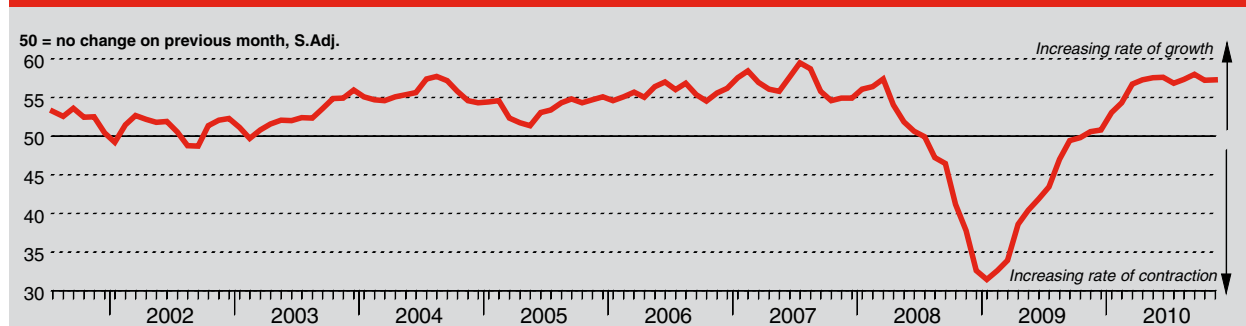
Linked to rising backlogs were supply shortages. The average time taken for vendors to deliver inputs to Czech manufacturers lengthened for the fifteenth month running, and to a substantial degree.

Shortages of raw materials contributed to rising inflationary pressures in the manufacturing sector. Input prices rose for the twelfth month in succession, and at the fastest rate since June. Key items reported as having increased in price during the month included metals, plastics, textiles and electronic components. The rate of input cost inflation remained well above the long-run survey trend.

Cost pressures were partially transferred to clients in November, as firms raised their output prices. Charges have now increased six times in the past seven months. Although modest compared to the rise in input prices, the latest rate of inflation was the strongest since September 2008.

Czech manufacturers took on more staff and increased their purchasing volumes in November, as part of attempts to boost capacity and prepare for future new orders. The rate of job creation matched October's forty-three month high, and growth of purchasing remained sharp.

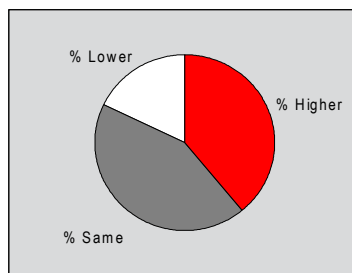
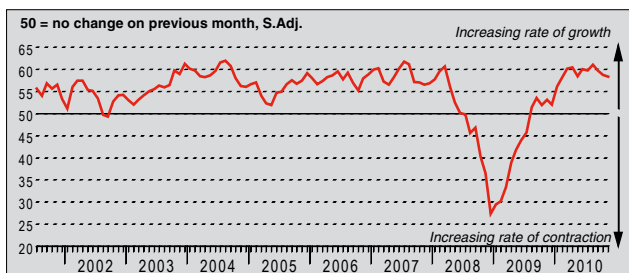
HSBC Czech Republic Purchasing Managers' Index (PMI™)



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

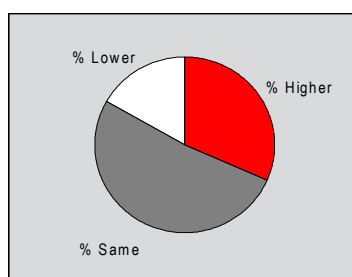
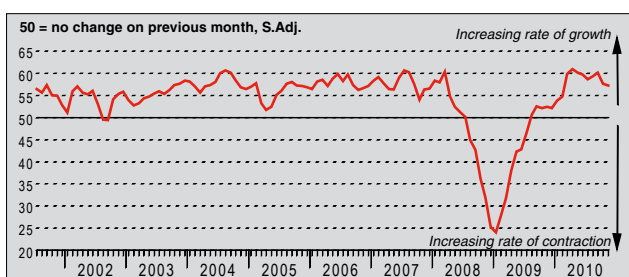
Q. Please compare your production/output this month with the situation one month ago.



Production at Czech manufacturers continued to rise strongly in November. The current sequence of continuous growth now extends to sixteen months. Anecdotal evidence mainly linked rising output to receipts of new orders. That said, the seasonally adjusted Output Index eased further from August's three-year peak, indicating a weakening rate of expansion. Although still greater than the long-run survey average, the latest pace of growth was the slowest since February.

New Orders Index

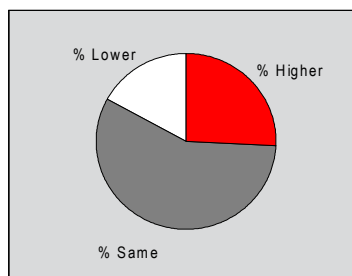
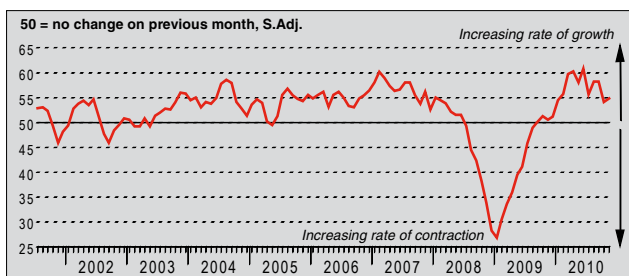
Q. Please compare the level of new orders received this month with the situation one month ago.



The seasonally adjusted New Orders Index remained well above the no-change mark of 50.0 in November, signalling a further rise in new business placed with Czech manufacturers. The rate of expansion remained marked, and well above the long-run survey average. That said, growth eased for the second month running, as the Index reached its lowest level since February.

New Export Orders Index

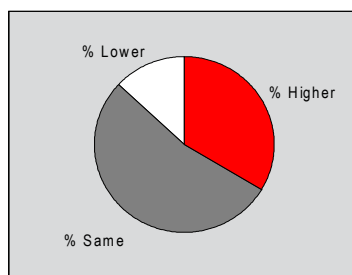
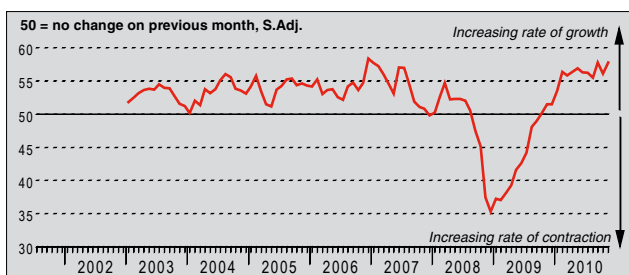
Q. Please compare the level of new export orders received this month with the situation of one month ago.



The volume of new export business placed with Czech manufacturers rose for the fifteenth successive month in November, and at a marked pace. Survey respondents continued to report strengthening international demand for their products. The rate of expansion accelerated slightly since October, but remained weaker than the trend for 2010 so far (57.3).

Backlogs of Work Index

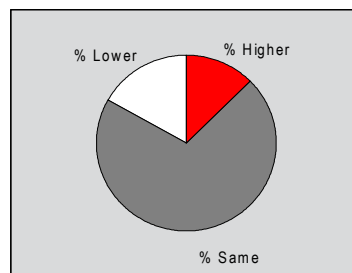
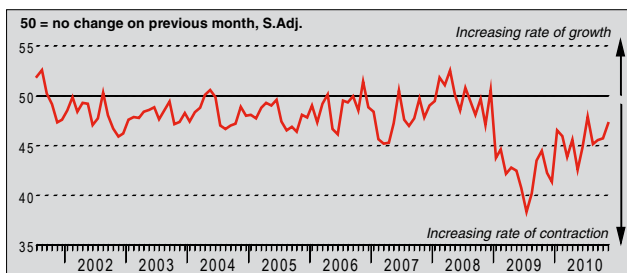
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Outstanding work continued to rise sharply in November, underlining the current strength of demand for Czech manufactured goods. Moreover, the rate of growth in incomplete workloads matched September's forty-four month high. The seasonally adjusted Backlogs of Work Index remained above the no-change mark of 50.0 for the fourteenth successive month, indicating sustained pressure on operating capacity in the manufacturing sector.

Stocks of Finished Goods Index

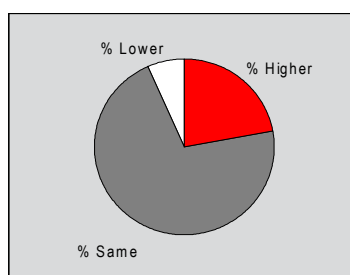
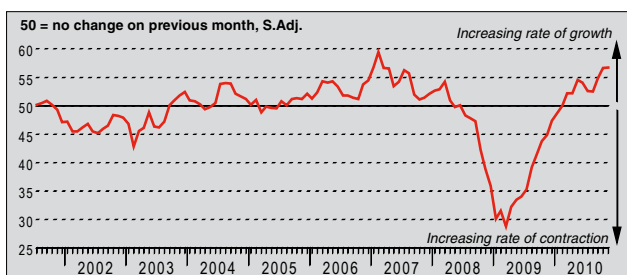
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



The seasonally adjusted Stocks of Finished Goods Index remained below the no-change mark of 50.0 for the twenty-third month running in November, signalling a further overall contraction in Czech manufacturers' final goods inventories. Declining warehouse levels mainly reflected strengthening sales demand. The Index rose on the previous month, however, and signalled the slowest rate of decline since July.

Employment Index

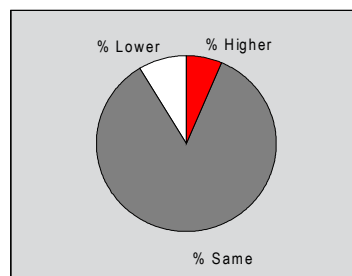
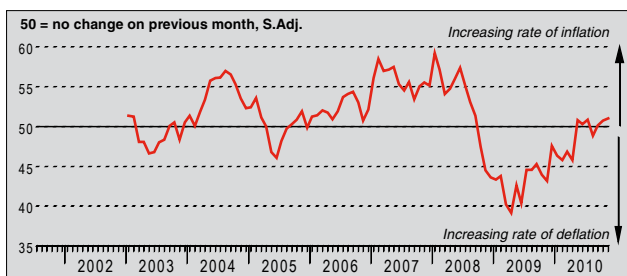
Q. Please compare the level of employment at your unit with the situation one month ago.



The rate of job creation in the Czech manufacturing economy remained sharp in November. The seasonally adjusted Employment Index was unchanged from October's forty-three month high, and has signalled continuous growth of staffing in the sector since March. Around 22% of survey respondents reported expanding their workforces during the month, often reporting that they sought to permanently raise capacity in expectation of future order book growth.

Output Prices Index

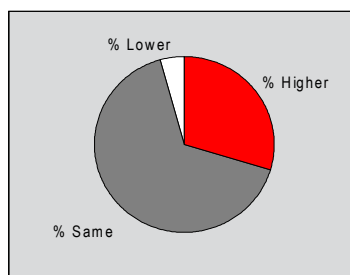
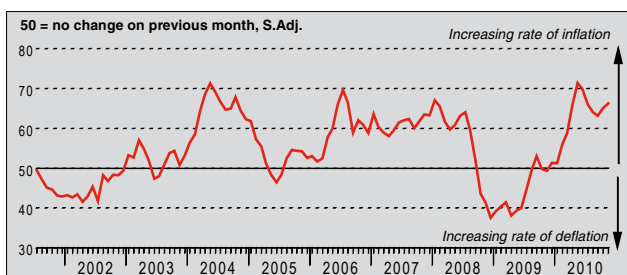
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Average prices charged by Czech manufacturers rose for the third month running in November. Tariffs have now increased six times in the past seven months. Moreover, the seasonally adjusted Output Prices Index edged up since October, to signal the fastest rate of charge inflation since September 2008. Where output prices rose on one month ago, this was mainly linked to higher input costs.

Input Prices Index

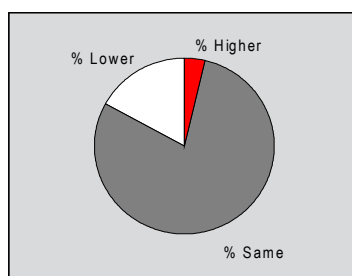
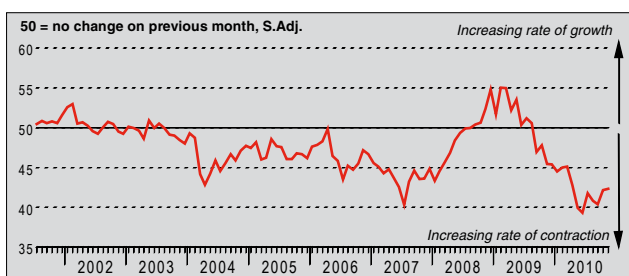
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input price inflation accelerated for the second month running from September's six-month low in November. The seasonally adjusted Input Prices Index was at its highest since June, and remained well above its long-run trend level (55.1). The main inputs reported by firms as having risen in price during the month included metals, textiles, plastics and electronic components.

Suppliers' Delivery Times Index

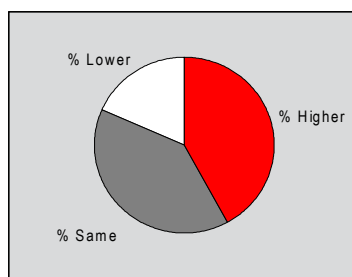
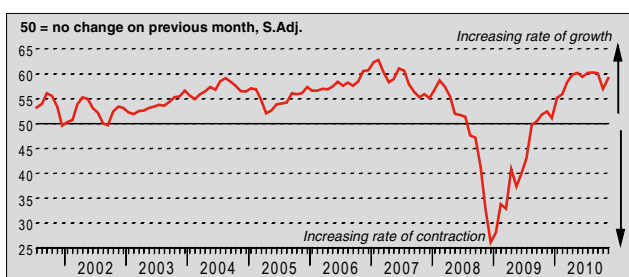
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



The timeliness of companies supplying Czech manufacturers continued to worsen in November. The average time taken to deliver inputs in the sector lengthened for the fifteenth successive month. The seasonally adjusted Suppliers' Delivery Times Index was little-changed from October, indicating a marked degree of lengthening. Firms mainly attributed delays from suppliers to shortages of raw materials.

Quantity of Purchases Index

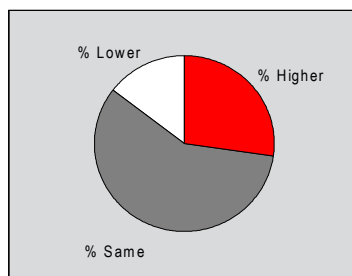
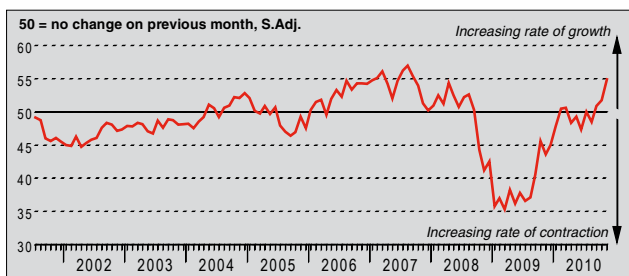
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



November marked a further month of strong growth in purchasing activity by Czech manufacturers. The current sequence of expansion now stretches to fifteen months. The seasonally adjusted Quantity of Purchases Index improved slightly from October's eight-month low, and signalled slightly faster growth than the average for 2010 so far. Input purchases were mainly linked to rising volumes of new orders.

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 remained above the neutral threshold of 50.0 for the third month running in November, indicating a further increase in pre-production inventories at Czech manufacturers. Moreover, the Index rose sharply, and signalled the fastest rate of expansion since September 2007. Those firms that increased stocks of inputs mainly linked this to expectations of new order growth.

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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