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## HSBC Czech Republic Manufacturing PMI™

Czech manufacturing sector started 2011 with strongest performance in survey history.

### Key findings:

- PMI rose to highest level to date, at 60.5.
- Record growth of output, new orders and backlogs.
- Rate of input price inflation neared record levels.

PMI data covering the Czech Republic, compiled by Markit for HSBC, suggested that the manufacturing sector started 2011 with a growth surge. Output, new orders and backlogs of work all rose at the fastest rates since the survey began in July 2001. Manufacturers' purchases of inputs also expanded at a near-record rate, leading to fresh inflationary pressures. Average input prices rose at the third-fastest pace in the series history, leading to a marked rise in prices charged for manufactured goods as producers sought to protect their margins.

The headline HSBC Czech Republic Manufacturing PMI™ is a composite single-figure indicator of manufacturing performance. It is derived from indicators for new orders, output, employment, suppliers' delivery times and stocks of purchases. Any figure greater than 50.0 indicates overall growth of the sector. The PMI rose to 60.5 in January, from December's 58.4 and beating the previous record of 59.5 set in July 2007. The PMI has remained above neutrality since November 2009.

The record outcome for the headline figure in January was underpinned by the fastest growth of new orders in the survey history. Both domestic and new export orders increased markedly, with companies mentioning the neighbouring German market as a key source of demand. Total new orders have risen every month since August 2009.

Rapid gains in new contracts led to a survey-record rate of output growth in January. Production in the Czech manufacturing sector has increased continuously since August 2009. Despite the current pace of expansion, backlogs of work also increased at the fastest pace in the survey history.

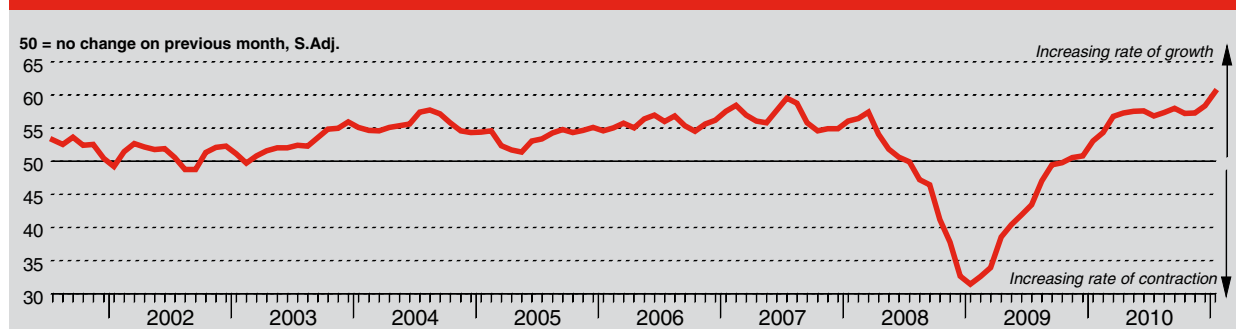
The rate of growth in inputs ordered by Czech manufacturers sharpened to the third-fastest in the survey history in January. This led to a strong rise in pre-production inventories, and generated further pressure on vendors. Suppliers' delivery times lengthened at a marked rate during the month.

Average input prices paid by Czech manufacturers rose at the third-fastest rate in the survey history in January. A wide range of raw materials were reported to have increased in price during the month, including metals, plastics, chemicals, wood, foodstuffs, textiles and coke.

Czech manufacturers passed on increases in their input prices to customers in January. Having been weak during the final months of 2010, the rate of output price inflation accelerated sharply to the fastest since June 2008.

Manufacturing employment in the Czech Republic rose strongly in January, as firms attempted to boost capacity and manage workloads. Job creation has been sustained for eleven months, and the pace of expansion remained strong in the context of historic survey data.

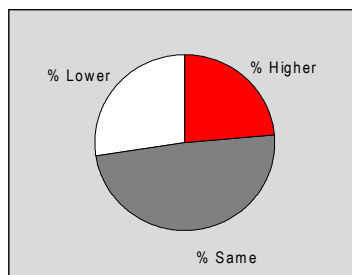
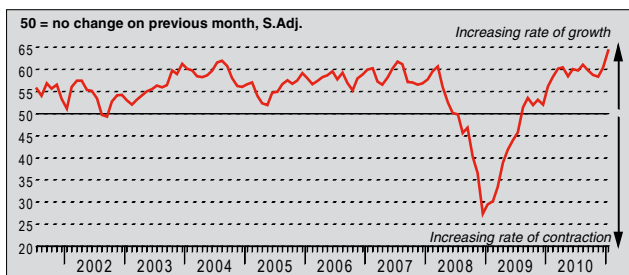
HSBC Czech Republic Purchasing Managers' Index (PMI™)



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

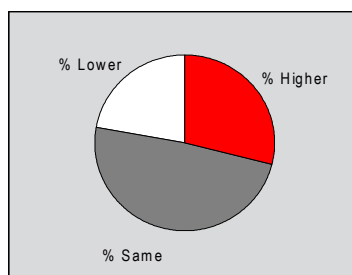
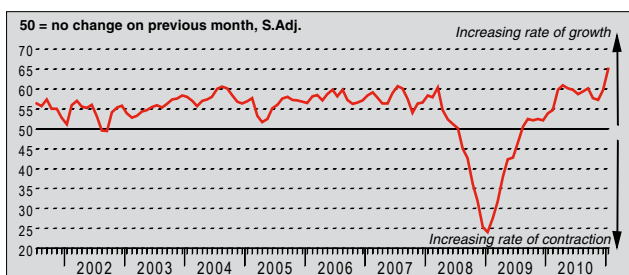
Q. Please compare your production/output this month with the situation one month ago.



Manufacturing production in the Czech Republic rose at the fastest rate in the survey history in January. The seasonally adjusted Output Index rose for the second month running, to reach the highest level since the series started in July 2001. The latest growth extended the current sequence to eighteen months. Production growth was heavily attributed to improving market conditions, both domestically and in export markets.

## New Orders Index

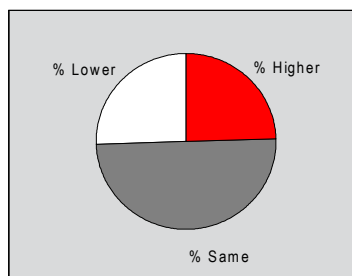
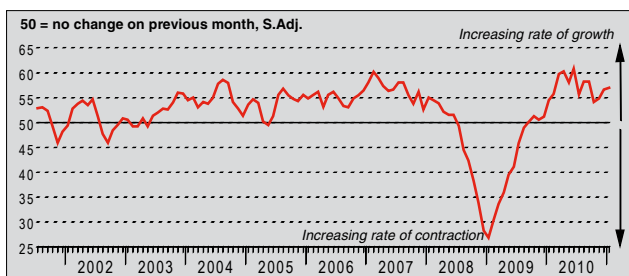
Q. Please compare the level of new orders received this month with the situation one month ago.



The volume of incoming new business received by Czech manufacturers rose for the eighteenth month in succession in January. Moreover, the seasonally adjusted New Orders Index posted its largest one-month gain since April 2009, to reach a survey-record high. The latest figure easily surpassed the previous peak of 61.0 set in April 2010. Anecdotal evidence highlighted strong demand for machinery and autos.

## New Export Orders Index

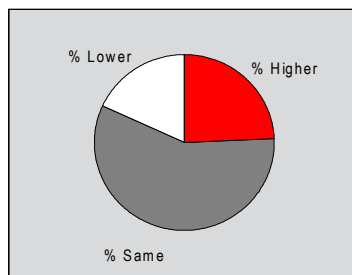
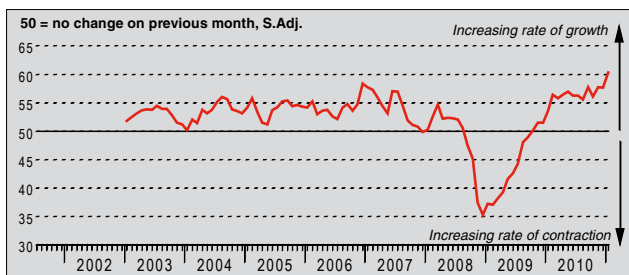
Q. Please compare the level of new export orders received this month with the situation of one month ago.



The volume of incoming new work from export markets rose at the fastest rate in four months in January. The pace of expansion was also much sharper than the long-run survey average. Growth of new export business has been registered for seventeen successive months. Germany was mentioned by survey respondents as being a key source of demand in the latest period.

## Backlogs of Work Index

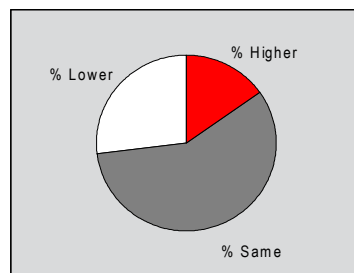
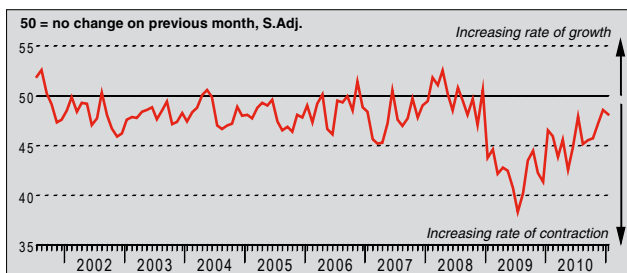
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The volume of outstanding business in the Czech manufacturing sector rose at the fastest pace in the survey history in January. This primarily reflected surging new orders in recent months. The seasonally adjusted Backlogs of Work Index remained above the no-change mark of 50.0 for the sixteenth month running, and surpassed the previous peak of 58.4 set in December 2006.

### Stocks of Finished Goods Index

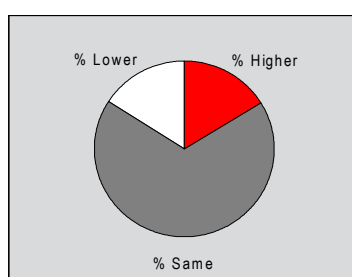
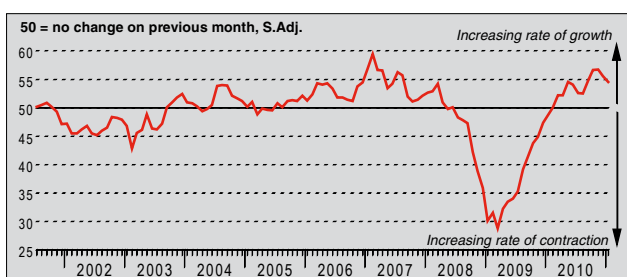
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Czech manufacturers continued to lower their holdings of finished goods in January. The seasonally adjusted Stocks of Finished Goods Index remained below the no-change mark of 50.0, extending the current period of continuous decline to over two years. That said, the rate of reduction remained relatively modest. Firms mainly linked lower stocks to rising sales.

### Employment Index

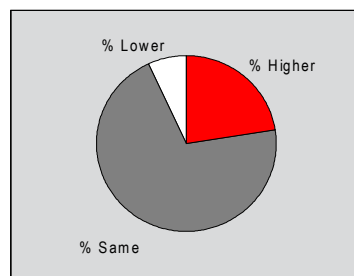
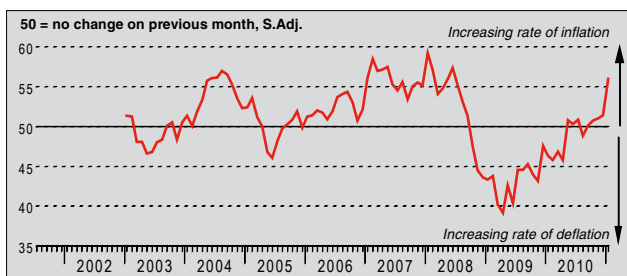
Q. Please compare the level of employment at your unit with the situation one month ago.



Manufacturing employment in the Czech Republic rose for the eleventh consecutive month in January. The rate of job creation softened for the second month running, but remained strong in the context of historic survey data. Firms linked recruitment of additional staff to current workloads, new contracts received and positive expectations for 2011 as a whole.

### Output Prices Index

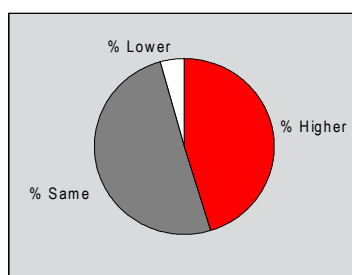
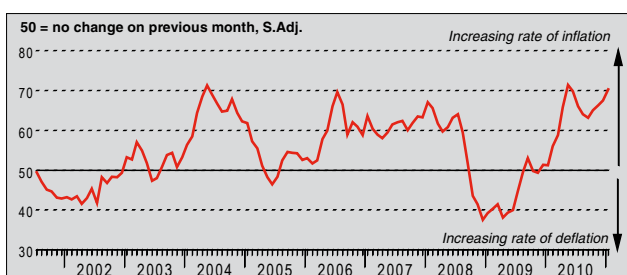
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Czech manufacturers raised their prices for final goods in January. The seasonally adjusted Output Prices Index was above the no-change mark of 50.0 for the eighth time in nine months, and signalled the fastest rate of charge inflation since June 2008. The latest anecdotal evidence primarily linked higher output prices to rising costs for raw materials, transport and energy that were subsequently passed on to customers.

### Input Prices Index

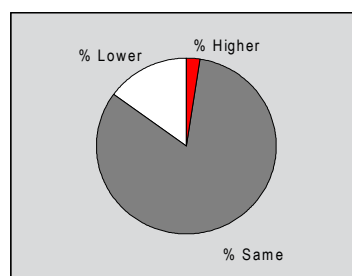
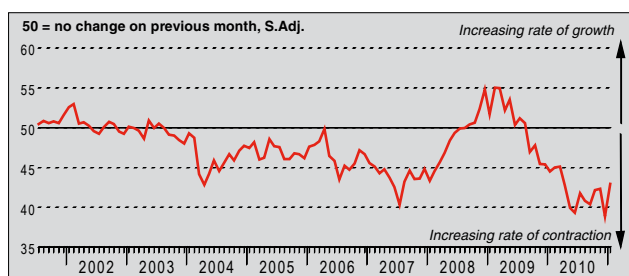
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input price inflation in the Czech manufacturing sector accelerated for the fourth month running in January. The seasonally adjusted Input Prices Index rose to its third-highest level in the survey history, indicative of a substantial increase in average purchasing costs. Survey respondents mentioned a wide variety of raw materials as having become more expensive, including metals, plastics, textiles, chemicals, wood, foodstuffs and coke. Firms also linked higher average input prices to rising energy and transport costs.

## Suppliers' Delivery Times Index

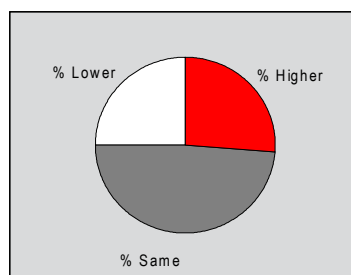
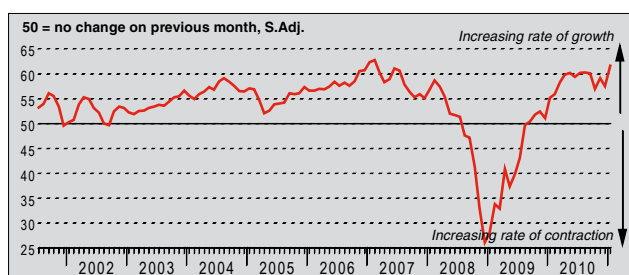
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



The average time taken to deliver inputs to Czech manufacturers continued to lengthen in January. The seasonally adjusted Suppliers' Delivery Times Index rose from December's record low, but nevertheless signalled a marked degree of lengthening. Supplier performance has worsened, on average, every month since September 2009. Firms mentioned that supply shortages had contributed to delays.

## Quantity of Purchases Index

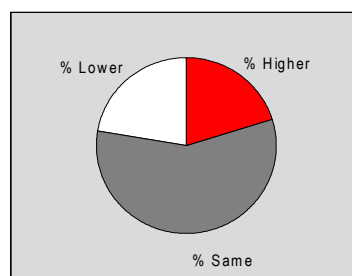
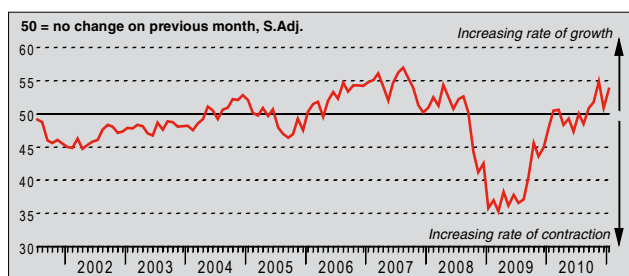
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



The volume of inputs purchased by Czech manufacturers rose at one of the strongest rates in the survey history in January. Only in January and February 2007 did purchasing activity rise more quickly than in the latest period. Input volumes have increased every month since September 2009, linked to rapid gains in new orders.

## Stocks of Purchases Index

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



The volume of inputs held in stock in the Czech manufacturing sector rose for the fifth successive month in January. Moreover, the rate of expansion was the second-fastest since April 2008. The latest anecdotal evidence mainly linked higher pre-production inventories to preparation for new projects.

## 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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