

HSBC Czech Republic Manufacturing PMI™

Czech manufacturing sector started 2011 with strongest performance in survey history

Summary

PMI data covering the Czech Republic, compiled by Markit for HSBC, suggested that the manufacturing sector started 2011 with a growth surge. 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. 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.

Comment

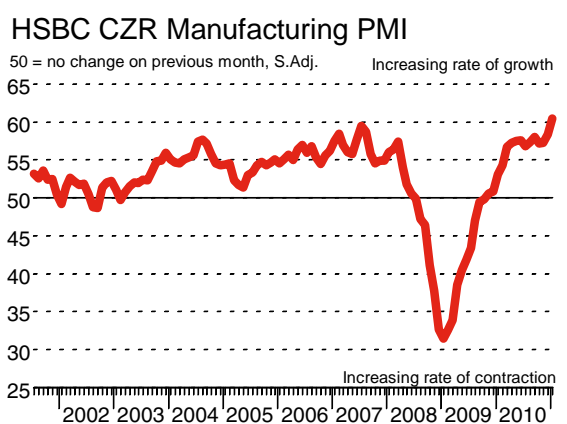
Commenting on the Czech Republic Manufacturing PMI survey, Dr Murat Ulgen, HSBC Chief Economist, Central & Eastern Europe and sub-Saharan Africa, said:

"Czech manufacturing PMI rose to a record high of 60.5 in January, suggesting that the improvement in manufacturing conditions seen in the last quarter of 2010 has continued at an accelerating pace into early 2011. The improvement in manufacturing output is being driven by strengthening domestic demand, reflected in the sharp rise in the new orders component to all-time highs versus a smaller increase in new export orders. The rapid expansion in new orders also led to an increase in the backlogs of work as well as further lengthening in suppliers' delivery times, both also arguing for strength in demand, although the latter also indicates supply shortages. The re-acceleration in world trade activity also continues to positively impact the domestic manufacturing sector with a rise in the new export orders component. Manufacturers' added to their labour force again in January but at a slower pace than before. Inflationary pressures are beginning to build up as well, with the commodity-driven rise in input prices being increasingly passed on to consumers. Output prices rose sharply during the month to highs last seen in mid-2008 and levels well above the historical average."

Key points

- 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.

Historical Overview



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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:

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