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HSBC Czech Republic Manufacturing PMI™

Czech manufacturing production continued to rise rapidly in February.

Key findings:

- Employment rose at second-fastest pace in survey history.
- Record deterioration in supplier performance.
- Input price inflation accelerated to record pace.

PMI data covering the Czech Republic, compiled by Markit for HSBC, suggested that the manufacturing sector continued to record a rapid pace of expansion in February. Output and employment both rose at the second-fastest rates in the survey history. Meanwhile, manufacturers experienced record cost pressures, and suppliers' delivery times lengthened more substantially than in any other period in the survey history.

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 fell to 59.8 in February, from January's record 60.5. That said, the latest figure was higher than in any other period since the series started in July 2001. The PMI has remained above the no-change mark of 50.0 since November 2009.

The slight fall in the headline figure in February reflected weaker growth of output, new orders and stocks of purchases. This was partly offset by a much stronger rise in employment and a greater lengthening of suppliers' delivery times.

New order growth moderated from January's record pace in February. That said, the rate of expansion remained marked and well above the long-run trend for the survey. New export orders posted the fastest growth since last June, as demand from neighbouring countries in particular remained strong.

Output growth also eased from January's record pace, but was stronger than in any other survey period to date. The current sequence of continuous production growth now stretches to nineteen months. Despite the latest marked expansion, stocks of finished goods continued to decline overall as manufacturers increased shipments to clients.

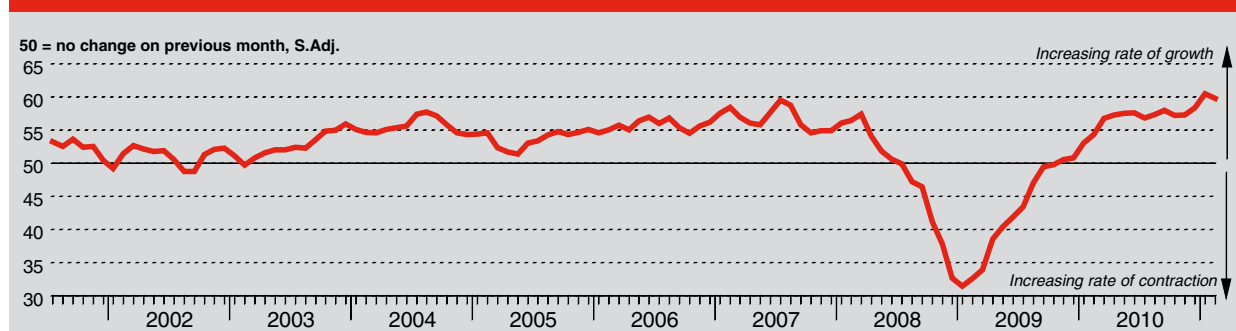
Despite sharp growth of output, backlogs continued to grow in February. Outstanding business at manufacturers has increased every month since October 2009.

Faced with sharply rising output requirements and growing backlogs, Czech manufacturers took on more staff at a rapid pace in February. In only one previous survey period, in February 2007, had a sharper rate of job creation been registered. Manufacturers also continued to increase their input volumes at a marked pace.

Average input prices paid by Czech manufacturers increased at the fastest pace in the survey history in February. Rising prices for oil-related products and metals underpinned the latest inflationary pressure. Input cost inflation has accelerated every month since last October.

Manufacturers passed on higher input prices to customers in February, as output prices in the sector rose for the sixth successive month. The rate of inflation remained sharp despite easing slightly from January's thirty-one month high.

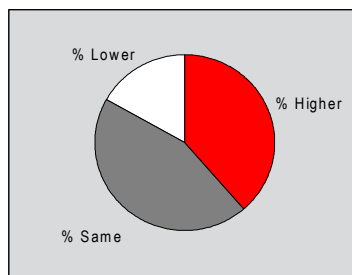
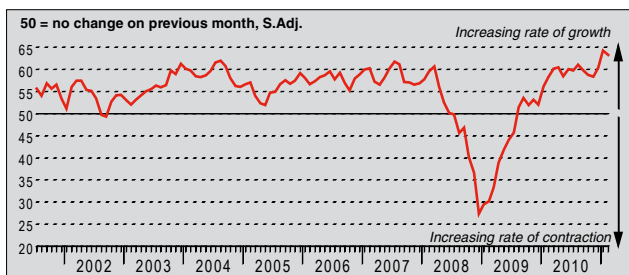
HSBC Czech Republic Purchasing Managers' Index (PMI™)



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

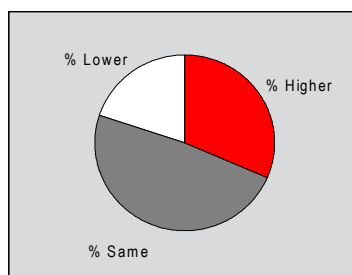
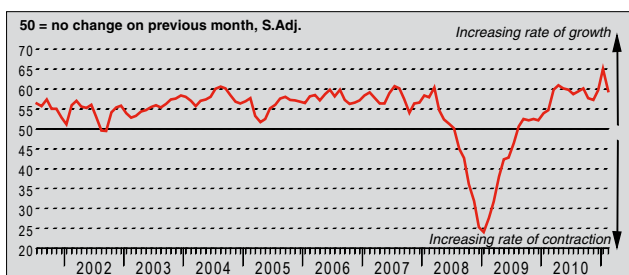
Q. Please compare your production/output this month with the situation one month ago.



Czech manufacturing production continued to rise rapidly in February. The seasonally adjusted Output Index eased from January's record high, but was still indicative of a sharper rate of growth than in any previous survey period. The current sequence of expansion now stretches to nineteen months. The latest anecdotal evidence linked output growth to rising sales, new products and export demand.

New Orders Index

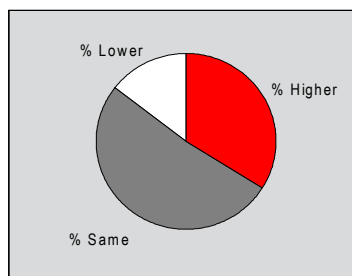
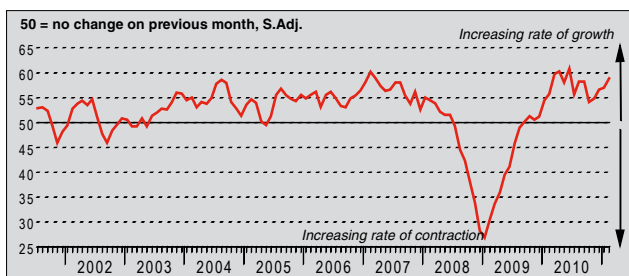
Q. Please compare the level of new orders received this month with the situation one month ago.



The rate of growth of new business in the manufacturing sector slowed in February. That said, the seasonally adjusted New Orders Index was still indicative of a marked pace of expansion, and was well above its long-run trend level of 54.4. Firms reported that market sentiment had improved, and also linked new order growth to new customers. Others stated that they had introduced new products.

New Export Orders Index

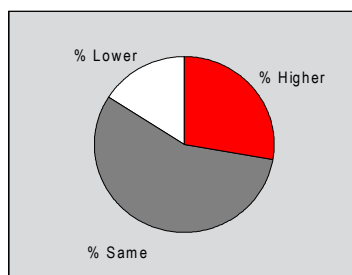
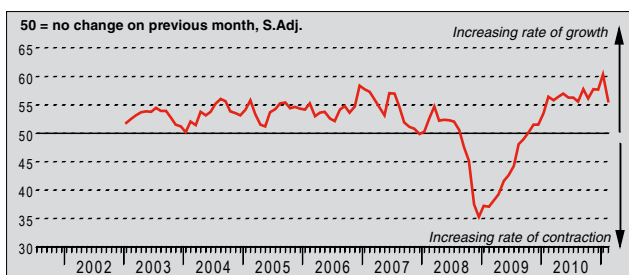
Q. Please compare the level of new export orders received this month with the situation of one month ago.



New export contracts placed with Czech manufacturers expanded rapidly in February. The rate of growth accelerated for the fourth successive month, as signalled by a further rise in the seasonally adjusted New Export Orders Index. The latest figure signalled the fastest expansion since last June, and was the sixth-highest recorded to date. Firms reported improving demand from a number of neighbouring European markets.

Backlogs of Work Index

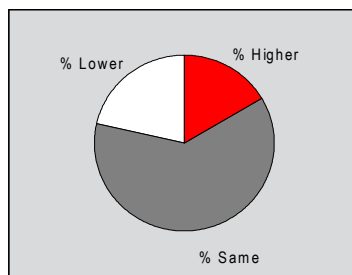
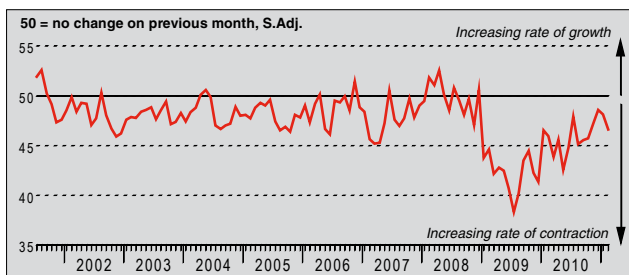
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



February data signalled further pressure on manufacturing capacity in the Czech Republic. The volume of outstanding work in the sector increased for the seventeenth month running, as close to 28% of companies reported rising backlogs. That said, having signalled record growth in January, the seasonally adjusted Backlogs of Work Index indicated the weakest monthly increase since last August.

Stocks of Finished Goods Index

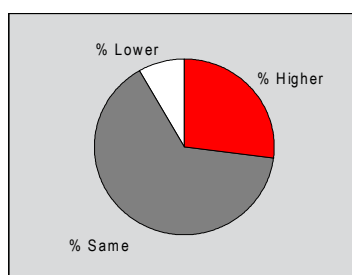
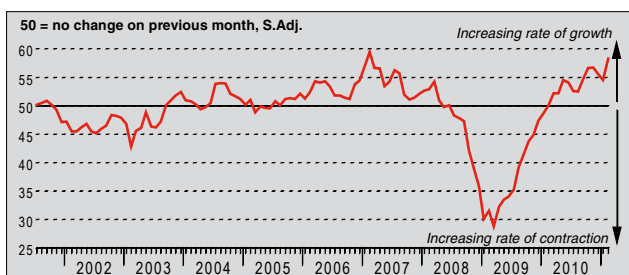
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Inventories of finished products in the Czech manufacturing sector declined further in February. The current survey-record sequence of contraction now stretches to twenty-six months. The seasonally adjusted Stocks of Finished Goods Index fell on the month, and signalled the fastest rate of decline since last October. Lower warehouse levels were linked to higher sales shipments and backlogs of work.

Employment Index

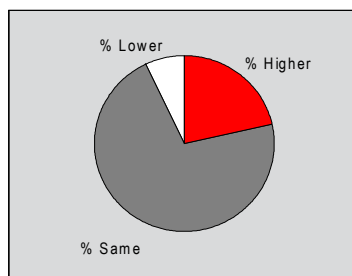
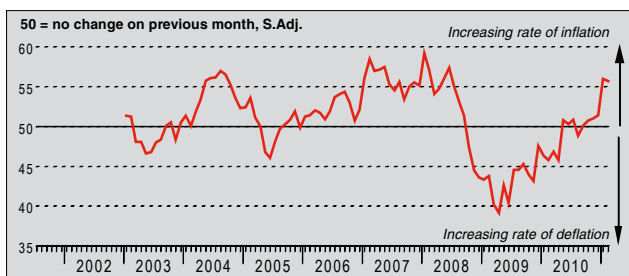
Q. Please compare the level of employment at your unit with the situation one month ago.



Manufacturing employment in the Czech Republic rose at a substantial pace in February. The seasonally adjusted Employment Index posted a steep one-month gain, to reach its second-highest level since the series began in July 2001. Recruitment of additional staff was primarily attributed to higher production requirements. Manufacturing employment has risen every month since March 2010.

Output Prices Index

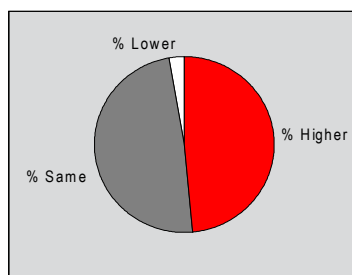
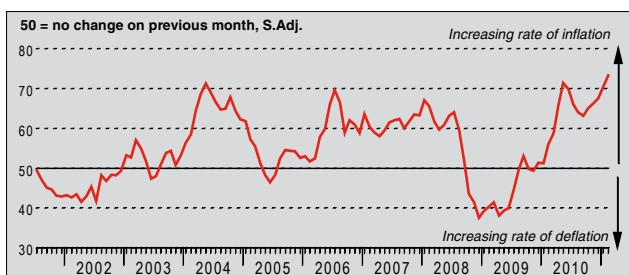
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



February saw a marked increase in prices charged for Czech manufactured goods, taking the current period of continuous growth in average tariffs to six months. Anecdotal evidence suggested that many firms were able to pass on the increasing cost of raw materials. Competitive pressures, however, led to a slightly greater share of firms reporting either unchanged or lower prices than in January.

Input Prices Index

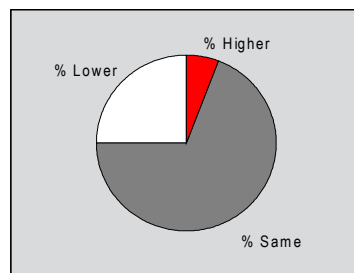
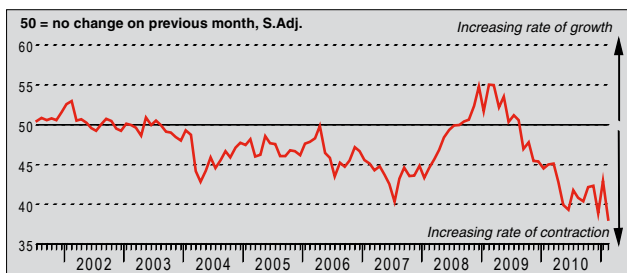
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



The rising price of raw materials in February pushed input price inflation to a new survey-record high. This marked the fifteenth consecutive month where Czech manufacturers have faced increasing input costs. Almost 49% of respondents stated paying higher prices, and they regularly cited growing costs for oil and metals as key factors.

Suppliers' Delivery Times Index

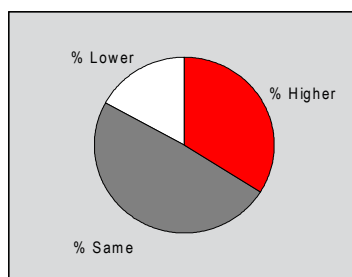
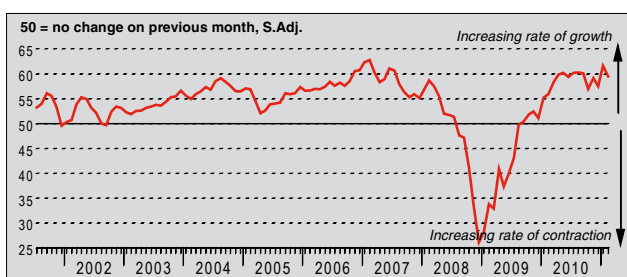
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



In February, the seasonally adjusted Suppliers' Delivery Times Index sunk to its lowest point since the survey started. The time taken for Czech manufacturers to receive inputs has now lengthened for eighteen consecutive months. Panellists attributed the lengthening of delivery times to a surge in demand faced by suppliers and the resulting shortages of raw materials.

Quantity of Purchases Index

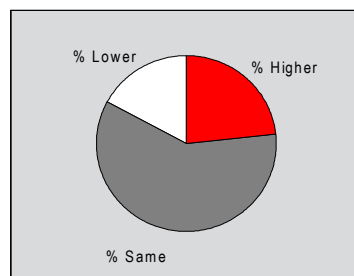
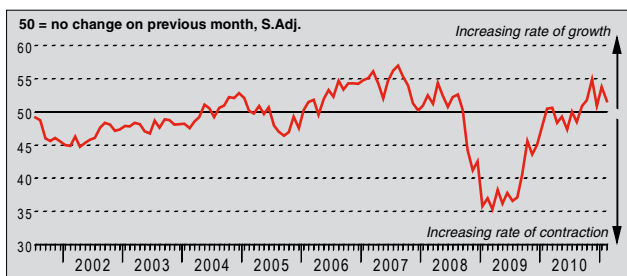
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



The volume of inputs purchased in the Czech manufacturing sector increased for the eighteenth month in succession in February. The rate of growth in pre-production goods bought was marked, albeit slightly down on the near four-year high witnessed in January. Respondents reported buying more inputs as a consequence of increased orders.

Stocks of Purchases Index

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



Stocks of inputs grew moderately in February, continuing the current trend of expanding inventories to six months. The latest anecdotal evidence suggested that the anticipation of future increases in the cost of raw materials had compelled Czech manufacturers to increase their stocks of inputs in the latest period.

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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