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HSBC Czech Republic Manufacturing PMI™

Growth of Czech manufacturing output remained sharp in March.

Key findings:

- Employment rose at fastest pace in survey history.
- Severe pressure on supply chains remained.
- Input price inflation accelerated to record pace.

The latest Czech PMI survey data for the manufacturing sector, compiled by Markit for HSBC, suggested that business conditions continued to improve at a marked pace at the end of the first quarter. The rates of output growth in each of the first three months of the year have been stronger than in any previous period covered by the series (since July 2001). Meanwhile, manufacturers expanded their workforces at the fastest rate in the history of the survey. Severe inflationary pressure remained, however, as input prices rose at a record pace. The latest results also suggested an impending moderation in the pace of growth, as new orders rose at the slowest – albeit still strong – rate since February 2010.

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 improvement of the sector. The PMI fell further from January's record 60.5, to 58.6 in March. That said, the latest figure was the fifth-highest since the series started in July 2001. The PMI has remained above the no-change mark of 50.0 since November 2009.

The fall in the headline index in March reflected weaker positive contributions from the two main components – new orders and output. Nevertheless, the latter rose for the twentieth month in succession and at the third-fastest rate in the survey history.

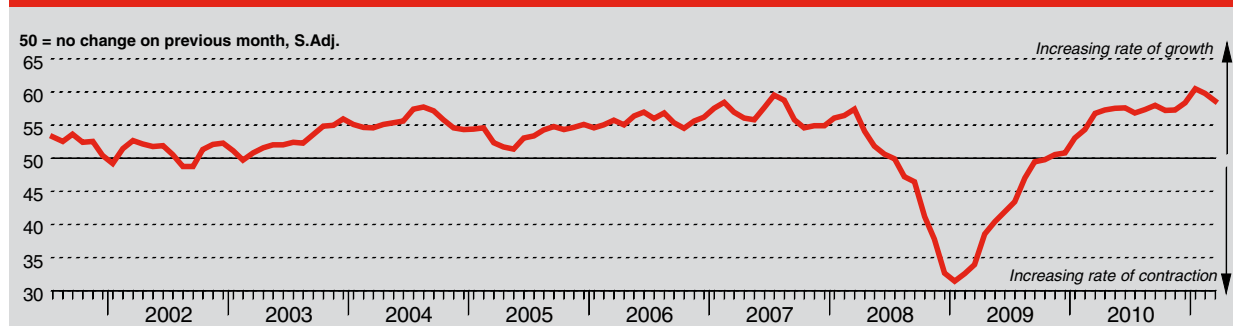
Meanwhile, new orders increased at the slowest pace in more than a year, suggesting that production growth will moderate further in Q2. Growth of total new work was the weakest since February 2010, while the increase in new export orders was the slowest since last November. Germany and other EU markets continued to underpin export demand in the sector.

The latest intake of new business, though slower than in recent months, was sufficiently strong to generate a further rise in backlogs of work. The volume of outstanding business in the sector has risen continuously since October 2009. To address this, manufacturers expanded their workforces at the fastest rate in the survey history in March.

Inflationary pressures continued to build. Average input prices rose at the fastest rate in the survey history, linked to a wide range of raw materials and higher fuel prices. This led to the strongest increase in prices charged for manufactured goods since January 2008.

Supplier performance continued to worsen in March, reflective of shortages of raw materials. The average time taken to deliver inputs to manufacturers lengthened at a weaker rate than February's record, but one that remained substantial nonetheless. The volume of inputs ordered by Czech manufacturers continued to rise sharply in March, as some companies reported purchasing in advance of future price increases. Stocks of purchases rose for the seventh month running.

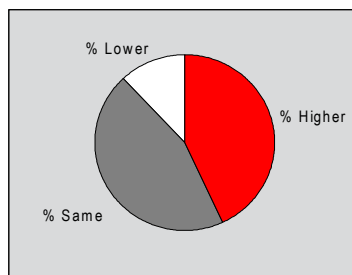
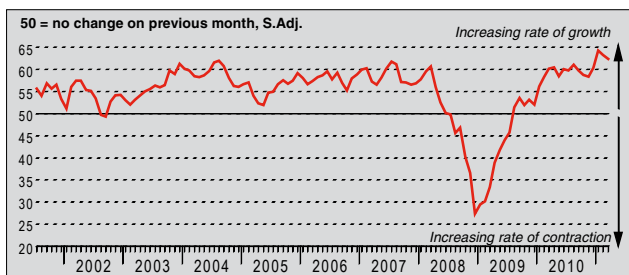
HSBC Czech Republic Purchasing Managers' Index (PMI™)



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

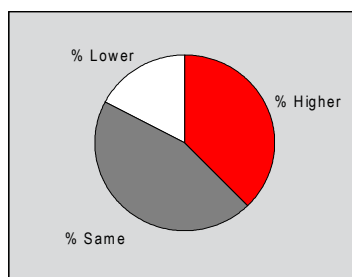
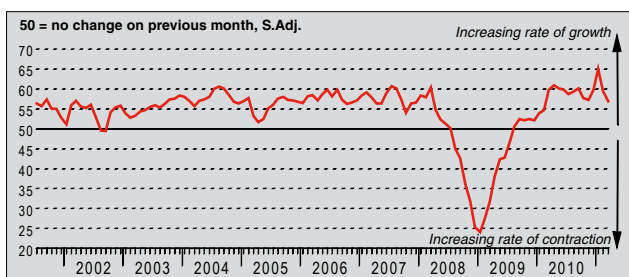
Q. Please compare your production/output this month with the situation one month ago.



Production in the Czech manufacturing sector continued to rise at a rapid rate in March. The rate of expansion eased further from January's record, but was still the third-fastest in nearly ten years of data collection to date. The seasonally adjusted Output Index has remained above the no-change mark of 50.0 for twenty months. Firms linked higher production to increased capacity, new orders from domestic and export markets and successful marketing of new products.

New Orders Index

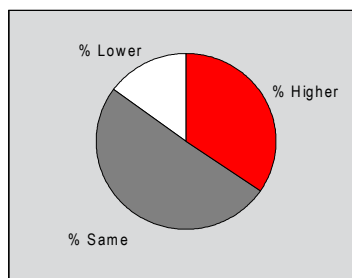
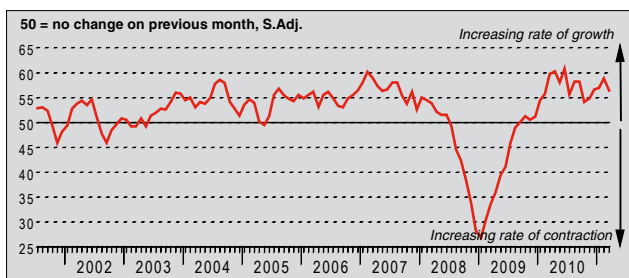
Q. Please compare the level of new orders received this month with the situation one month ago.



New orders received by Czech manufacturers rose sharply in March, extending the current sequence of growth to twenty months. A number of firms reported increased new business from the construction and autos sectors, and positive export demand. The seasonally adjusted New Orders Index remained greater than its long-run average (54.4), but fell for the second month running from January's peak. The latest figure signalled the slowest rate of growth since February 2010.

New Export Orders Index

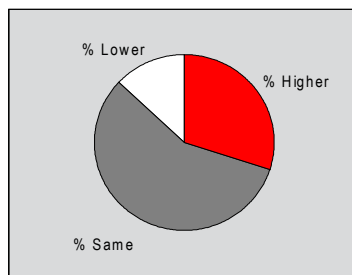
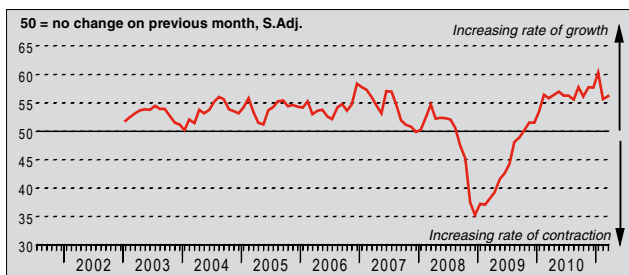
Q. Please compare the level of new export orders received this month with the situation of one month ago.



New export orders rose for the nineteenth month running in March. EU markets were cited by panellists as key sources of demand, especially Germany. The rate of growth in new export business was stronger than the historic trend for the survey (52.2), but eased compared to February. The seasonally adjusted New Export Orders Index posted a four-month low.

Backlogs of Work Index

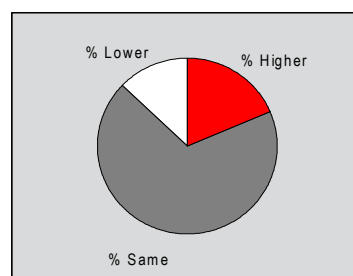
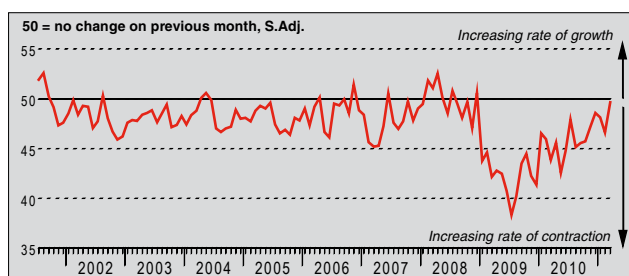
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The volume of outstanding work held in the Czech manufacturing sector continued to rise in March, indicative of upward pressure on operating capacity. Having fallen from January's record high, the seasonally adjusted Backlogs of Work Index rose slightly since February, indicative of a marked rate of growth in incomplete workloads. The current sequence of expansion now stretches to a year-and-a-half.

Stocks of Finished Goods Index

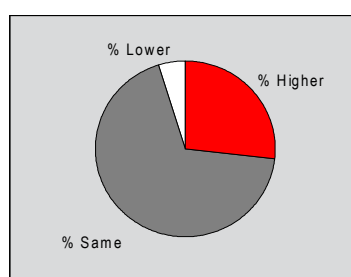
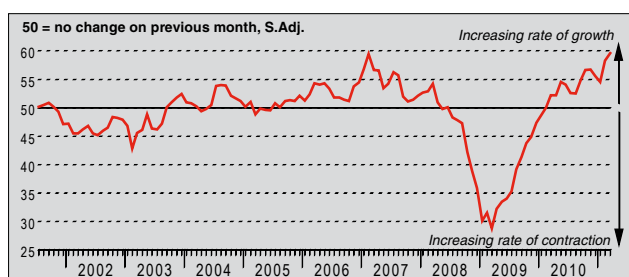
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Czech manufacturers continued to see their inventories of finished goods decline on average in March. Lower warehouse levels were mainly linked to rising sales shipments and the completion of large orders. The current period of continuous reduction now extends to twenty-seven months. That said, the seasonally adjusted Stocks of Finished Goods Index rose on the month, and signalled only a very marginal rate of contraction.

Employment Index

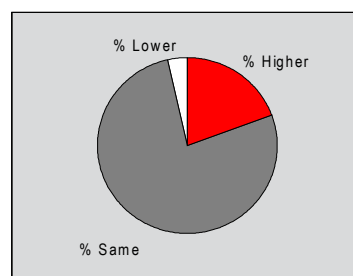
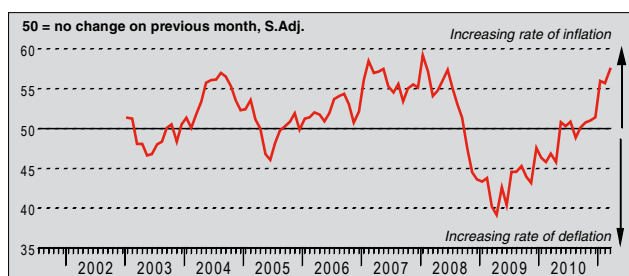
Q. Please compare the level of employment at your unit with the situation one month ago.



Manufacturing employment in the Czech Republic rose at the fastest pace in the survey history in March. The seasonally adjusted Employment Index just surpassed the previous high of 59.5 set in February 2007, and has signalled continuous job creation since March 2010. Firms directly linked higher recruitment to the expansion of capacity in order to cope with intakes of new business.

Output Prices Index

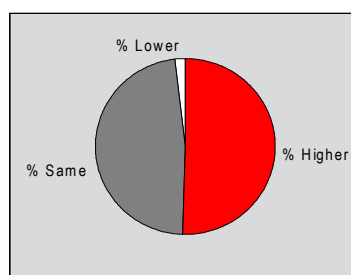
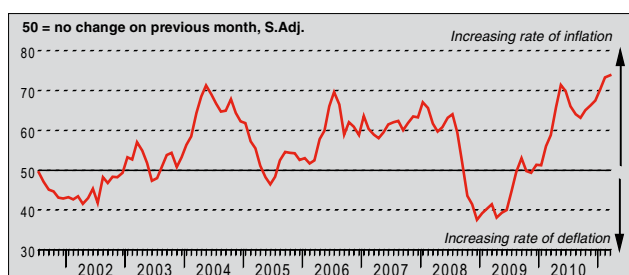
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Czech manufacturers raised their prices charged at the fastest rate for over three years in March. The seasonally adjusted Output Prices Index rose for the sixth time in seven months, to its highest since January 2008. Average output prices in the sector have increased ten times in the past eleven months. Firms directly linked higher prices to increased costs of raw materials and fuel. The latest Index value was the fourth-highest since the series started in January 2003.

Input Prices Index

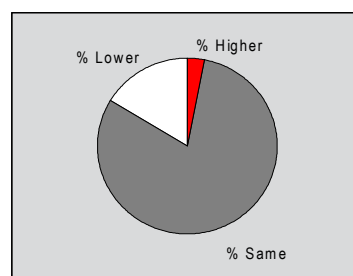
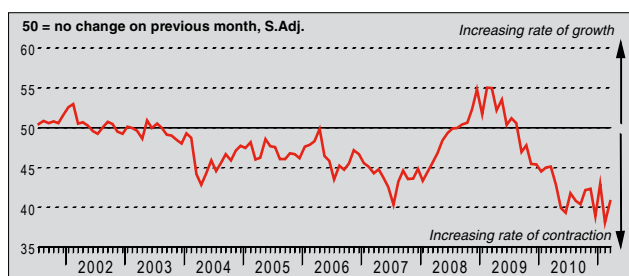
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



The rate of input price inflation faced by Czech manufacturers accelerated to a survey-record high in March. The seasonally adjusted Input Prices Index rose for the sixth successive month, as more than half of all survey respondents reported higher average input costs than one month previously. Firms reported a wide variety of inputs as having increased in price during the month, including metals, fuel, chemicals, plastics, rubber, textiles, wood, paper, foodstuffs and electronic components.

Suppliers' Delivery Times Index

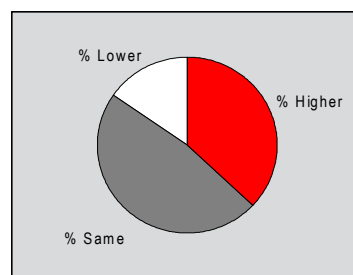
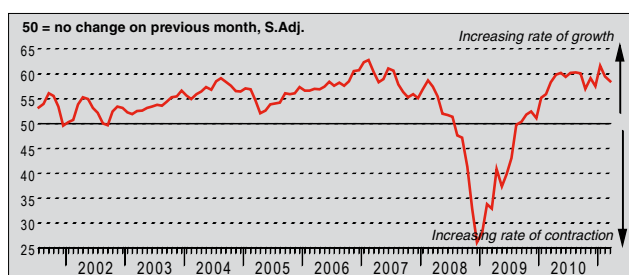
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Supply chains remained under pressure in March. The seasonally adjusted Suppliers' Delivery Times Index rose from February's record low, but was still at one of the lowest levels to date, signalling a marked lengthening of average delivery times for inputs ordered by Czech manufacturers. Times have lengthened every month since September 2009. There were many reports of delays linked to shortages of raw materials at vendors during the month.

Quantity of Purchases Index

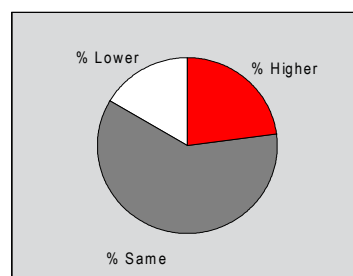
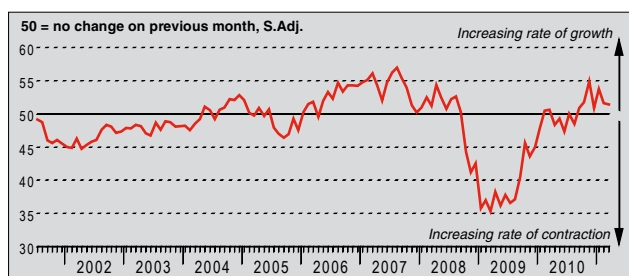
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



The volume of inputs purchased by Czech manufacturers rose for the nineteenth month running in March. The rate of expansion eased further from January's near four-year high, but was marked nevertheless and well above the long-run survey average. Purchasing activity was linked by survey respondents to rising output requirements and further expected input price inflation.

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 increased for the seventh month in a row in March. The current sequence of expansion is the longest for two-and-a-half years. The rate of growth was the weakest in three months, but was nevertheless stronger than the historic survey trend (of a modest decline). Firms linked stocking of inputs to rising workloads and expected future increases in raw material prices.

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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