

HSBC Czech Republic Manufacturing PMI™

Growth of Czech manufacturing output remained sharp in March

Summary

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).

The headline HSBC Czech Republic Manufacturing PMI™, a composite single-figure indicator of manufacturing performance, 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. Any figure greater than 50.0 indicates overall improvement of the sector.

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.

Comment

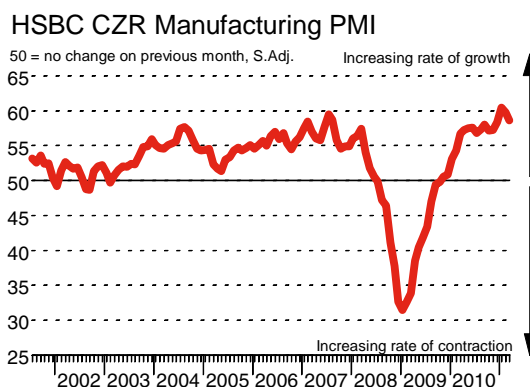
Commenting on the Czech Republic Manufacturing PMI survey, Dr Murat Ulgen, HSBC Chief Economist, Central & Eastern Europe and sub-Saharan Africa, said:

"The pace of improvement in manufacturing conditions in the Czech Republic continued to ease for a second consecutive month in March. However, the manufacturing PMI touched a new record high in January and despite the recent moderation, still remains well above historical averages, suggesting that growth in Q1 2011 remained robust. Almost all components stayed above their long-term averages but both new orders and output components saw moderation as did the stocks of purchases. Employment was the only component that continued to expand at a faster pace partly reflecting the need of manufacturers to deal with a rising backlog of work, but also suggesting that the outlook for the coming months remains fairly upbeat. The new export orders component also moderated during the month, partly reflecting some easing of demand in the major export destinations such as Germany during the month. A rising input prices index continues to reflect higher commodity-led cost pressures, and is also now beginning to feed through into higher final manufactured goods prices as well."

Key points

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

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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