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HSBC Czech Republic Manufacturing PMI™

Czech manufacturing employment rose at fastest rate in survey history.

Key findings:

- Growth of output and new orders remained sharp.
- Input price inflation eased for first time since last September.
- Faster growth of purchasing activity kept pressure on suppliers.

The Czech manufacturing sector continued to record strong expansion at the start of the second quarter. The latest PMI data compiled by Markit for HSBC showed that further sharp gains in new orders and output generated a record rise in employment in the sector, while firms boosted input buying and stocks in expectation of continued strong demand in the coming months. This continued to pressurise suppliers, and average input prices rose sharply as a result. That said, the rate of input price inflation eased for the first time in seven months.

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 rose in April, from 58.6 to 59.0, the first rise in the headline figure since January. The latest figure was the fourth-highest since the survey began in July 2001, and the gain since March reflected faster rises in new orders, employment and stocks of purchases. The PMI has remained above the no-change mark of 50.0 since November 2009.

New order growth strengthened in April, having slowed to the weakest in over a year in March. The latest increase was slightly sharper than the trend pace shown over the current twenty-one month sequence of expansion, and marked in the context of historic survey data. The latest figures signalled strong growth

in both domestic and export markets, with a number of European countries cited as key sources of export demand.

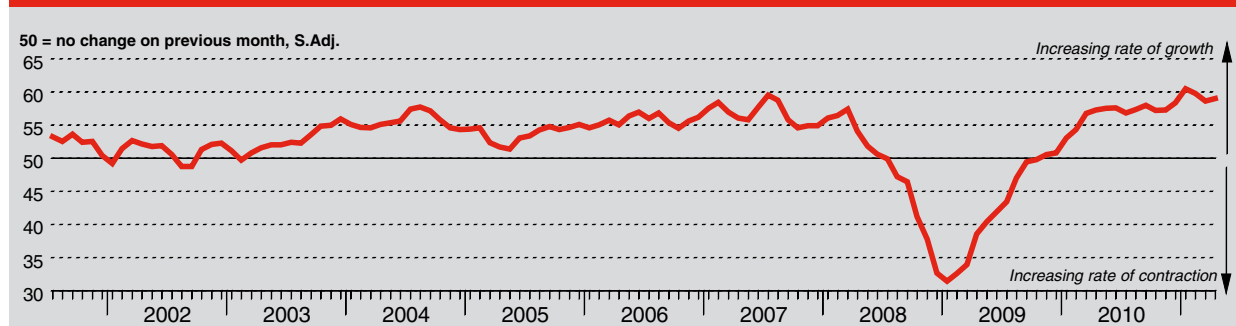
The rate of production growth in the Czech manufacturing sector remained sharp in April, despite easing for the third month running from January's survey record. Output has increased every month since August 2009, with the latest rate of growth sharper than the long-run series average. Indicative of the ongoing relative strength of growth, backlogs of work rose for the nineteenth month running, and at the second-fastest rate in that sequence.

The strength of manufacturing business conditions was underlined by a survey-record increase in employment in April. Firms have expanded their workforces on average every month since March 2010.

A faster rise in purchasing activity by manufacturers placed further pressure on suppliers in April, leading to another substantial lengthening of suppliers' delivery times. Panellists reported a combination of higher demand for raw materials and stock shortages at suppliers.

Reflecting strong demand for raw materials and other items, average input prices paid by Czech manufacturers continued to rise sharply in April. That said, the rate of inflation eased for the first time in seven months. Meanwhile, the pace of output price inflation was unchanged from March's thirty-eight month high.

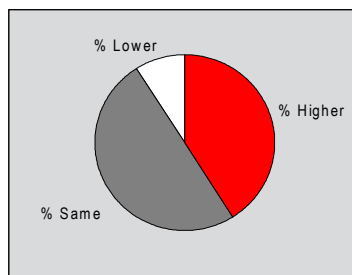
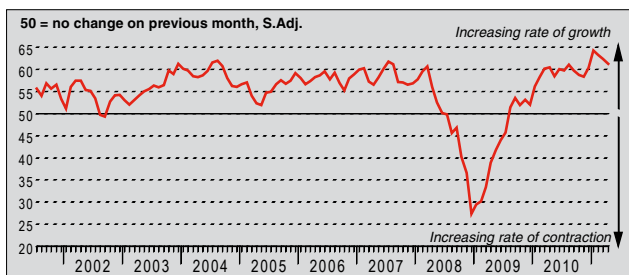
HSBC Czech Republic Purchasing Managers' Index (PMI™)



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

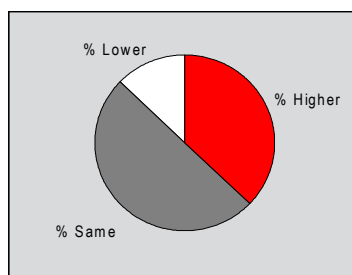
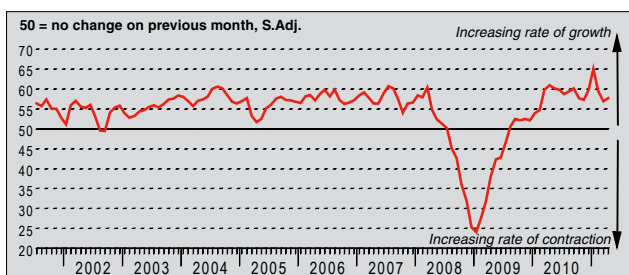
Q. Please compare your production/output this month with the situation one month ago.



Manufacturing production in the Czech Republic continued to rise in April. The rate of growth remained elevated, despite easing for the third consecutive month from January's record high. Firms continued to report improving demand from both domestic and export markets. The current period of expansion now stretches to twenty-one months.

New Orders Index

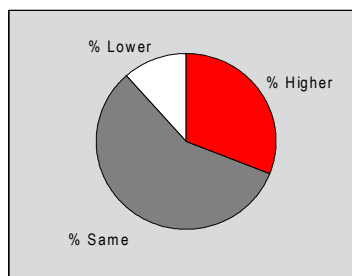
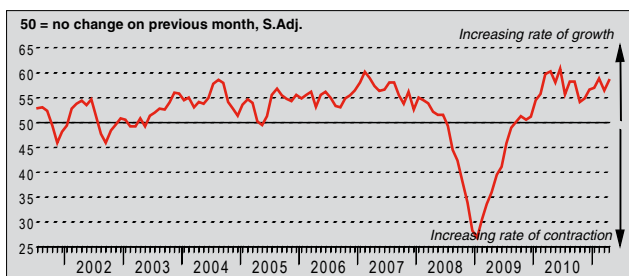
Q. Please compare the level of new orders received this month with the situation one month ago.



Growth of new orders received by Czech manufacturers remained sharp in April. The rate of expansion accelerated since March, having previously eased for two months in a row from January's record high. New business in the sector has increased continuously since August 2009. A number of firms noted growth from export markets.

New Export Orders Index

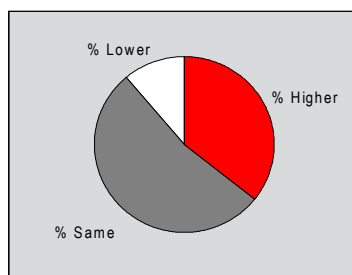
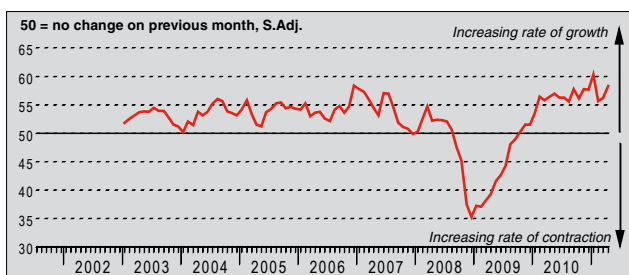
Q. Please compare the level of new export orders received this month with the situation of one month ago.



April data signalled a faster rate of growth in new export orders received by Czech manufacturers. The seasonally adjusted New Export Orders Index remained well above its long-run average (52.2), and signalled the second-fastest rate of expansion of the past ten months. New business received from export markets has risen continuously since September 2009. Firms linked export growth to strong European demand and expansion into new markets.

Backlogs of Work Index

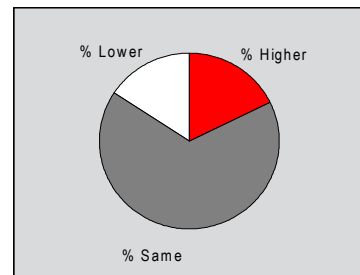
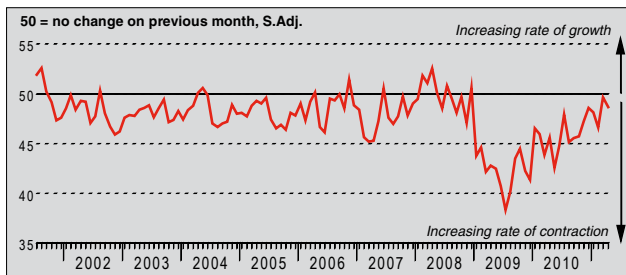
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work at Czech manufacturers rose for the nineteenth month running in April. Moreover, the rate of growth was the strongest since January's record. More than one-third of survey respondents reported higher levels of incomplete work compared to the previous month, and the Index was at its third-highest level since the series started in January 2003. Firms mainly linked rising backlogs to strengthening new order inflows.

Stocks of Finished Goods Index

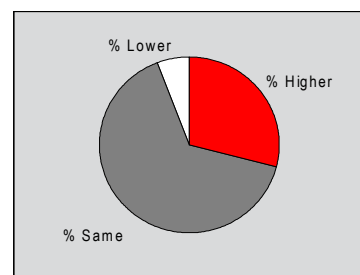
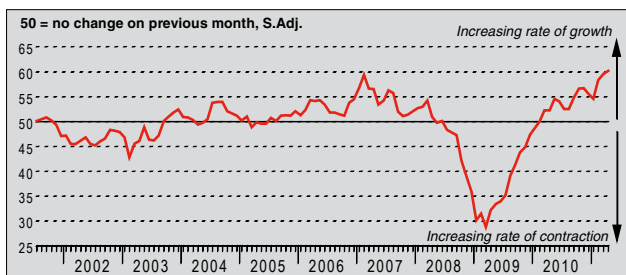
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Czech manufacturers' inventories of final goods declined further in April. The seasonally adjusted Stocks of Finished Goods Index remained below the no-change mark of 50.0 for the twenty-eighth month running, and signalled a faster rate of decline than in March. Reasons given for lower stock levels included long-term optimisation strategies, raw material shortages, rising demand and efforts to clear space in warehouses.

Employment Index

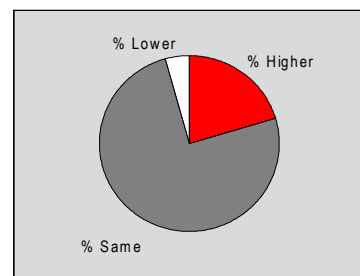
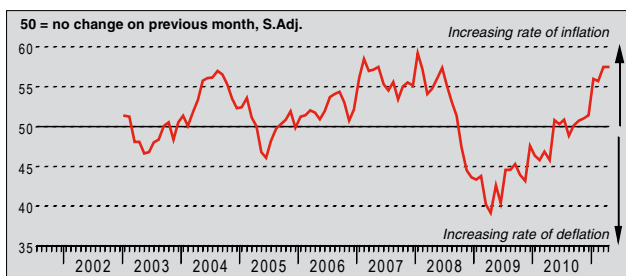
Q. Please compare the level of employment at your unit with the situation one month ago.



Czech manufacturing employment rose at the fastest rate in the survey history in April. Exactly 29% of companies reported expanding their workforces during the month – five times the proportion that reported cutting headcounts. Overall job creation in the sector has been maintained since March 2010. Firms directly linked recruitment to rising order volumes.

Output Prices Index

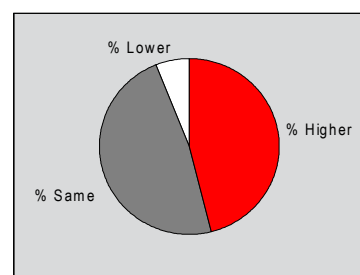
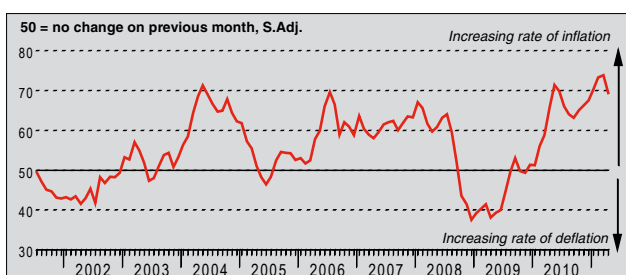
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Manufacturers continued to raise their prices for finished goods at a marked pace in April. The seasonally adjusted Output Prices Index was unchanged from March's thirty-eight month high, signalling the joint-third fastest rate of charge inflation since data collection for the series began in January 2003. Output prices have risen for eight successive months. Firms directly linked rising output prices to further substantial pressure on their input costs.

Input Prices Index

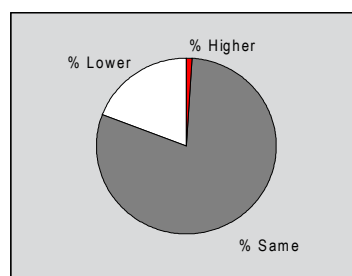
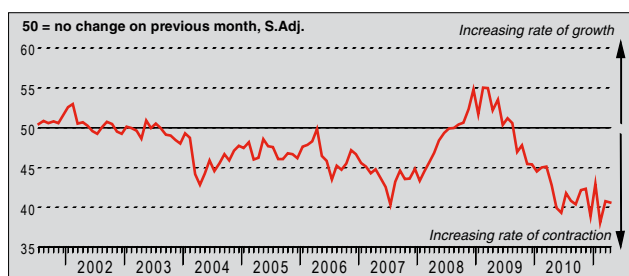
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input prices paid by Czech manufacturers continued to rise sharply in April. Firms reported higher prices for a wide range of items, including chemicals, wood, paper, fuel, textiles, metals, plastics and food. The seasonally adjusted Input Prices Index remained well above its long-run average of 55.8 during the month. That said, the Index eased from March's record high, signalling the first month-on-month drop in the rate of inflation in seven months.

Suppliers' Delivery Times Index

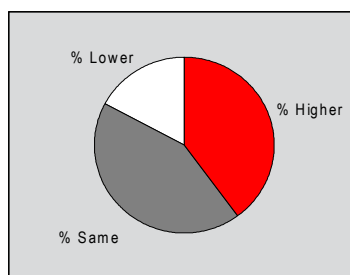
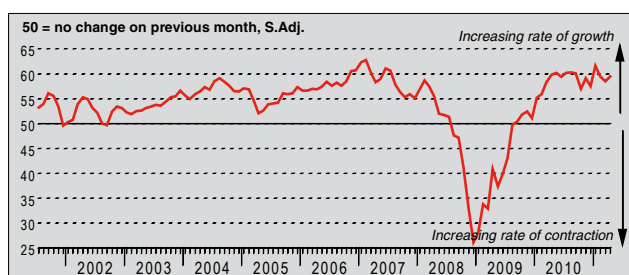
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Pressure on supply chains remained substantial in April. The seasonally adjusted Suppliers' Delivery Times Index was at one of the lowest levels on record, signalling a marked deterioration in vendor performance. Times have lengthened on average every month since September 2009. Firms linked delivery delays to rising demand for raw materials and shortages of stocks.

Quantity of Purchases Index

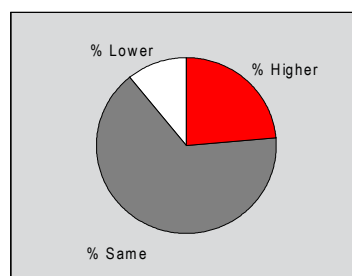
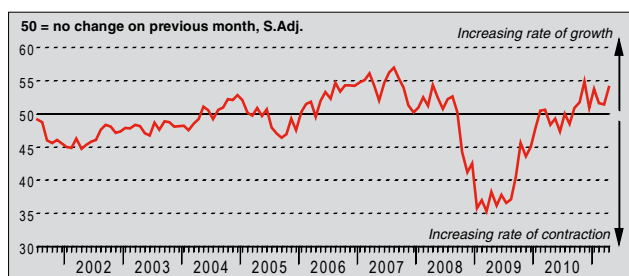
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



The volume of inputs purchased by Czech manufacturers rose for the twentieth successive month in April. Having slowed during the previous two months from January's near-four year high, the rate of expansion accelerated slightly in the latest period. Around 40% of the survey panel reported higher input volumes, more than double the percentage reporting declines. Some firms linked higher purchasing activity to efforts to avoid expected higher prices for raw materials in the coming months.

Stocks of Purchases Index

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



Czech manufacturers' stocks of purchases increased for the eighth month running in April. The rate of expansion strengthened since the previous survey period, to the fastest since last November. The seasonally adjusted Stocks of Purchases Index was also well above its long-run average during April. Firms reported boosting stocks in order to secure long-term supplies, and to accommodate new order intakes.

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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