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## HSBC Czech Republic Manufacturing PMI®

PMI data signalled sharp slowdown in growth of manufacturing sector in May.

### Key findings:

- PMI remained above 50.0, but fell to fifteen-month low.
- Weakest rise in output since December 2009.
- Input price inflation eased to fourteen-month low.

Growth of the Czech manufacturing sector moved down a gear mid-way through the second quarter. The latest *PMI*® data compiled by Markit for HSBC showed the weakest overall improvement in business conditions in the sector since February 2010, as rates of expansion in output, new orders and jobs all eased since April. This was accompanied by a moderation of inflationary pressures, although suppliers' delivery times continued to lengthen sharply.

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* remained above the neutral mark for the nineteenth month running in May, but posted its steepest one-month fall since December 2008. The latest figure of 55.9 was favourable in the context of historic data, but the lowest since February 2010. Moreover, all five components of the *PMI* contributed to its fall during the latest period.

Manufacturers received a greater volume of new orders in May compared to the previous month, underpinning sustained overall expansion of the sector. That said, the rate of growth slowed sharply from recent elevated levels, to the weakest since February 2010. The latest data signalled a broad-based easing in momentum across both domestic and export markets.

Production in the Czech manufacturing sector rose for the twenty-second month running in May. The pace of expansion slowed for the fourth successive month from January's record, however, to the weakest since December 2009.

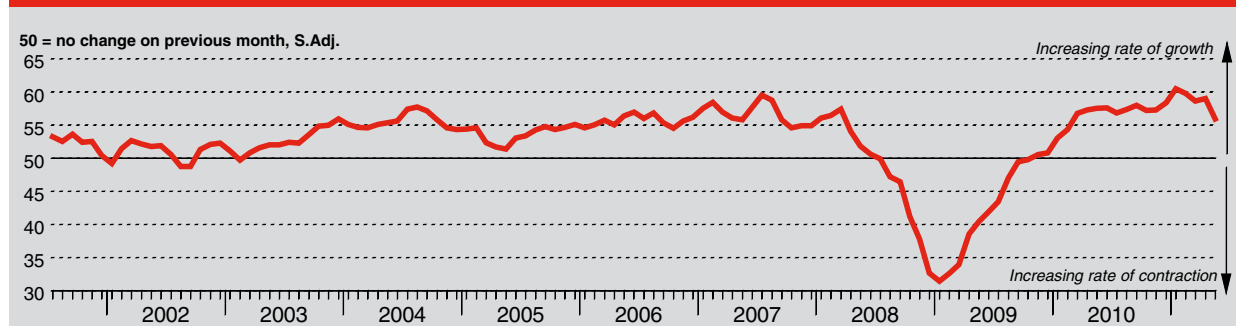
Czech manufacturers continued to expand their workforces on average in May. This continued the sequence recorded since March 2010. Moreover, employment growth remained well above the long-run survey trend despite slowing to a four-month low. Rising workforces partly reflected a further increase in outstanding business during the month, as firms sought to expand capacity.

Input price inflation in the Czech manufacturing sector remained sharp in May but slowed substantially, reflecting recent declines in global commodity prices. The extent of the easing in inflationary pressure was the strongest since October 2008, and the overall pace was the slowest for fourteen months.

Subsequently, output price inflation also slowed in May. The rate at which manufacturers increased their prices was the weakest since last December, and softer than the trend seen over the current nine-month sequence of rising charges.

Stocks of both inputs and final goods rose compared to one month previously in May. The increase in the latter was the first for nearly two-and-a-half years, while input inventories have risen every month since last September.

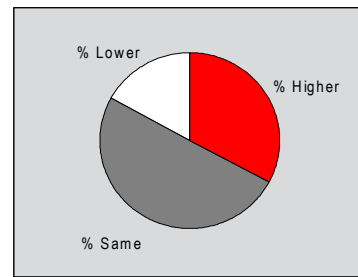
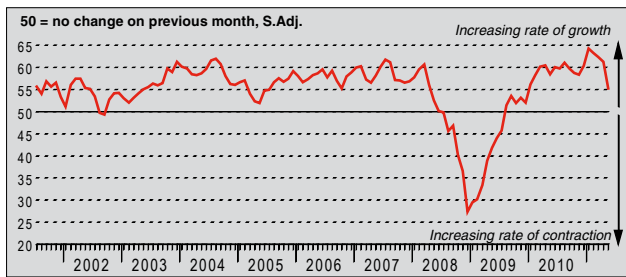
HSBC Czech Republic *Purchasing Managers' Index*® (*PMI*®)



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. *Purchasing Managers' Index*® and *PMI*® are registered trade marks of Markit Economics Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.

### Output Index

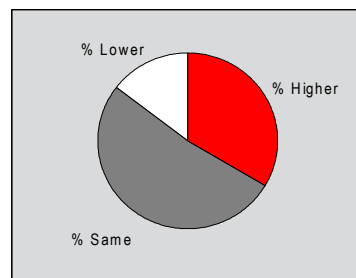
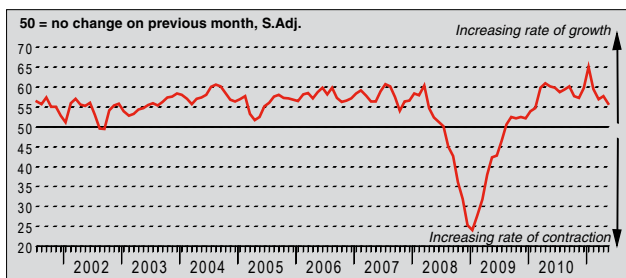
Q. Please compare your production/output this month with the situation one month ago.



Manufacturing production in the Czech Republic rose for the twenty-second successive month in May, linked mainly to rising intakes of new work. That said, the seasonally adjusted Output Index fell markedly since April, posting its steepest one-month drop since December 2008. The latest figure signalled the slowest rate of growth since December 2009, and was broadly in line with the historic survey average of 55.1.

### New Orders Index

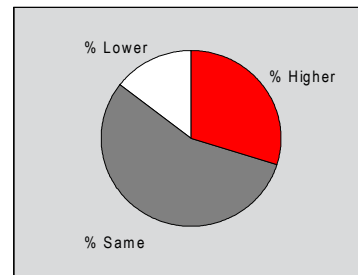
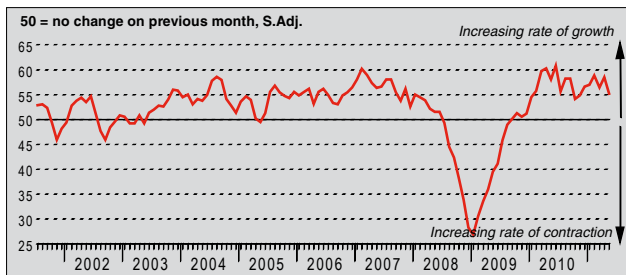
Q. Please compare the level of new orders received this month with the situation one month ago.



Incoming new business at Czech manufacturers rose for the twenty-second month running in May. The rate of growth slowed for the third time in four months, however, with the seasonally adjusted New Orders Index pointing to the weakest rise since February 2010. Nevertheless, the figure remained relatively strong in the context of historic data.

### New Export Orders Index

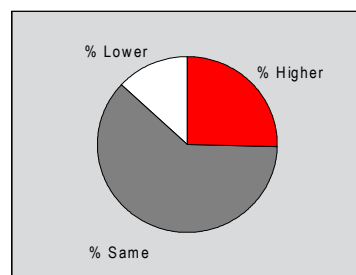
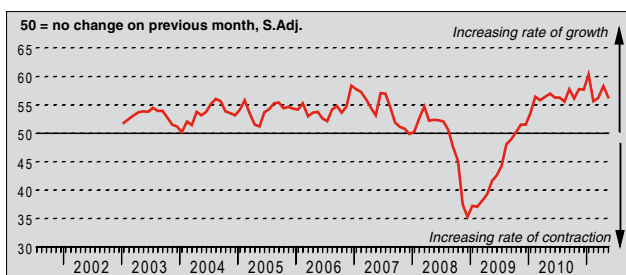
Q. Please compare the level of new export orders received this month with the situation of one month ago.



The volume of new work received by Czech producers from export markets rose further in May. The current sequence of expansion now stretches to twenty-one months. The pace of expansion slowed, however, to the weakest since last November. Some firms noted a tailing off in demand from European markets, although others noted growth from other countries such as Canada and Russia. The pace of expansion remained favourable in the context of historic survey data.

### Backlogs of Work Index

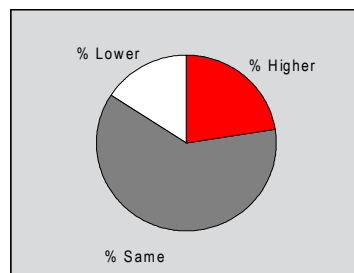
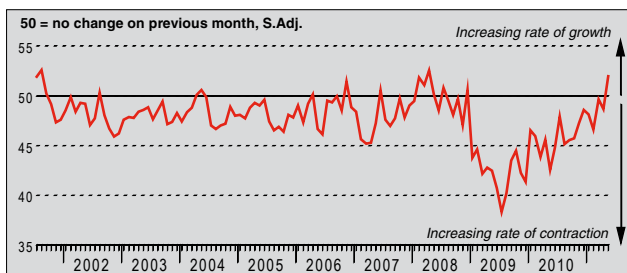
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The seasonally adjusted Backlogs of Work Index remained above the no-change mark of 50.0 for the twentieth successive month in May, indicating a further rise in the volume of incomplete work in the Czech manufacturing sector. The rate of growth remained strong despite slowing compared to April. Survey respondents primarily linked rising backlogs to recent order book strength which had placed pressure on capacity.

### Stocks of Finished Goods Index

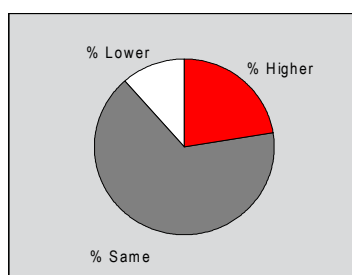
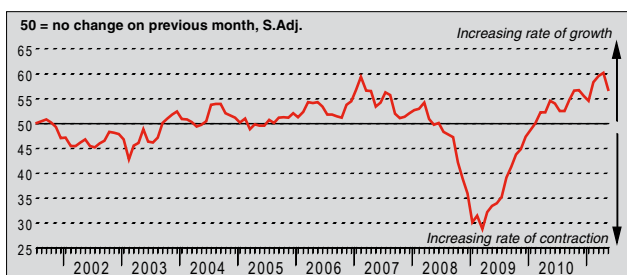
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Czech manufacturers' inventories of final goods expanded in May. The seasonally adjusted Stocks of Finished Goods Index rose sharply, indicating growth for the first time since December 2008. Moreover, the pace of expansion signalled was the strongest since April 2008, and the third-fastest in the near-ten year survey history.

### Employment Index

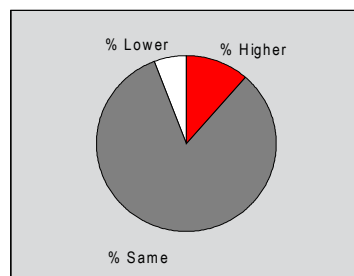
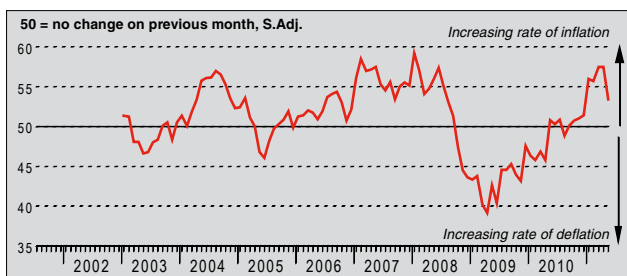
Q. Please compare the level of employment at your unit with the situation one month ago.



Manufacturing employment in the Czech Republic rose for the fifteenth successive month in May. Having reached a survey record in April, the rate of job creation eased for the first time since January, as signalled by a fall in the seasonally adjusted Employment Index. That said, the strength of growth remained favourable to the long-run survey trend, as around 22% of firms reported hiring additional staff during the month.

### Output Prices Index

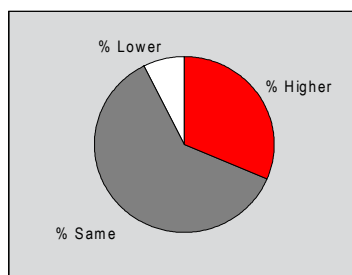
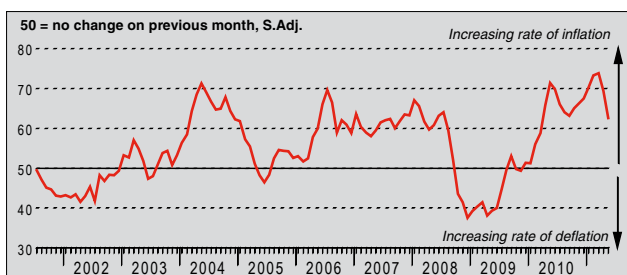
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



The pass-through of higher input prices to customers continued in May. The current sequence of charge inflation now stretches to nine months. The seasonally adjusted Output Prices Index fell on the month, however, to signal the slowest rate of inflation of 2011 to date. The month-on-month drop in the Index was the largest observed since the series started in January 2003.

### Input Prices Index

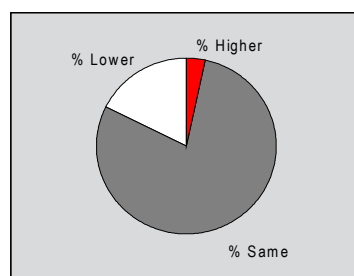
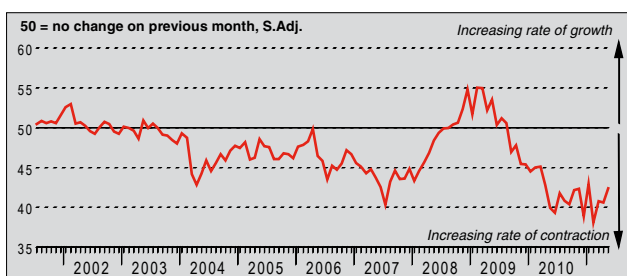
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Czech manufacturers continued to report rising input costs on average in May. Items highlighted as having become more expensive included metals, plastics and foodstuffs. The rate at which average input prices rose eased sharply, however. The seasonally adjusted Input Prices Index fell further from March's record high, to signal the weakest rate of increase for fourteen months.

## Suppliers' Delivery Times Index

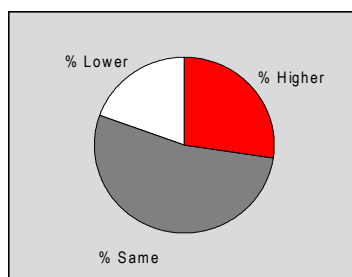
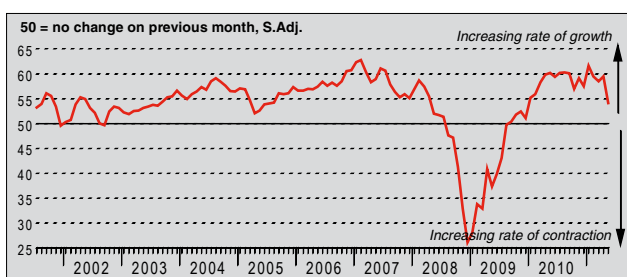
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



The average time taken to deliver inputs to Czech manufacturers lengthened sharply in May. The seasonally adjusted Suppliers' Delivery Times Index rose since April, to a four-month high, but remained well below its long-run average of 47.1. The latest anecdotal evidence continued to highlight shortages of stock at vendors, despite slower growth in demand for inputs during the month.

## Quantity of Purchases Index

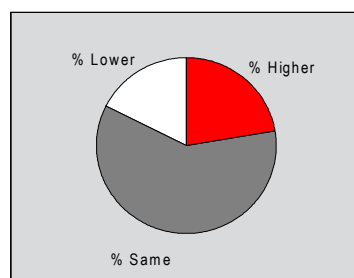
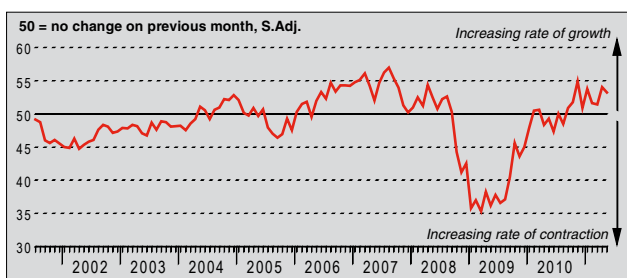
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Purchasing activity at Czech manufacturers rose in May, reflecting higher production requirements. The current sequence of expansion now stretches to twenty-one months. Though solid, the rate of growth signalled by the latest data was the weakest since December 2009. The seasonally adjusted Quantity of Purchases Index was broadly in line with its long-run average during the month.

## Stocks of Purchases Index

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



The seasonally adjusted Stocks of Purchases Index remained above the no-change mark of 50.0 in May, indicating a further expansion in pre-production inventories at Czech manufacturers. The current sequence of growth now stretches to nine months. The rate of expansion remained solid, despite easing slightly from April's five-month high. Higher stocks were linked to rising order volumes, safeguards against supply chain delays and the cancellation of orders.

## Notes on the Data and Method of Presentation

The *Purchasing Managers' Index*<sup>®</sup> 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*<sup>®</sup> (PMI)<sup>®</sup> 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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