HSBC *Purchasing Managers' Index*® Press Release

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compiled by markit

HSBC Czech Republic Manufacturing PMI®

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

Summary

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 single-figure indicator of manufacturing performance 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* posted its steepest one-month fall since December 2008 in May, falling to 55.9. This was favourable in the context of historic data, but the lowest since February 2010.

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 rose for the twenty-second month running in May. That said, the pace of expansion slowed for the fourth successive month from January's record to the weakest since December 2009. Employment growth remained sharp, however, despite slowing to a four-month low, while outstanding business continued to expand.

Input price inflation 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.

Comment

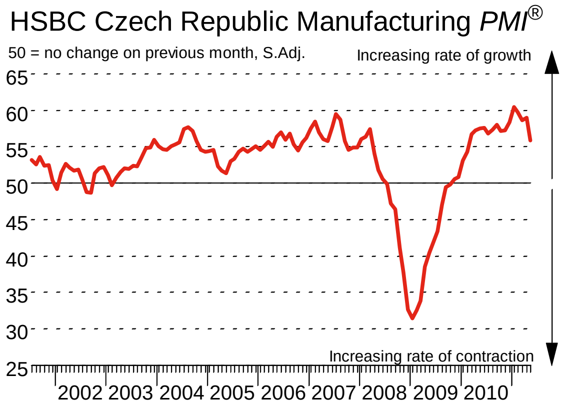
Commenting on the Czech Republic Manufacturing *PMI* survey, Dr Murat Ulgen, HSBC Chief Economist, Central & Eastern Europe and sub-Saharan Africa, said:

"Manufacturing conditions eased sharply in May for the Czech Republic,dropping by 3.1 pts during the month. All components showed signs of slowdown, led by output and even the more forward looking components such as new orders and new export orders fell sharply. As a result, the headline index dropped to its lowest level in 15 months but still remains above the long-term average and well above the no-change 50 level. This slowdown appears to be in line with the slowdown in other parts of Europe including core Eurozone, where the PMIs have started to soften as well in May. With both output and new orders indexes falling sharply, the stocks of purchases index fell as well during the month but the finished goods inventory continued to rise suggesting that the drop in output growth was not enough to offset the easing in demand. The pace of hiring slowed in May as well in response to the expectations of slower manufacturing activity over the coming months. The slowdown in growth as well as the easing of global commodity prices is beginning to ease price pressures in the economy as well, with both input and output prices indices declining in May for the second month in a row."

Key points

- 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.

Historical Overview



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For further information, please contact:

HSBC

Dr Murat Ulgen, HSBC Chief Economist
Central & Eastern Europe and sub-Saharan Africa
Telephone +90-212-376-4619
Email muratulgen@hsbc.com.tr

Petr Plocek, PR Manager, HSBC Bank (Prague)
Telephone +420-225-024-743
Email petr.plocek@hsbc.com

Filip Koutný, Director Treasury
Telephone +420-225-024-701
Email filip.koutny@hsbc.com

Markit

Trevor Balchin, Senior Economist
Telephone +44-1491-461-065
Email trevor.balchin@markit.com

Caroline A. Lumley, Director, Corporate Communications
Telephone +44-20-7260-2047
Email caroline.lumley@markit.com

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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About Markit:

Markit is a leading, global financial information services company with over 2,000 employees. The company provides independent data, valuations and trade processing across all asset classes in order to enhance transparency, reduce risk and improve operational efficiency. Its client base includes the most significant institutional participants in the financial market place. For more information, see www.markit.com

About PMIs:

Purchasing Managers' Index® (*PMI*®) surveys are now available for 32 countries and also for key regions including the Eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to www.markit.com/economics.