HSBC *Purchasing Managers' Index*® 2011 compiled by markit

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HSBC Czech Republic Manufacturing PMI®

PMI data signalled weakest rise in output for a year-and-a-half in June.

Key findings:.

- Production growth eased for fifth successive month.
- New order growth slowed further, but job creation remained solid.
- Input price inflation eased to sixteen-month low.

Output growth in the Czech manufacturing sector slowed further in June, albeit to a lesser extent than that seen in the previous month. The latest *PMI®* data compiled by Markit for HSBC showed the weakest overall improvement in business conditions in the sector since February 2010. New orders and employment also rose at slower rates than in May, while input price inflation was the weakest for sixteen 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* retreated further in June, registering 55.1, from 55.9 in May. That was the lowest reading since February 2010, and the Index has now fallen four times since hitting a survey-record high of 60.5 in January. That said, the *PMI* remained above its long-run average of 52.9, and the key components of new orders, output and employment all remained in expansion territory. The current sequence of 50-plus readings now extends to twenty months.

Driving the overall moderation in manufacturing growth at the end of Q2 was a weaker rise in new orders. Data suggested that both domestic and export markets registered softer gains in new contracts, though Germany and Russia were reported as sources of increased demand. A number of firms reported winning new customers during the month but, overall, the rate of expansion in total new work was the slowest since February 2010. New export orders grew at the weakest rate since December 2009.

The moderation in new order growth in June led to a similar easing in the pace of expansion of production. The current sequence of continuous output growth now stretches to nearly two years, but the rate of increase in June was the slowest since December 2009.

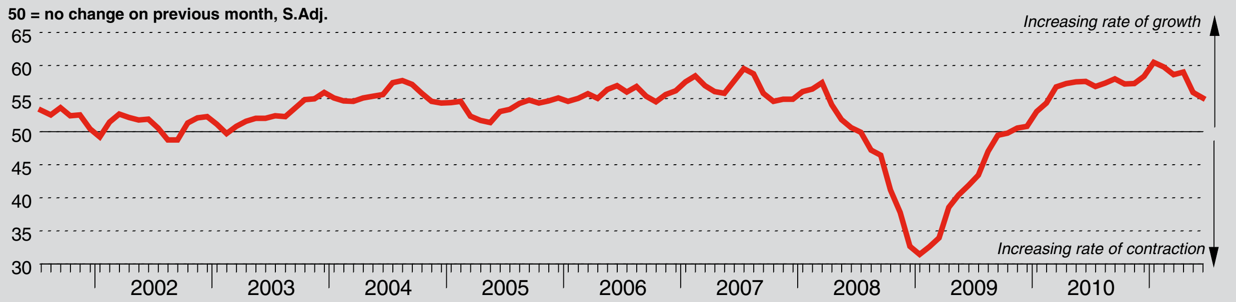
An encouraging finding from the latest survey was a further robust rise in manufacturing employment. The rate of job creation in the sector was the weakest in five months, but remained much stronger than the long-run survey average.

Supplier performance continued to worsen in June, despite the slowing in new order growth. Input delivery times lengthened for the twenty-second month running, albeit to the weakest extent since March 2010.

Linked to raw material shortages, average input prices continued to rise sharply in June. Firms reported higher prices for metals, wood, foodstuffs and oil-based products. That said, the overall rate of input cost inflation slowed again, to the weakest since February 2010.

The softer rise in input costs fed through to manufacturers' selling prices in June. The rate of charge inflation was the weakest seen over the first half of 2011.

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.

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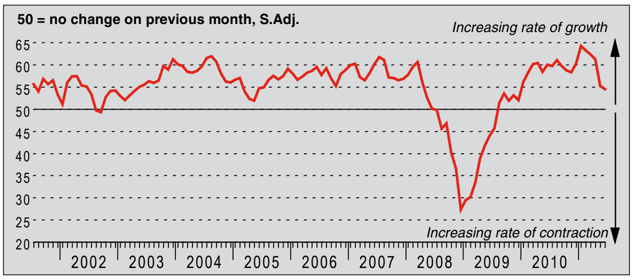
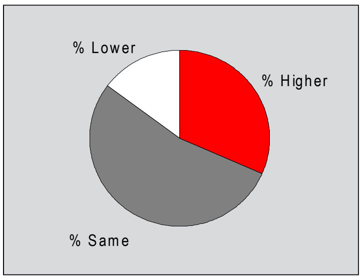
Output Index

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

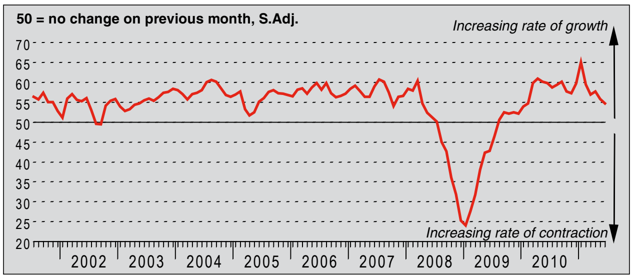


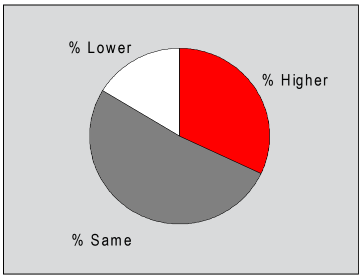


Growth of Czech manufacturing production slowed further in June. The seasonally adjusted Output Index fell for the fifth time in 2011 so far, and the latest figure signalled the weakest rise in production since December 2009. The Index was also below its long-run average of 55.1 during the latest period. Where firms reported higher output, this was usually linked to increased intakes of new work. The current sequence of sustained expansion now extends to twenty-three months.

New Orders Index

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

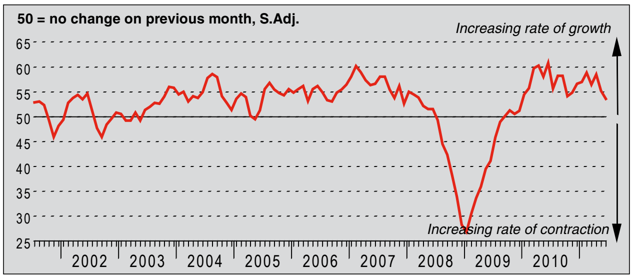


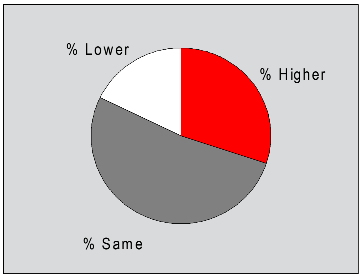


June data signalled the weakest increase in new orders received by Czech manufacturers for sixteen months. The current sequence of expansion now stretches to twenty-three months, but the rate of growth has slowed four times in the past five months. That said, the pace of growth was broadly in line with the survey's long-run average. Higher intakes of new business were attributed to new clients, export contracts and renewed sales efforts.

New Export Orders Index

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

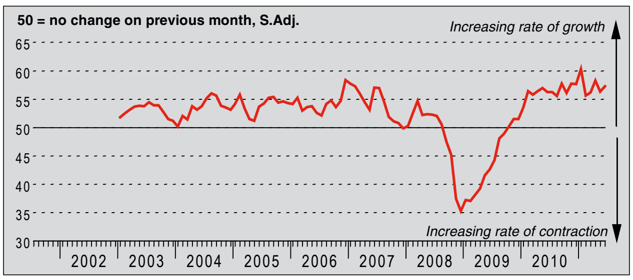


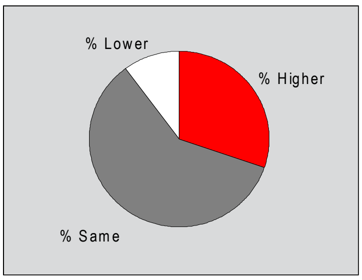


Czech manufacturers reported overall growth of new export business in June. This extended the current sequence to twenty-two months. Firms reported growth in German and Russian markets, and winning new customers. The seasonally adjusted New Export Orders Index fell for the second month running, however, and signalled the weakest rise in new business from export markets since December 2009.

Backlogs of Work Index

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

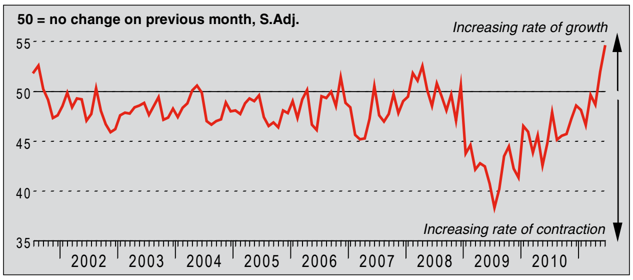


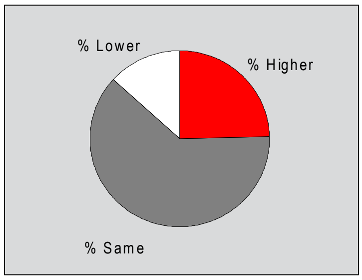


Backlogs of work in the Czech manufacturing sector rose for the twenty-first consecutive month in June. The rate of growth remained sharp, and strengthened slightly since May. The seasonally adjusted Backlogs of Work Index remained greater than its long-run average of 52.6 during the month. Rising backlogs were linked to the winning of large new contracts, as well as delays from suppliers resulting from raw material shortages.

Stocks of Finished Goods Index

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

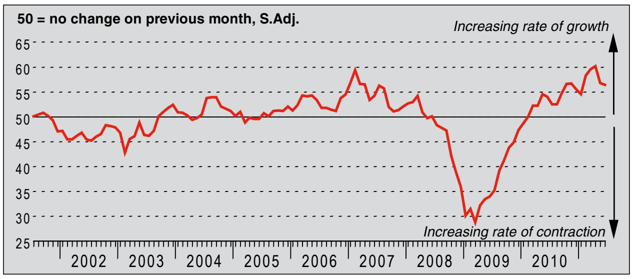


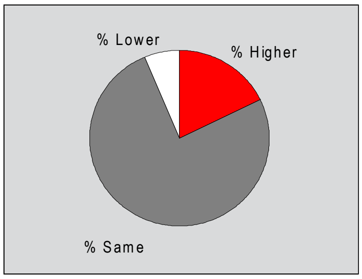


June data signalled the fastest increase in Czech manufacturers' stocks of finished goods in the survey history. The seasonally adjusted Stocks of Finished Goods Index remained above the no-change mark of 50.0 for the second month running, and rose to its highest since data were first collected in July 2001. Around one-quarter of companies reported growth of final goods inventories. Rising stock levels were linked both to deliberate efforts to boost warehouse inventories, and weaker than expected demand.

Employment Index

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

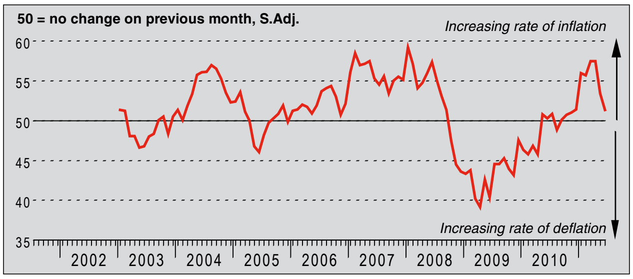


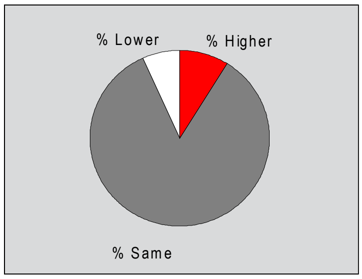


Manufacturing employment in the Czech Republic rose for the sixteenth month in succession in June. The rate of job creation was the slowest since January, but was nevertheless strong in the context of historic survey data. Around 18% of companies reported taking on additional staff during the month. Panellists mostly linked recruitment to new orders and the planned expansion of production capacity.

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.

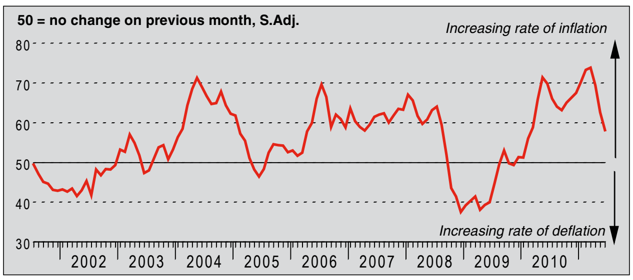


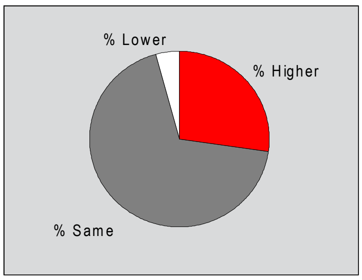


Czech manufacturers increased their output prices in June. The current sequence of output charge inflation now stretches to ten months. The seasonally adjusted Output Prices Index has retreated sharply from its highs in March and April, however, with the latest rate of inflation the weakest since last December. The Index was nevertheless marginally above its long-run average of 51.1 during the latest period. Firms mainly attributed rising charges to higher input prices.

Input Prices Index

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

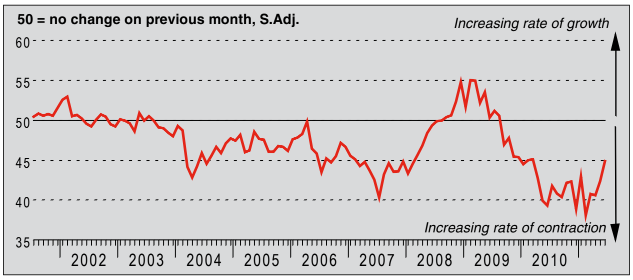


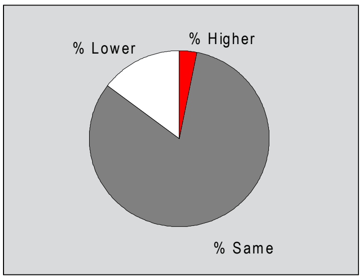


June data signalled a further moderation of cost pressures facing Czech manufacturers. The seasonally adjusted Input Prices Index fell for the third successive month from March's survey-record high, to a sixteen-month low. That said, it remained above its long-run average during the month (55.9). Of the 27% of survey respondents reporting higher input prices compared with May, the main sources reported were wood, metals, foodstuffs and oil-based products such as plastics.

Suppliers' Delivery Times Index

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

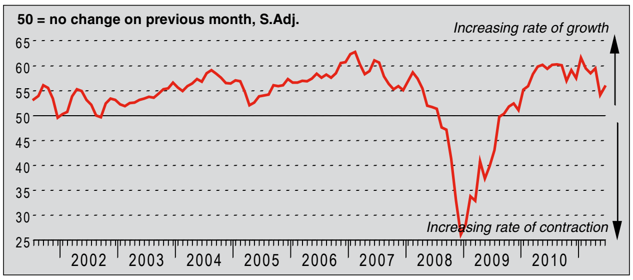


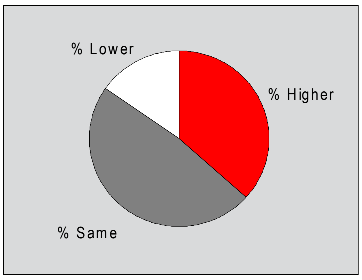


The seasonally adjusted Suppliers' Delivery Times Index remained below the no-change mark of 50.0 in June, signalling an increase in the average time taken for vendors to deliver inputs to Czech manufacturers. Delays were commonly linked to raw material shortages. The current period of rising times now extends to twenty-two months. That said, the Index rose since May, to its highest since March 2010, indicating a partial lifting of pressure on suppliers.

Quantity of Purchases Index

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

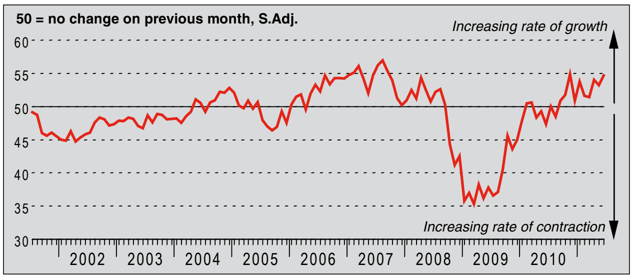


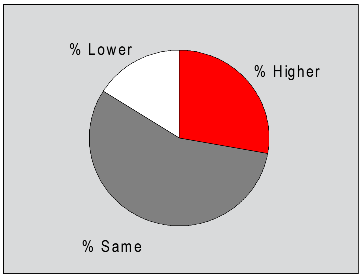


The volume of inputs ordered by Czech manufacturers rose for the twenty-second successive month in June. Firms primarily attributed increased purchasing activity to higher output requirements and efforts to build stocks. Having slowed sharply in May, the rate of expansion picked up slightly in the latest period. That said, it remained down on the trend seen over the past year.

Stocks of Purchases Index

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





Inventories of raw materials and other inputs held in the Czech manufacturing sector rose for the tenth month in a row in June. Moreover, the rate of expansion accelerated, as signalled by a rise in the seasonally adjusted Stocks of Purchases Index. The latest pace of growth was the second-fastest in nearly four years. Firms reported building safety stocks in case of shortages, bulk buying policies and also inventory growth linked to new products.

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.

Warning