

HSBC Czech Republic Manufacturing PMI®

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

Summary

Output growth in the Czech manufacturing sector slowed further in June, albeit to a lesser extent than that seen in the previous month. 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, a composite single-figure indicator of manufacturing performance, retreated further in June to 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.

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. The rate of expansion in total new work was the slowest since February 2010.

The moderation in new order growth in June led to a similar easing in the pace of expansion of production. The rate of increase 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 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.

Comment

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

"After reaching a series high in January, the manufacturing PMI index has fallen four times in the February-June period. In June, the index again lost pace, but still remained in expansionary territory. The output, new orders and new export orders indexes also softened from the levels seen in the previous month. New orders and new export orders have remained above the 50.0 mark for 23 and 22 months respectively, but the pace of growth has slowed down in both.

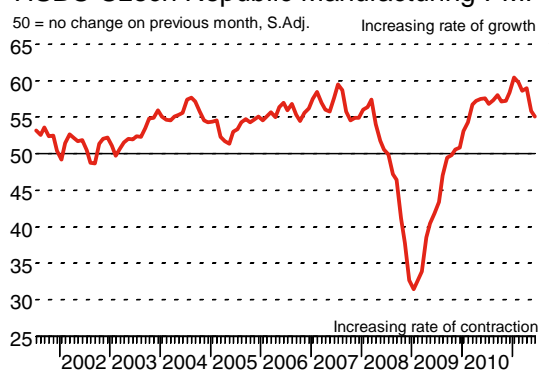
Input price inflation moderated for the third month running in June, but remained in inflationary territory. Reflecting the same trend, output price inflation also retreated from the recent highs seen a few months ago. The input-output price ratio, a gauge of producers' margin squeeze, fell to its lowest level since January 2010. This could point to a partial easing in producer price pressures going forward. Employment rose for the sixteenth consecutive month in June. Even though this month's reading slowed marginally from the level seen in May, it still remained notably above the series' long term average. Job creation is a long-term decision, so the resilience in the employment index could suggest that firms expect the recent softness in manufacturing conditions to be temporary."

Key points

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

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.

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