

Embargoed until: 09:30 (PRAGUE), 1 August 2011

HSBC Czech Republic Manufacturing PMI®

Output growth slows for sixth month in a row

Key findings:

- Production growth weakest since December 2009
- Modest gain in new export business
- Output prices rise only marginally

Output growth in the Czech manufacturing sector continued to slow at the start of the third quarter. The latest PMI® data compiled by Markit for HSBC showed the weakest overall improvement in business conditions since January 2010. New orders rose only modestly since June, while firms' output prices increased only slightly. That said, inflationary pressure on manufacturers' input costs continued to ease, hitting an 18-month low, while backlogs and employment both continued to rise.

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 continued on a downward path in July, remaining above 50.0 but falling for the third month in a row to 53.4. That was the lowest figure since January 2010. All five of the components contributed to the decline in the headline figure, most notably new orders and employment. The current level of the PMI is above the long-run survey average (52.9), but below the pre-downturn trend (54.1 until June 2008).

New business growth slowed for the fifth time in six months in July. The latest increase in overall new orders was the weakest since December 2009, and below the historic survey average.

Growth in new export orders also eased over the month.

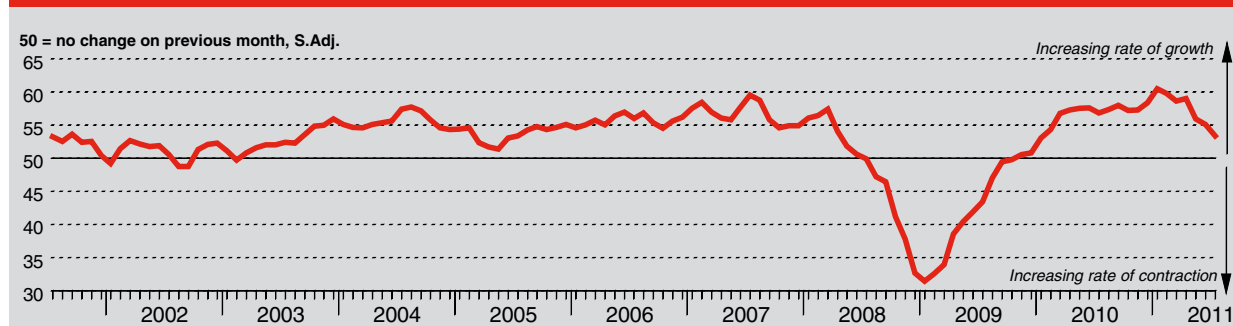
Slower gains in new work were reflected in a further moderation of output growth in July. The pace of expansion in production has weakened continuously for six months – an unprecedented sequence in the ten-year survey history. That said, the volume of outstanding work continued to register robust growth during the latest period, which should support output in the near term.

Manufacturing employment growth was maintained in July. Firms have added to payrolls, on average, for the past 17 months. The rate of job creation in the sector remained solid, despite easing to an 11-month low. This reflected expectations of future output growth and, in line with this, the volume of inputs ordered rose further during the month.

Suppliers' delivery times continued to lengthen in July, albeit to the weakest extent since October 2009. Firms continued to report shortages of raw materials. To guard against potential disruption, manufacturers' stocks of purchases rose for the eleventh month running.

Inflationary pressures eased in July. Average input prices rose at the slowest rate since January 2010, having increased at a record pace in March. Meanwhile, output price inflation slowed to a marginal rate. Firms reported greater competitive pressures, reflecting the overall slowing in new business expansion.

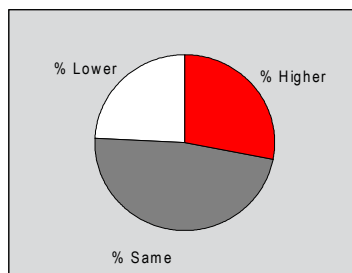
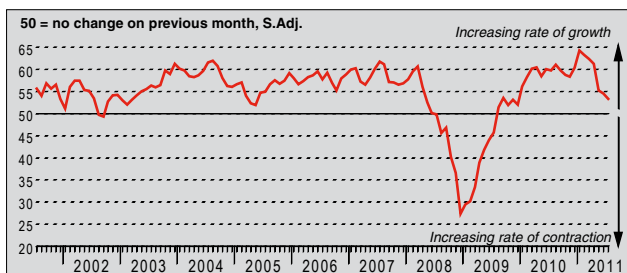
HSBC Czech Republic Purchasing Managers' Index® (PMI®)



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

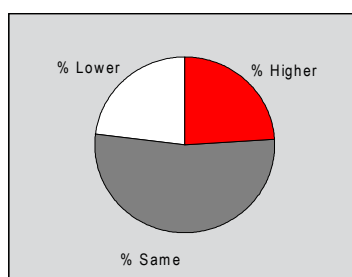
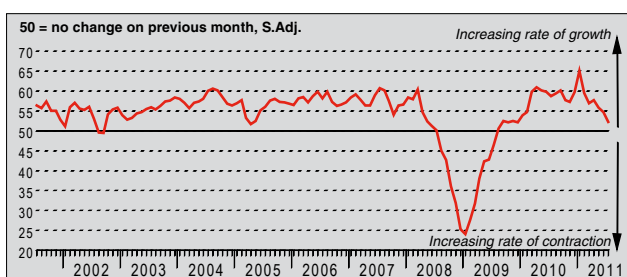
Q. Please compare your production/output this month with the situation one month ago.



Growth of production in the Czech manufacturing sector slowed further in July. The seasonally adjusted Output Index moved lower for the sixth month running from January's record, and the latest figure indicated the weakest rate of expansion since December 2009. According to panellists, growth of output mainly reflected a rise in new orders. The current sequence of expansion now stretches to two years.

New Orders Index

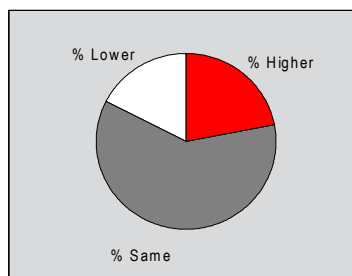
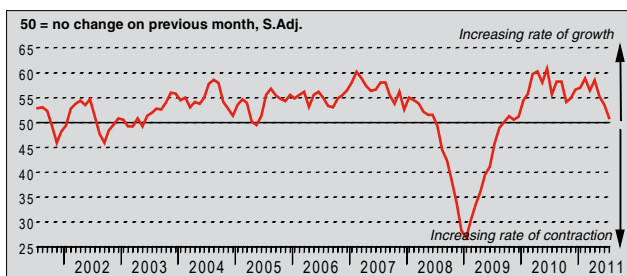
Q. Please compare the level of new orders received this month with the situation one month ago.



July data signalled only a moderate increase in new orders. The seasonally adjusted New Orders Index remained above the no-change mark of 50.0 for the twenty-fourth successive month, but slipped to its lowest level since December 2009 and was weaker than the long-run average of 54.5. New products and clients were reported as sources of growth, but other companies reported a slump in demand.

New Export Orders Index

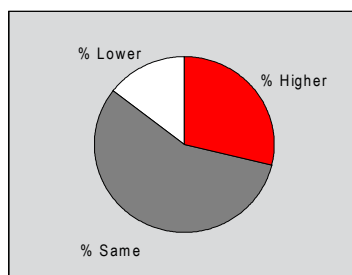
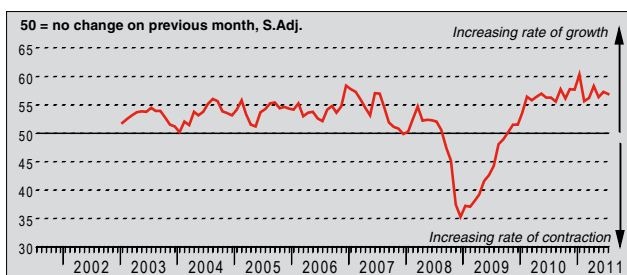
Q. Please compare the level of new export orders received this month with the situation of one month ago.



New business from export markets rose only slightly in July. The latest rate of expansion was the weakest since November 2009, and the third-slowest in the current 23-month sequence. Around 22% of companies reported higher new export orders compared with June, versus 17% that stated falls.

Backlogs of Work Index

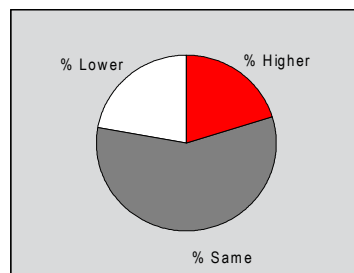
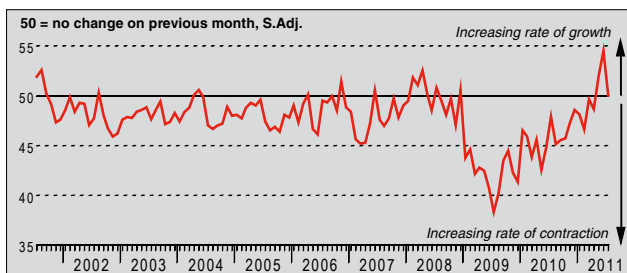
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The volume of outstanding business held at Czech manufacturers continued to rise in July. Moreover, the rate of expansion remained strong, and greater than the long-run survey average. The proportion of firms reporting higher backlogs was twice that which saw declines since the previous month. Backlogs of work have risen every month since October 2009.

Stocks of Finished Goods Index

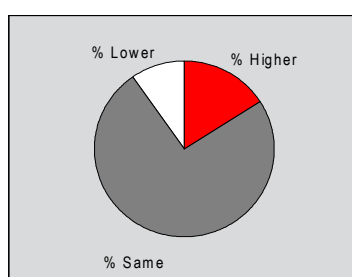
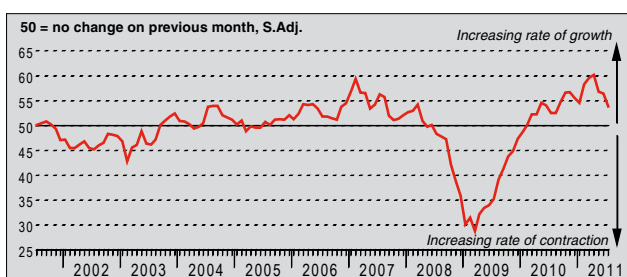
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Stocks of final products in the Czech manufacturing sector were broadly unchanged from one month earlier in July, having risen at a survey-record pace in June. The seasonally adjusted Stocks of Finished Goods Index fell sharply, to a level only fractionally above the no-change mark of 50.0, but remaining above its long-run average of 47.7. Those firms that raised warehouse levels reported expectations of higher sales in coming months.

Employment Index

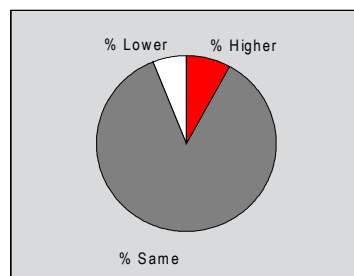
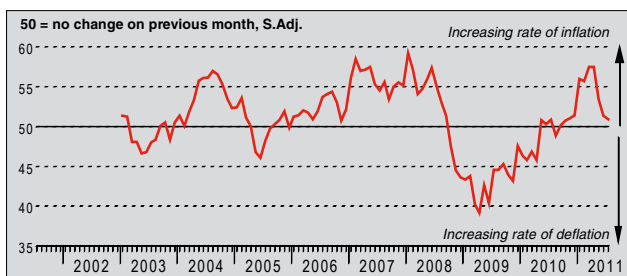
Q. Please compare the level of employment at your unit with the situation one month ago.



Manufacturing employment in the Czech Republic rose further in July. The current period of job creation now stretches to 17 months. The seasonally adjusted Employment Index signalled a strong rate of recruitment growth in the context of the survey history. That said, the rate of workforce growth slowed for the third successive month from April's record, and was the weakest since August 2010.

Output Prices Index

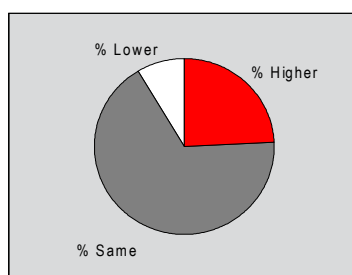
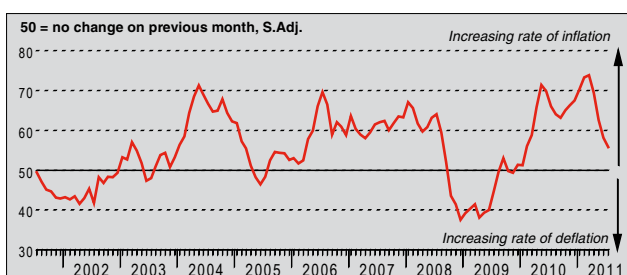
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Prices charged by Czech manufacturers for their goods rose for the eleventh month running in July. Higher output prices were primarily linked to rising raw material costs. The rate of inflation continued to slow, however, as the seasonally adjusted Output Prices Index fell for the third successive month. The vast majority of firms held charges constant, reflecting competitive pressures as overall market conditions slowed.

Input Prices Index

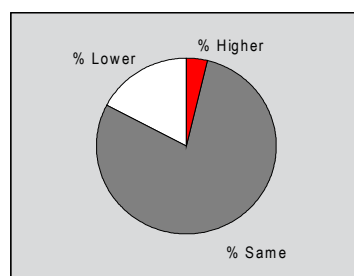
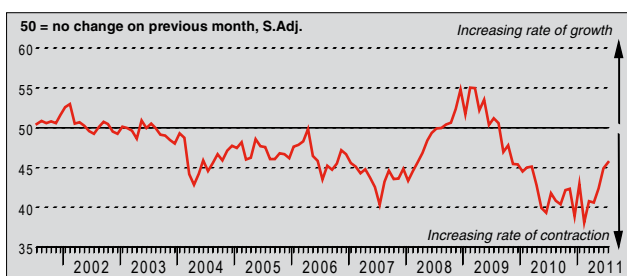
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Upward pressure on manufacturers' average input costs remained in July, but to a much lesser extent than earlier in the year. The seasonally adjusted Input Prices Index moved lower for the fourth successive month, having reached a record high in March. The latest figure signalled the weakest rate of inflation since January 2010, and was in line with the historic series trend. Where firms' input prices rose, this was usually linked to raw materials such as chemicals, metals and plastics.

Suppliers' Delivery Times Index

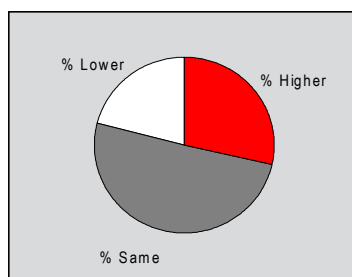
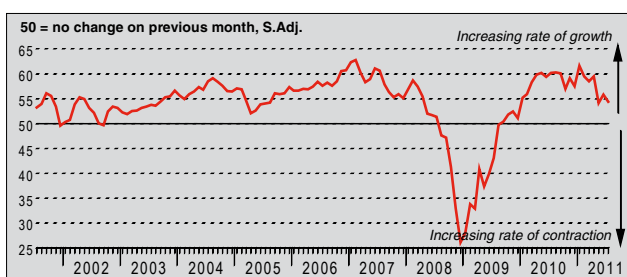
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Pressure on suppliers to Czech manufacturers remained in July, despite a weakening in growth of purchasing activity. The seasonally adjusted Suppliers' Delivery Times Index remained below the no-change mark of 50.0, signalling lengthening lead times for raw materials and other inputs. That said, the incidence of delays was the smallest since October 2009. Longer times were linked by survey respondents to low supplier capacity and shortages of raw materials.

Quantity of Purchases Index

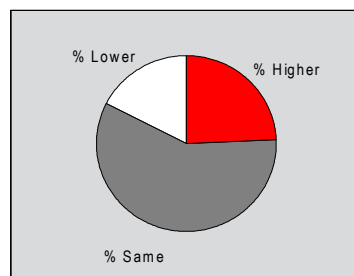
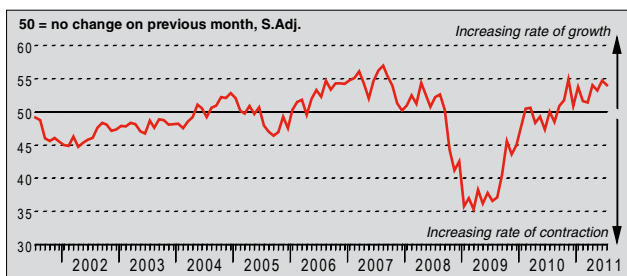
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



The volume of purchases made by Czech goods producers rose for the twenty-third successive month in July. The rate of growth was solid, and broadly in line with the historic survey average. That said, it was the second-weakest since December 2009, reflecting the recent slowdown in new order growth. Some firms reported building safety stocks in expectation of rising output requirements.

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 July, signalling a rise in pre-production inventories in the Czech manufacturing sector. The rate of growth eased from June's seven-month high, but was solid nevertheless. The current sequence of expansion now stretches to 11 months.

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

The intellectual property rights to the HSBC Czech Republic Manufacturing *PMI* provided herein is owned by Markit Economics Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. *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.