

HSBC Czech Republic Manufacturing PMI®

Output growth slows for sixth month in a row

Summary

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 fell for the third month in a row to 53.4 in July, the lowest since January 2010. All five of the components contributed to the decline. The PMI is above its 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. The rate of job creation in the sector remained solid, despite easing to an 11-month low.

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.

Comment

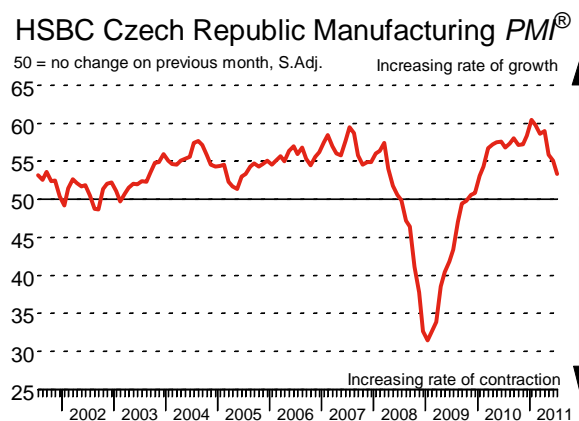
Commenting on the Czech Republic Manufacturing PMI survey, Dr Murat Ulgen, HSBC Chief Economist, Central & Eastern Europe and sub-Saharan Africa, said:

"Manufacturing growth in the Czech Republic continued to ease in July, with the headline index moving down further towards its long-term average but staying above the no-change 50 level. Almost all components of the manufacturing index fell during the month, with the largest declines seen in the new orders and employment components. The slowdown in hiring growth in particular suggests that manufacturers expect the softness in manufacturing growth seen in Q2 2011 to last into Q3 2011 as well. While stocks of finished goods were flat during the month, the slowdown in growth of new orders and new export orders prompted manufacturers to raise output at a softer pace. On a more positive note, the slowdown in growth continued to feed through into easing inflationary pressures, with both the input and output price indices falling further."

Key points

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

Historical Overview



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

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

Rachel Harling, Associate, Corporate Communications
Telephone +44-207-064-6283
Email rachel.harling@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:

HSBC is one of the largest banking and financial services organisations in the world, with a market capitalisation of US\$180bn at 31 December 2010. We are headquartered in London. As 'The world's local bank', we combine the largest global emerging markets banking business and a uniquely cosmopolitan customer base with an extensive international network and substantial financial strength. HSBC operates through long-established businesses and has an international network of some 7,500 offices in 87 countries and territories in six geographical regions; Europe, Hong Kong, Rest of Asia-Pacific, the Middle East, North America and Latin America.

About Markit:

Markit is a leading, global financial information services company with over 2,200 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.

The intellectual property rights to the 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.