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## HSBC Czech Republic Manufacturing PMI®

### Czech manufacturing output rises at faster pace in August

#### Key findings:

- Production growth highest in three months
- Stronger gain in new business
- Input price inflation hits 19-month low

Output growth in the Czech manufacturing sector recovered some positive momentum in August. Adjusted for seasonal factors, the latest PMI® data compiled by Markit for HSBC showed the strongest rise in production for three months. This was driven by a faster gain in new orders, which also supported a further rise in manufacturing employment. Manufacturers also benefited from a near-stabilisation in suppliers' delivery times, and the slowest increase in average input prices for 19 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 was above the no-change mark of 50.0 for the twenty-second successive month in August, remaining above its long-run trend of 52.9. It was unchanged from July's 18-month low of 53.4, but this masked faster gains in both new orders and output. Stronger contributions from these two components were offset by weaker influences from suppliers' delivery times, employment and stocks of purchases.

The current sequence of rising new business volumes was extended to more than two years in the latest survey period. Moreover, having slowed to a 19-month low in July, the rate of expansion accelerated to a solid pace. Data indicated that new export orders had rebounded slightly more strongly than overall

new business growth.

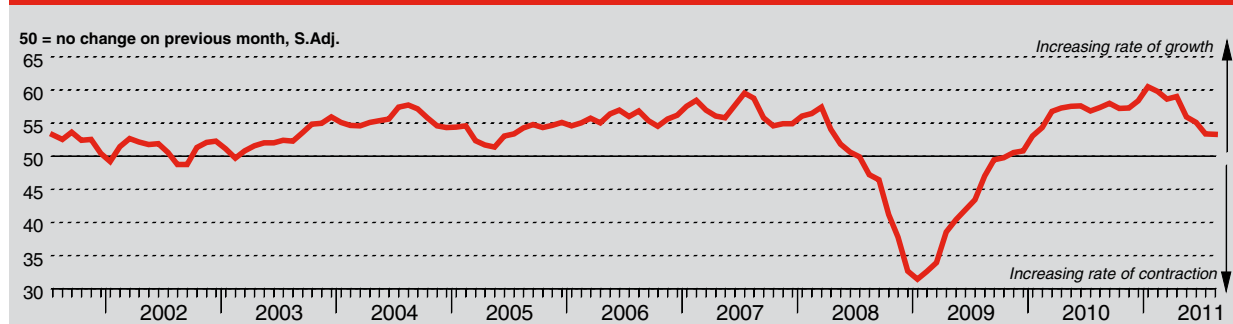
Renewed momentum in order books drove faster production growth in August. The rate of expansion was the strongest since May, and broadly in line with the long-run survey average (since July 2001). Output has risen every month since August 2009.

Backlogs of work continued to rise in August, as they have done every month since October 2009. The rate of growth eased to a 19-month low, but remained strong overall. This contributed to a further rise in manufacturing employment, extending the current sequence of job creation to 18 months.

Pressure on supply chains eased sharply in August. The rate at which input delivery times lengthened was only marginal, and the least marked in the current two-year period of worsening vendor performance. This partly reflected a slower rise in purchasing activity by Czech manufacturers, whose stocks of inputs fell slightly during the month.

Inflationary pressures on manufacturers' input costs continued to ease, as average input prices rose at the weakest rate since January 2010. The rate of inflation has slowed continuously since hitting a survey record back in March. In contrast, prices charged for Czech manufactured goods rose at the strongest rate in three months in August, as firms continued to pass on higher prices for fuel and raw materials to customers.

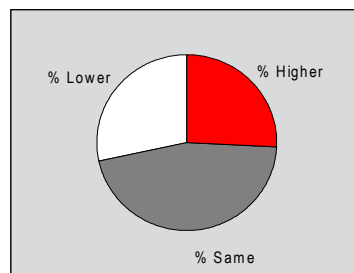
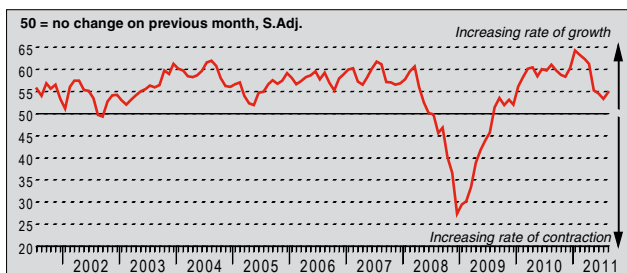
### HSBC Czech Republic Purchasing Managers' Index® (PMI®)



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

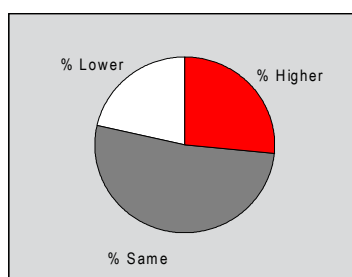
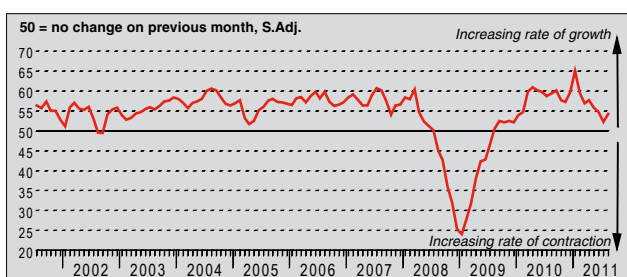
Q. Please compare your production/output this month with the situation one month ago.



Manufacturing production in the Czech Republic rose at a faster rate in August. The seasonally adjusted Output Index remained above the no-change mark of 50.0 for the twenty-fifth month running, and signalled the strongest rate of expansion since May. The Index was only marginally below its long-run average of 55.1 during the latest period. Manufacturers most often linked production growth to higher intakes of new orders.

### New Orders Index

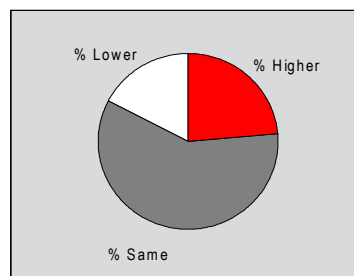
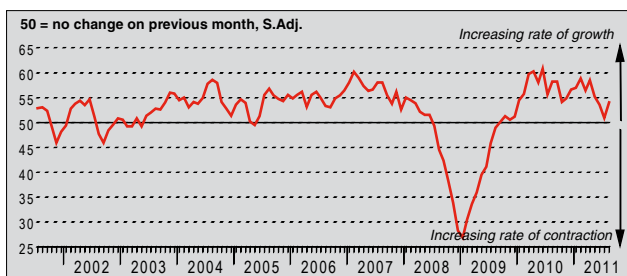
Q. Please compare the level of new orders received this month with the situation one month ago.



Having eased to a 19-month low in July, the seasonally adjusted New Orders Index rose for the first time in four months in August. This signalled a faster rate of expansion in new business, albeit the second-weakest since January 2010. Continuous growth of new work has now been recorded for over two years. There were reports of higher new business in both domestic and export markets during the month.

### New Export Orders Index

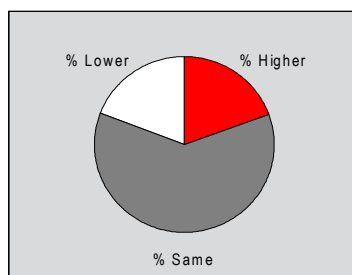
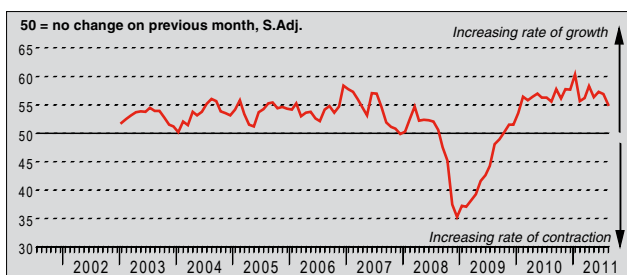
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Growth of new work received by Czech manufacturers from export markets accelerated in August. The seasonally adjusted New Export Orders Index moved up from July's 20-month low, and signalled the fastest rate of expansion for three months. The current sequence of expansion now stretches to two years. Germany, Russia and Denmark were cited as sources of export demand by survey respondents. The Index was above its long-run average (52.3) in the latest period.

### Backlogs of Work Index

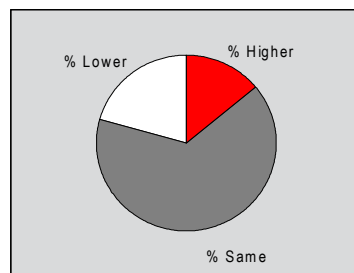
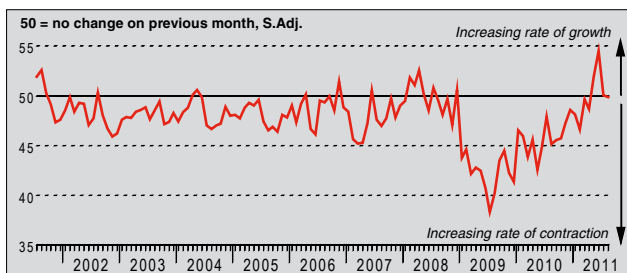
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The volume of outstanding business held at Czech manufacturers continued to rise in August. The seasonally adjusted Backlogs of Work Index remained above the no-change threshold of 50.0 for the twenty-third month in succession. That said, the rate of growth slowed further, to the weakest since January 2010. Firms reported the start-up of new projects and delays in production.

### Stocks of Finished Goods Index

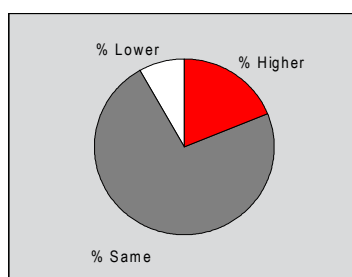
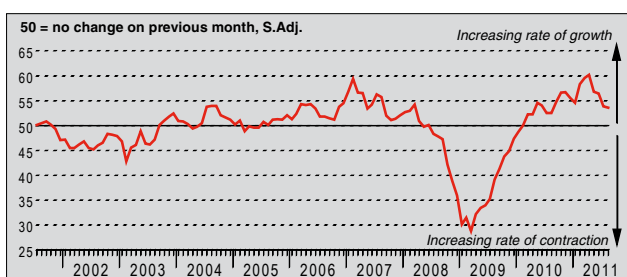
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



The seasonally adjusted Stocks of Finished Goods Index slipped fractionally below neutrality in August, signalling a marginal fall in post-production inventories at Czech manufacturers. That followed a three-month period of expansion. Falling stock levels were linked to both planned cuts and rising sales demand.

### Employment Index

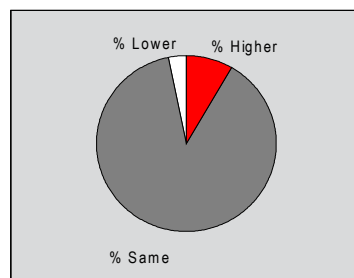
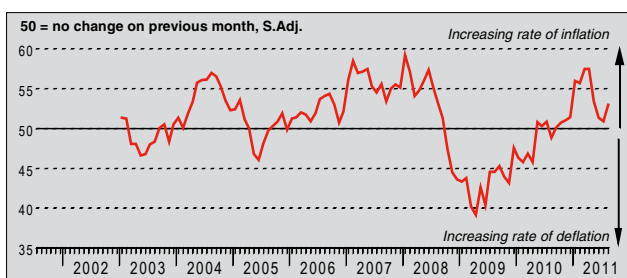
Q. Please compare the level of employment at your unit with the situation one month ago.



Czech manufacturers added to their workforces on average in August. The current sequence of job creation in the sector now stretches to a year-and-a-half. The rate of employment growth remained solid, despite easing further to the weakest since August 2010. The seasonally adjusted Employment Index remained well above its long-run average of 49.6, but was much slower than April's record high.

### Output Prices Index

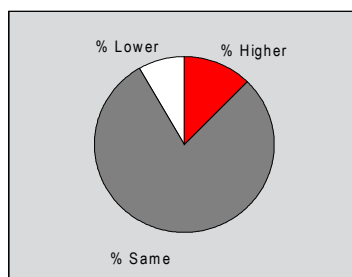
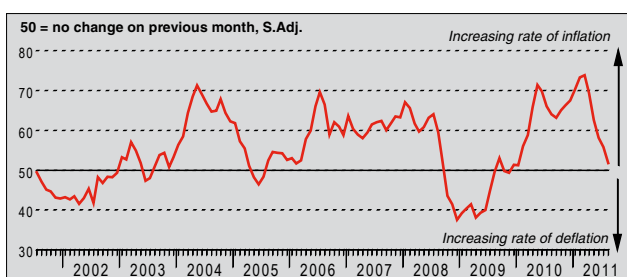
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Average prices charged by Czech manufacturers for their goods rose for the twelfth successive month in August. Moreover, the rate of inflation strengthened from July's marginal pace, to the highest in three months. Firms most often linked rising output prices to higher costs for raw materials.

### Input Prices Index

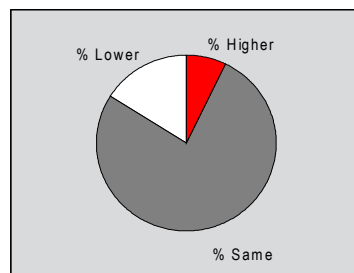
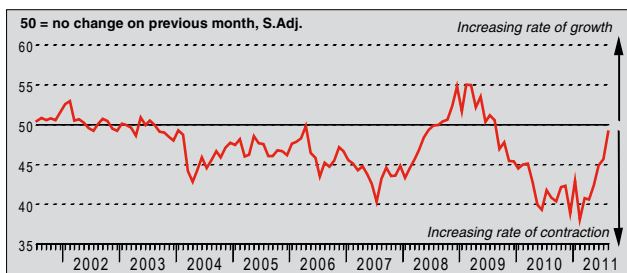
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input prices paid by Czech manufacturers rose on average in August. Where prices rose since July, firms linked this to raw materials – notably wood – fuel and metals. The seasonally adjusted Input Prices Index eased for the fifth successive month, however, to signal the slowest rate of input cost inflation since January 2010. The Index had not fallen for five successive survey periods since August-December 2008.

## Suppliers' Delivery Times Index

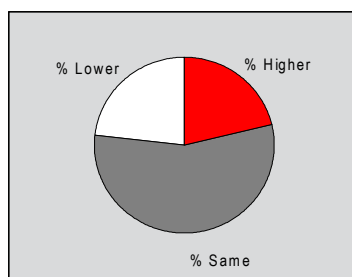
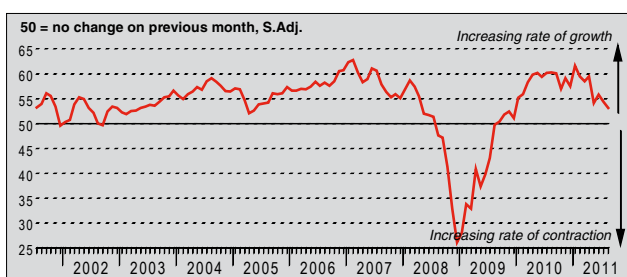
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



August data signalled an easing of supply pressures in the Czech manufacturing sector. The average time taken to deliver inputs to manufacturers lengthened again, but to the smallest extent in the current two-year sequence of delays. Where firms reported longer lead times for inputs, this was most often linked to suppliers having low capacity and the impact of high fuel prices.

## Quantity of Purchases Index

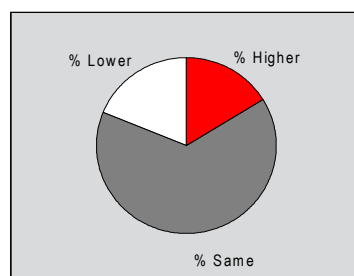
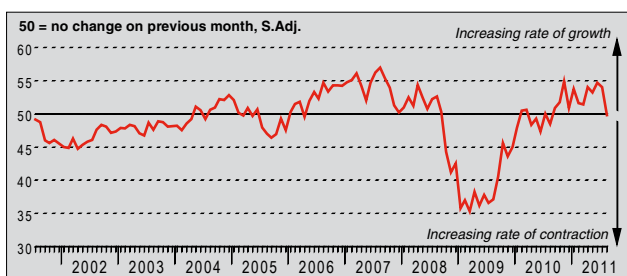
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Purchasing activity in the Czech manufacturing sector rose for the twenty-fourth successive month in August. The rate of expansion eased for the second month running, however, and was the slowest since December 2009. The seasonally adjusted Index was slightly below its long-run average of 54.1 during the month. Growth of input volumes was attributed to higher production and rising new orders.

## Stocks of Purchases Index

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



Pre-production inventories in the Czech manufacturing sector declined marginally in August. The contraction ended an 11-month sequence in which stocks of purchases had risen. A number of firms reported that they had planned to cut stocks as part of attempts to improve efficiency.

## Notes on the Data and Method of Presentation

The *Purchasing Managers' Index*<sup>®</sup> 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 industry contribution to Czech GDP. 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*<sup>®</sup> (PMI)<sup>®</sup> 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.

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