

HSBC Czech Republic Manufacturing PMI®

Slowdown of Czech manufacturing sector continues in October

Summary

The latest HSBC *PMI*™ data for the Czech Republic signalled that growth in the goods-producing sector continued to lose momentum at the start of the final quarter. Overall business conditions have now improved continuously for two years, but output and new orders both rose at relatively weak rates in the latest period. Export markets were notably muted, and inflationary pressures eased further, as input prices fell on average and output charges were little-changed since September.

The headline HSBC Czech Republic Manufacturing PMI is a composite single-figure indicator of manufacturing performance. It moved lower for the second successive month in October, from 52.3 to 51.7, the lowest since December 2009. The downward movement in the PMI reflected four of its five components, the exception being suppliers' delivery times.

New orders registered their weakest rise since August 2009, when the current sequence of growth started. Data suggested that export markets were especially weak, as new export business rose at a negligible pace since the previous month. A number of firms reported weakness from the crucial German market.

Production rose at the slowest rate since December 2009. The pace of growth has slowed every month since January's nine-and-a-half year high, bar a slight acceleration in August. Output growth was supported by new and outstanding work, but the level of backlogs rose at the slowest rate since December 2009.

Manufacturing employment continued to rise in October. The rate of growth remained robust despite easing to a 14-month low. Firms also increased their input volumes, albeit at the slowest rate since December 2009. Meanwhile, supplier performance continued to deteriorate, with average delivery times lengthening for the twenty-sixth successive month.

October data signalled a reduction in average input costs for Czech manufacturers in October. That ended a 22-month sequence of inflation, although the reduction was only marginal. Raw materials reported as having decreased in price compared with one month previously included chemicals, copper, cotton and metals. Manufacturers' output prices were up only marginally during the month, with many firms reporting intense competitive pressure.

Comment

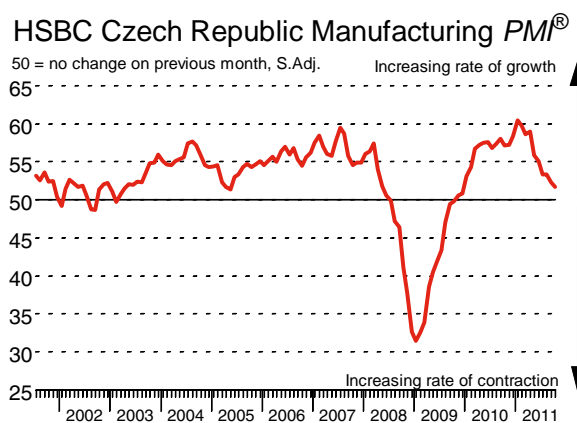
Commenting on the Czech Republic Manufacturing PMI survey, Dr Murat Ulgen, HSBC Chief Economist, Central & Eastern Europe and sub-Saharan Africa, said:

"The Czech manufacturing PMI edged down further towards the 50 no-change mark during October, once again showing that manufacturing conditions are improving but only at a much slower pace. All components of the index eased during the month except for the inverted suppliers' delivery times index, with the sharpest declines seen in the output and the stocks of purchases components. New order growth eased during the month, with an especially marked slowdown seen in the new export orders component. This reflects the negative impact of slowing global demand as well as tensions related to the sovereign debt crisis in the Eurozone – the largest trading partner for the Czech Republic. Firms are trying to cope with slowing orders by not only easing the pace of new output but also drawing down existing stocks, with the ratio of the stocks of finished goods to new orders moderating for the fourth month in a row, dropping below the historical average of 0.9 during the month. On a more positive note, the employment component remains above its long-term average and stayed broadly stable during the month, though it is likely to moderate over the coming months. Finally, inflation pressures continue to moderate with input prices now falling as international commodity prices moderate, while output prices grew at a more modest pace as well."

Key points

- Weakest rise in production since December 2009
- Slowest gain in new orders for more than two years
- Average input prices decline for first time since November 2009

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 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*[®] (*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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