HSBC Purchasing Managers' Index® Press Release

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HSBC Czech Republic Manufacturing PMI®

Czech manufacturing new business continues to fall at end of 2011

Summary

December *PMI*TM data for the Czech manufacturing sector indicated a sustained worsening in overall business conditions. The HSBC Czech Republic Manufacturing PMI, a composite single-figure indicator of manufacturing performance, remained below the no-change mark of 50.0, indicating a back-to-back deterioration in the manufacturing business climate.

The Index improved slightly from November's 27-month low of 48.6, to 49.2, indicating a slower overall contraction of the sector. On a quarterly basis, the PMI averaged below neutrality (49.8) for the first time since Q3 2009 (46.7).

The PMI is derived from indicators for new orders, output, employment, suppliers' delivery times and stocks of purchases. One of the key components, new orders, signalled a faster rate of decline in December. New business has fallen for two months running, and the latest contraction was the strongest since July 2009. New export orders also declined for the second successive month, with firms commenting widely on the crisis in Europe affecting demand for goods.

Lower intakes of new work led manufacturers to cut workforces and purchasing further in December. The rate of decline accelerated slightly in the case of employment, while a weaker fall in input volumes was registered.

Although new business fell in December, the volume of outstanding work rose slightly. This mainly reflected almost no change in output compared with November. The lack of production growth also impacted on finished goods stocks, which fell at a rate similar to October's 16-month record.

Despite the overall decline in purchasing activity in the manufacturing sector, suppliers' delivery times continued to lengthen, as they have every month since September 2009. Moreover, the extent of delays worsened, as a number of firms reported shortages of inputs.

Inflationary pressures remained relatively subdued. Average input prices rose for the second month running, but at a modest rate in the context of historic survey data. Meanwhile, firms cut their output prices slightly as they sought to boost sales volumes in the face of strong competition.

Comment

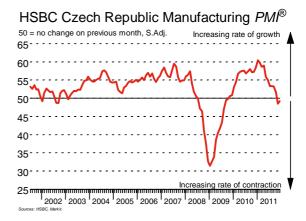
Commenting on the Czech Republic Manufacturing PMI survey, Agata Urbanska, Economist, Central & Eastern Europe at HSBC, said:

"The December PMI reading is marginally better than the November one but remains in contraction territory and, accordingly, the focus needs to stay on the downside risks to economic activity in the coming months. Czech GDP growth performance already compared very poorly with CE3 peers and Germany in Q3 2011 (Czech GDP contracted 0.1% q-o-q while Hungary and Germany both recorded 0.5% growth and the Polish economy expanded by 1% q-o-q) and we believe this might remain the case in the coming quarters. The latest activity data published by the statistical office showed a fairly static picture, with the annual pace of growth of industrial production and exports broadly unchanged against their September levels. The PMI suggests we will see weaker growth numbers going forward though. While the Output index jumped back into growth territory in December, the more forwardlooking components, New Orders and Employment, deteriorated. Input prices rose moderately in December while firms cut their output prices. A continuation of this trend could undermine corporate profitability.

Key points

- New orders fall for second month running
- Output broadly flat over the month
- Employment cut for second successive survey

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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