HSBC Purchasing Managers' Index® Press Release

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HSBC Czech Republic Manufacturing PMI®

Czech manufacturing output stabilises in January

Summary

The latest HSBC Czech PMI® data for the manufacturing sector indicated an overall deterioration in business conditions at the start of 2012, as falling new orders and employment offset a marginal gain in output. The Eurozone was again reported as a source of weak demand, leading to lower new export business received. Firms cut purchases as a result, which alleviated pressure on suppliers somewhat. Meanwhile, input price inflation accelerated to its highest in six 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 remained below the no-change mark of 50.0 in January, signalling a third successive overall monthly deterioration in the manufacturing business climate. The Index fell slightly from 49.2 in December to 48.8 in January, but the latest figure signalled only a modest worsening in overall manufacturing performance. The sub-50 level of the PMI reflected the new orders, employment and stocks of purchases components.

Having been broadly flat in the final month of 2011, manufacturing production in the Czech Republic increased slightly in January. The Output Index was the highest in three months, but still well below its long-run average.

Survey data suggested that firms supported output by working through existing business during the month. Backlogs of work were cut for the second time in three months, at the same pace as that recorded last November.

Incoming new business declined further in January, extending the current run of contraction to three months. A number of firms reported weakening demand from Western European markets, and new export orders also fell for the third successive survey. That said, the rates of decline in both total new business and new export contracts eased since December.

Falling intakes of new business influenced firms' hiring decisions in January. Czech manufacturing employment fell for the third month running, and the rate of job shedding accelerated further to the fastest since December 2009.

Goods producers also cut back on purchases of inputs during the latest period. Purchasing activity fell for the

third successive survey, leading to lower stocks of inputs. Inventories of both inputs and final products declined for the sixth month running. Suppliers' delivery times lengthened further, albeit only modestly.

Cost pressures picked up during January, as input price inflation strengthened to a six-month high. Sources of upward pressure on input prices included higher VAT, energy and metals. That said, input cost inflation remained weak compared with the long-run survey average. Output prices rose fractionally following two months of discounting by manufacturers.

Comment

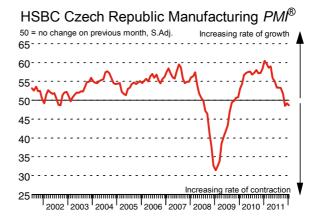
Commenting on the Czech Republic Manufacturing PMI[®] survey, Agata Urbanska, Economist, Central & Eastern Europe at HSBC, said:

"Weak PMI contrasts with stronger than expected Czech industrial production in November, or January PMI and IFO in Germany. More in line with the latter is some improvement (slower pace of decline) in New orders and New export orders. The emerging picture is for only moderate slowdown in manufacturing growth though downside risks persist. Employment component worsened further in January and labour market remains a weak spot for domestic demand outlook."

Key points

- Production up fractionally since December
- New orders and employment decline further
- Input price inflation at six-month high

Historical Overview



Sources: Markit, HSBC.





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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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