

# HSBC Czech Republic Manufacturing PMI®

## Czech manufacturing new orders broadly stable in February

### Summary

The latest HSBC Czech PMI® data for manufacturing indicated a stabilisation of the sector in February. New orders were broadly stable, generating the first meaningful gain in production since last October. That said, external demand remained weak, as new export orders declined at the fastest rate since mid-2009. Meanwhile, cost pressures built up, and manufacturers were largely unable to raise their own prices.

The headline HSBC Czech Republic Manufacturing PMI is a composite single-figure indicator of manufacturing performance. The PMI edged above the no-change mark of 50.0 in February, having pointed to deterioration over the previous three months. At 50.5 the headline figure signalled a broad stabilisation of business conditions, as new orders were up fractionally and output expanded, but employment declined further.

The volume of incoming new work rose fractionally in February, ending a three-month sequence of contraction. That said, new export business declined for the fourth month running, and at the fastest rate since July 2009. This was partly linked by survey respondents to poor demand from European markets.

The overall stabilisation of new orders generated growth of output in February, an improvement on the recent flat trend which followed last November's decline. The rate of output growth matched last October's modest pace, but was much weaker than the post-crisis average. Output growth was partly supported by a further cut in backlogs of work.

Although output rose, the volume of inputs purchased fell slightly. This extended the current sequence of decline to four months, and resulted in the steepest drop in input stocks since December 2009.

Manufacturing employment continued to fall in February as firms sought to adjust workforces to meet current output requirements. The current run of job shedding now stretches to four months.

February survey data signalled rising cost pressures for goods producers. Average input prices increased at the fastest rate since June 2011, linked to metals, plastics and other oil-related products.

Czech manufacturers continued to face tough competition for business in February, reflected in a marginal fall in output prices. Charges have declined three times in the past four months, suggesting growing pressure on firms' margins.

### Comment

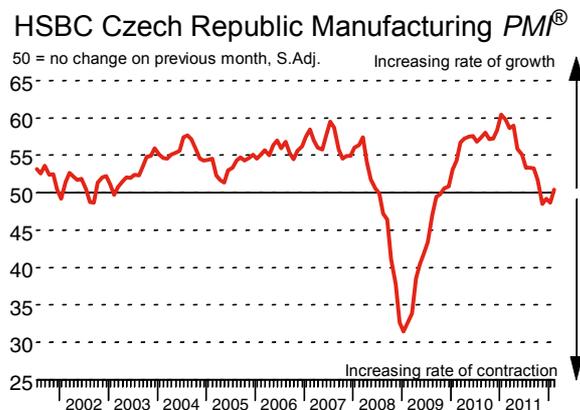
Commenting on the Czech Republic Manufacturing PMI® survey, Agata Urbanska, Economist, Central & Eastern Europe at HSBC, said:

*"Last month the Czech PMI index lagged the upside surprises in Poland and Germany. This time the index improved, but on closer investigation the outlook is still challenging. The improvement is mostly driven by the output component. It supports a consolidation of industrial production growth, however, the first quarter data is still likely to show slowing growth on a high 2011 base. The more forward-looking components are weak. The new orders index improved marginally, but the new exports orders index fell to a mid-2009 low. Data from Germany, the main trading partner, is mixed. A surprise dip of the Flash manufacturing PMI to 50.1 in February contrasts with an improving IFO index. The Czech employment component inched higher but remains in contraction territory. It implies that the annual contraction in employment deepened in 4Q11 from 0.3% in 3Q (data due on 9 March) and maybe stabilised in early 2012. This fits with our forecast of continued fall of the domestic demand in the first half of 2012."*

### Key points

- Fractional rise in new business and higher output results in PMI breaching no-change mark of 50.0
- New export orders fall at fastest rate since July 2009
- Input price inflation accelerates to eight-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*<sup>®</sup> (*PMI*<sup>®</sup>) 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](mailto:economics@markit.com).

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