HSBC Purchasing Managers' Index® Press Release

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compiled by markit

HSBC Czech Republic Manufacturing PMI®

Czech manufacturing new orders fall sharply in May

Summary

The latest HSBC PMI® report signalled an outright deterioration in business conditions in the Czech manufacturing economy in May. New orders fell at the fastest pace in almost three years, while output stalled and firms shed jobs on average.

The headline HSBC Czech Republic Manufacturing PMI is a composite single-figure indicator of manufacturing performance. The PMI was firmly in contraction territory in May, registering 47.6, down from 49.7 the previous month. Of the five components of the headline index, four registered negative influences, while suppliers' delivery times was neutral. The latest figure pointed to the greatest overall worsening in business conditions in the goods-producing sector since August 2009.

New orders declined for the second month running in May. Furthermore, the rate of contraction accelerated sharply, to the fastest since June 2009. Survey data and anecdotal evidence suggested weak demand from both domestic and external markets, linked to the crisis in Western European economies. New export business fell for the seventh successive month, and at the fastest rate since July 2009.

The back-to-back drop in new business led to a stagnation in output in May. Survey data indicated that the level of output was fractionally lower than one month previously, ending a five-month sequence of moderate expansion. The fall in production would have been greater had firms not made further inroads into backlogs, which declined overall for the second month running.

Reduced output requirements resulting from lower new orders led to cuts to both workforces and purchasing volumes in May. Manufacturing employment has fallen six times in the past seven months, and the rate of job shedding accelerated slightly in the latest period. The trend for purchasing activity followed the same pattern. This alleviated pressure on supply chains, and vendor delivery times were unchanged from April on average.

Input price inflation remained strong in May, and sharper than the survey's historic average. The rate of inflation was little-changed from April's ten-month high, and linked by firms to higher prices for fuel, energy and raw materials such as foodstuffs, metals, paper, plastics and other oil-based items. But competitive pressure in the sector prevented firms from increasing their own prices for final goods, which declined slightly for the fourth month running.

Comment

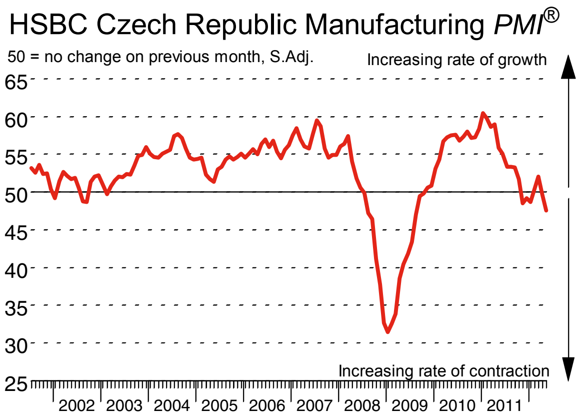
Commenting on the Czech Republic Manufacturing PMI® survey, Agata Urbanska, Economist, Central & Eastern Europe at HSBC, said:

"It is hard to beat the bad news conveyed by much deeper than expected GDP contraction in the first quarter of this year and in this sense the weakening PMI comes as no surprise. But the PMI index still points to downside risks in the coming quarters. The outlook for growth keeps getting worse. Higher than expected German GDP growth in 1Q12 failed to support the Czech economy while, most recently, the leading indicators, ZEW and Ifo, have deteriorated and caught-up with the weakening PMI trend. Indeed the Czech May PMI collapsed to a 33-month low driven by the new orders and the new export orders. Exports growth was stable in the first quarter of 2012 but would have likely slowed in the second quarter adding to downside pressure on growth. The outlook for the manufacturing sector has deteriorated sharply in the last couple of months following Nov-11 to Mar-12 recovery. We expect the central bank to respond to this worsening with further easing of monetary policy."

Key points

- Lower new business leads to cut in employment and stagnant output
- Manufacturing PMI sinks to 33-month low
- Input price inflation little-changed from April's ten-month high

Historical Overview



Sources: Markit, HSBC.

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HSBC

For further information, please contact:

HSBC

Agata Urbanska
Economist, Central & Eastern Europe
Telephone +44-207-992-2774
Email agata.urbanska@hsbcib.com

Klára Křemelová, PR Manager, HSBC BANK PLC HBEU
Telephone +420 225 024 747
Email klara.kremelova@hsbc.com

Filip Koutný, Director Treasury
Telephone +420-225-024-701
Email filip.koutny@hsbc.com

Markit

Trevor Balchin, Senior Economist
Telephone +44-1491-461-065
Email trevor.balchin@markit.com

Rachel Harling, Corporate Communications
Telephone +44-20-7064-6283
Mobile +44-782-789-1072
Email rachel.harling@markit.com

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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