# **HSBC Purchasing Managers' Index® Press Release**

Embargoed until: 09:30 (Prague), 2 July 2012

# HSBC Czech Republic Manufacturing PMI®

# Czech manufacturing output flat in June

# **Summary**

The latest HSBC PMI® report signalled a further overall deterioration in business conditions across the Czech manufacturing economy in June, but a slightly improved situation compared with May. New orders fell at a much slower rate, while production was broadly unchanged and firms expanded workforces having cut staff the previous month. Price pressures continued to fade, as input price inflation slowed to near-stagnation and firms cut their output charges at the fastest pace since April 2010.

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 in contraction territory in June, posting 49.4. That signalled a deterioration in overall business conditions for the third month running. Over the second quarter as a whole the PMI averaged 48.9, the worst quarterly average since Q3 2009 (46.7). That said, the PMI rose from May's 33-month low of 47.6.

Manufacturing new orders declined in June, rounding off contraction throughout the second quarter. But the rate of decline slowed sharply since May to a modest pace.

Linked to the ongoing crisis and uncertainty in Western European markets, new export business in the Czech manufacturing sector fell for the eighth month running in June. The rate of decline eased, but the current sequence is the second-longest in the survey history.

A lack of incoming new work resulted in broadly no change in output in June. An outright contraction in production was avoided through the completion of backlogs, which declined for the sixth time in the past eight months.

The main positive from the latest survey was an increase in employment, following job shedding in the previous two months. Meanwhile, purchasing volumes were flat and stocks of inputs fell at a robust pace.

Inflationary pressures continued to wane in the goodsproducing sector. Average input prices rose only marginally as the rate of inflation slowed sharply since May, linked to lower prices for metals and constructionrelated raw materials. Reflecting competitive pressure in a weak demand environment, firms cut their factory gate prices for the fifth month running, and at the fastest rate since April 2010.

#### Comment

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

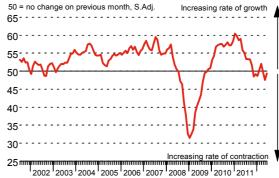
"Following sharper than expected GDP contraction in 1Q2012 and worsening leading indicators in Germany, Czech's main trading partner, the improvement in PMI reading between May and June is encouraging. PMI remained in the contraction territory for the third consecutive month though. Also the average PMI reading in 2Q2012 has been the lowest since 3Q2009. That supports our expectations for GDP growth to be negative this year. We assume the fall in economic activity to be shallow though and PMI's rebound in June supports this assertion. June PMI components showed stabilisation in output and growing employment. The new orders were falling at a lower pace with some improvement in new exports orders as well. Near stagnating input price inflation and falling output prices point to downside risks to CPI and indicate space for the central bank to cut rates."

# **Key points**

- Production broadly unchanged on the month, as new orders decline at much slower pace
- Manufacturing PMI below 50.0 for third successive month
- Employment rises at modest pace

## **Historical Overview**

# HSBC Czech Republic Manufacturing PMI®



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 <a href="mailto:economics@markit.com">economics@markit.com</a>.

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