# **HSBC Purchasing Managers' Index® Press Release** Embargoed until: 09:30 (Prague), 3 September 2012

# HSBC Czech Republic Manufacturing PMI®

# Downturn in Czech manufacturing business conditions stretches to fifth month

# **Summary**

The downturn in the Czech manufacturing economy persisted through August, according to the latest HSBC PMI® data compiled by Markit. New business fell at a sharper rate, leading to a renewed decline in production and lower input purchases. Firms also cut workforces and lowered their charges. Compounding the difficult business environment was a resurgence of cost inflationary pressures during the month.

The headline HSBC Czech Republic Manufacturing PMI is a composite indicator of manufacturing performance 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 and vice versa. The PMI remained below 50.0 for the fifth month running in August and fell from 49.5 to 48.7, signalling a faster deterioration in overall business conditions.

Manufacturing output in the Czech Republic registered an outright contraction in August, having been broadly flat during the previous two months. The overall rate of decline was modest, however, as firms continued to support production through the completion of outstanding business. Backlogs of work fell for the fifth successive month as a result.

Central to the overall worsening in business conditions facing Czech manufacturers was a fall in the volume of new orders. Contraction has been registered for five months in a row, and the latest decline was the strongest since May. Moreover, new export business has declined every month since last November. There was specific mention of weak auto-related demand during the month.

Czech manufacturing employment fell in August, ending a two-month run of job creation. Firms also cut back on purchases of new inputs, the volume of which declined for the fifth consecutive month and at the fastest rate since last November. Despite falling demand for inputs, suppliers' delivery times lengthened during the month.

Goods producers cut their output prices for the seventh month in a row in August, reflecting tough trading conditions. Moreover, the rate of discounting accelerated to the fastest since April 2010.

Average input prices paid by manufacturers rose in August, having declined marginally the previous month. Some firms linked greater cost pressures to oil prices, though the overall rate of input price inflation remained weak in the context of historic survey data.

#### Comment

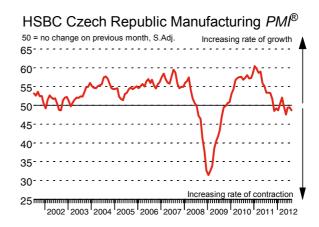
Commenting on the Czech Republic Manufacturing PMI® survey, Agata Urbanska, Economist, Central & Eastern Europe at HSBC, said:

"The August PMI index marked a further deterioration in the manufacturing sector. The output and new orders indexes declined further and the employment index moved below the 50 points threshold of growth and contraction. The data point to a further extension of the current economic slowdown. It follows two consecutive quarters of negative surprises from GDP data in the first half of 2012. It validates the Czech National Bank drive to deliver maximum policy accommodation. We expect another rate cut in September bringing the policy rate to 0.25%. However, the very limited manoeuvring room for monetary and fiscal policy continues to highlight downside risks to growth this and next year given the current trends. The Czech economy remains a hostage to the eurozone business cycle and there are no signs of improvement there."

# **Key points**

- Manufacturing PMI falls from 49.5 to 48.7, signalling steeper deterioration in business climate
- New export orders decline for tenth month running
- Input prices rebound from July's fall

# **Historical Overview**



Sources: Markit, 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 Caroline Lumley, Corporate Communications Telephone +44-20-7260-2047 Mobile +44-7815-812-162 Email caroline.lumley@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 <a href="mailto:economics@markit.com">economics@markit.com</a>.

# **HSBC:**

HSBC is one of the world's largest banking and financial services organisations. With around 6,900 offices in both established and faster-growing markets, we aim to be where the growth is, connecting customers to opportunities, enabling businesses to thrive and economies to prosper, and ultimately helping people to fulfil their hopes and realise their ambitions.

We serve around 60 million customers through our four global businesses: Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, and Global Private Banking. Our network covers 84 countries and territories in six geographical regions: Europe, Hong Kong, Rest of Asia-Pacific, Middle East and North Africa, North America and Latin America. Our aim is to be acknowledged as the world's leading international bank.

Listed on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings plc are held by over 221,000 shareholders in 134 countries and territories.

### **About Markit:**

Markit is a leading, global financial information services company with over 2,300 employees. The company provides independent data, valuations and trade processing across all asset classes in order to enhance transparency, reduce risk and improve operational efficiency. Its client base includes the most significant institutional participants in the financial market place. For more information please see <a href="https://www.markit.com">www.markit.com</a>

### **About PMIs:**

Purchasing Managers' Index® (PMI®) surveys are now available for 32 countries and also for key regions including the Eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to <a href="https://www.markit.com/economics">www.markit.com/economics</a>

The intellectual property rights to the HSBC Czech Republic Manufacturing  $PMI^{\otimes}$  provided herein is owned by Markit Economics Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data.  $Purchasing Managers' Index^{\otimes}$  and  $PMI^{\otimes}$  are trade marks of Markit Economics Limited, HSBC use the above marks under license. Markit and the Markit logo are registered trade marks of Markit Group Limited.