HSBC Purchasing Managers' Index® Press Release

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HSBC Czech Republic Manufacturing PMI®

Downturn in Czech manufacturing sector accelerates further

Summary

The downturn in the Czech manufacturing economy showed little sign of ending in September, according to the latest HSBC PMI® data compiled by Markit. Output declined at the fastest rate in over three years, while demand from both domestic and export markets remained weak. Purchasing, stocks and employment all declined further during the month. Moreover, the rate of input price inflation was the highest since June 2011.

The PMI remained below the no-change mark of 50.0 in September, extending the current sequence of sub-50.0 readings to six months. Moreover, the deterioration in overall business conditions signalled by the headline figure worsened slightly since August, as the PMI fell from 48.7 to 48.0, the lowest since May. The average PMI reading for Q3 posted 48.7, the lowest since Q3 2009 (46.7).

Production fell further in September, the first time the survey data had indicated a back-to-back decline in output since mid-2009. Moreover, the rate of contraction accelerated in September, to the fastest since July 2009.

Driving production lower over the month was a further drop in the volume of new business received. New orders have declined for six successive months, though the rate of contraction stabilised after accelerating in both July and August. Data signalled that new export orders fell at a slower rate than total new work, indicating weakness in domestic markets. That said, new export orders have now declined for 11 months in a row.

Manufacturing employment fell for the second successive month in September. Jobs in the sector have been cut eight times in the past 11 months, albeit at generally modest rates. Firms also cut their level of purchasing activity in the latest period, leading to a further contraction in their inventories of raw materials and other inputs. Stocks of final goods also fell, as warehouses were sufficient to meet current demand. Stocks of both pre-and post-production goods have declined overall for the past 14 months.

Cost pressures built up in September. The rate of input price inflation accelerated to a marked rate, one that was greater than the long-run survey average. Firms highlighted oil, plastics and agricultural products as having increased in price during the month.

Prices charged by Czech manufacturers continued to fall in September. The current sequence of discounting now stretches to eight months, although the rate of reduction was the slowest since June.

Comment

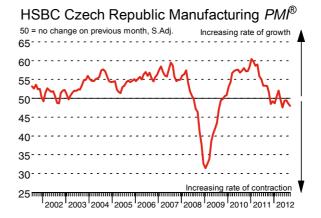
Commenting on the Czech Republic Manufacturing PMI[®] survey, Agata Urbanska, Economist, Central & Eastern Europe at HSBC, said:

"September manufacturing PMI follows a month of July activity data releases with rebounding industrial production and retail sales. But the latter were boosted by low base effect while all other indicators including domestic business and consumer confidence by the statistical office, labour market data, German IFO and September PMI show the economy is still likely to slide deeper into recession. The only positive is that this process is slow and we still hope it will produce shallow recession though with a likely long and slow recovery. The PMI index averaged 48.9 in 2Q and inched lower marginally in the 3Q to 48.7, the lowest since 3Q09. The near-term risk is still for the slowdown to accelerate. Policy makers seemed to have exhausted their response options. If anything eyes need to be fixed on the fiscal policy side and the future of the vetoed pension system reform and fiscal austerity measures debated in the parliament at present. "

Key points

- Manufacturing PMI falls again to 48.0, rounding off worst quarter since Q3 2009
- Output declines at fastest rate since July 2009
- Input prices rise at marked pace

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 economics@markit.com.

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