

HSBC Czech Republic Manufacturing PMI®

Czech manufacturing downturn gathers further momentum in October

Summary

Business conditions in the Czech manufacturing economy deteriorated for the seventh month in succession in October, according to the latest HSBC PMI® data compiled by Markit. Output declined for the third month running, reflecting a sharp drop in new business. In response, firms cut purchasing volumes at the fastest rate in over three years, and shed staff. Pressure on margins increased as input prices continued to rise sharply, while output prices declined.

The HSBC Czech Republic Manufacturing PMI is a composite single-figure indicator of manufacturing performance. The PMI remained below the no-change mark of 50.0 in October, extending the current sequence of sub-50.0 readings to seven months. Moreover, the pace of deterioration signalled by the headline figure gathered further momentum, as the PMI fell from 48.0 to 47.2, the lowest since August 2009.

The downward movement in the headline figure in October mainly reflected a sharper decline in new orders received by Czech manufacturers. The current sequence of overall decline now stretches to seven months, with data signalling sharp falls in both domestic and export markets. New export business has declined every month since November 2011, with the latest drop again linked by anecdotal evidence to the crisis in European markets in particular.

Declining new business inflows resulted in another drop in production in October. The rate of decline was little-changed from September's 38-month record. Moreover, the latest fall occurred despite the strongest decline in backlogs since July 2009.

Manufacturers adjusted workforces and inputs down in line with reduced output requirements in October. Employment in the goods-producing sector declined for the third consecutive month, and at the fastest rate since February. Meanwhile, purchasing activity fell for the eleventh time in the past 12 months, and at the strongest pace in over three years. Subsequently, input stocks declined for the fifteenth successive month.

October data signalled another marked rise in firms' average input prices, following a slight fall in July. The rate of input cost inflation remained steeper than the long-run survey average despite easing since September. Anecdotal evidence linked inflationary pressure to foodstuffs, fuel, leather, metals, and packaging. In contrast, prices charged for final manufactured goods fell for the ninth month in a row, reflecting intense competitive pressure in a weak demand environment.

Comment

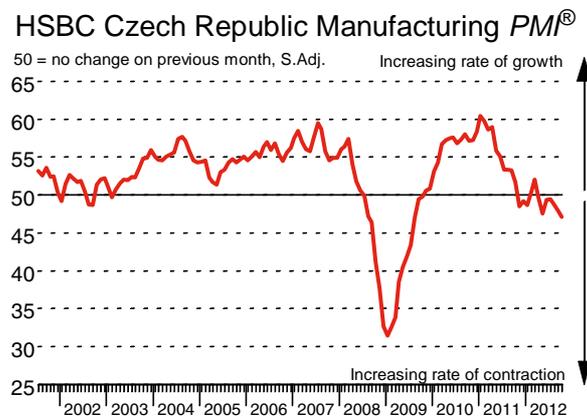
Commenting on the Czech Republic Manufacturing PMI® survey, Agata Urbanska, Economist, Central & Eastern Europe at HSBC, said:

"It is a consecutive weak reading from the manufacturing PMI. The main drag in the October survey came from new orders and new exports orders. The German October PMI surprised on the downside, so did the ifo index; both highlighting more downside risks to manufacturing and export orders in the Czech Republic in the last quarter of the year. Exports growth picked up in July and August compared to 2Q12 but as HSBC forecasts the German economy to contract in 4Q12 the Czech exports growth should slowdown in the remainder of the year. The weak economic results put increasing pressure on the government as reflected by disagreement in the ranks of the ruling party and in the delayed 2013 budget vote. Opposition to another round of tax hikes has forced rewriting of the next year's budget but we do not see any attempts to increase budget deficit target. The shift away from higher VAT tax to cut in spending may prove friendlier to consumer confidence though."

Key points

- Manufacturing PMI falls again to 38-month low of 47.2
- New orders decline at faster pace
- Purchasing activity by manufacturers falls at strongest rate since July 2009

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

Monika Postova
Executive Assistant to CEO & Head of Corporate Banking
Telephone +420 225 024 512
Email monika.postova@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.

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 www.markit.com

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 www.markit.com/economics

The intellectual property rights to the HSBC Czech Republic Manufacturing *PMI*[®] 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*[®] and *PMI*[®] 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.