

# HSBC Czech Republic Manufacturing PMI®

## Czech manufacturing new orders fall at slower pace

### Summary

Business conditions in the Czech manufacturing economy continued to worsen mid-way through the final quarter of 2012, according to the latest HSBC PMI® data compiled by Markit. Output declined for the fourth month running and new work from export markets continued to weigh on overall new business inflows, although the rate of decline in total new orders was the slowest in four months.

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. The PMI remained below 50.0 for the eighth consecutive month in November, but improved from October's 38-month low of 47.2 to 48.2. That signalled the weakest overall deterioration in operating conditions in the Czech manufacturing sector since August.

The overall rise in the PMI in November mainly reflected a slower fall in new business. Inflows of new orders have declined every month since April, although the latest drop was the slowest since July. New export orders fell at a faster rate than total new business, and have now declined for 13 consecutive months.

Manufacturers continued to adjust capacity lower in line with worsening demand. Employment fell for the fourth month running, and purchases declined at the second-fastest rate since July 2009. Lower workloads were reflected in a fourth successive drop in output during the month.

The ongoing sequence of declining purchases resulted in a sixteenth consecutive monthly drop in manufacturers' input stocks. Inventories of final goods also contracted on average, with the rate of decline the fastest since April. In line with falling workloads and destocking, backlogs of work declined for the eighth month in a row.

Although demand for inputs continued to fall in November, average input prices rose further. The rate of inflation was the slowest since August, but broadly in line with the survey's long-run trend. Firms highlighted foodstuffs in particular as having increased in price during the month.

Prices charged for Czech manufactured goods continued to fall, extending the current sequence of discounting to ten months. Firms linked downward pressure on output prices to discounts offered to clients to secure contracts, and also international competition.

### Comment

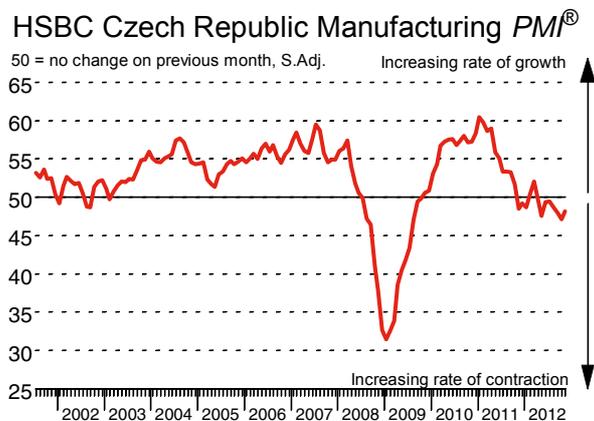
Commenting on the Czech Republic Manufacturing PMI® survey, Agata Urbanska, Economist, Central & Eastern Europe at HSBC, said:

*"The PMI index is less negative than in the last couple of months but still quite bad. It points to some moderation in the pace of deterioration in the manufacturing sector. That was mostly helped by the recovery in new orders. The new export orders changed marginally compared with the previous month though. Also the output index improved only marginally while the employment index fell further in November. On a more positive note, in the context of the lack of recovery of the new export orders, the improving manufacturing PMI and ifo indices in Germany might bode well for the coming months. The Czech economy has contracted in the last four quarters to 3Q12 and the PMI does not point to a turn to positive growth in the last quarter of this year either. The 2013 outlook hinges on the strength of exports as domestic demand is set to remain weak. The government passed the tax increases and aims to tighten the deficit by over 0.5% of GDP in 2013. The central bank only has FX interventions left having cut its interest rate to zero."*

### Key points

- New work declines at weakest rate since July
- Output and employment continue to contract
- Manufacturers continue to cut both pre- and post-production stocks

### Historical Overview



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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*<sup>®</sup> (*PMI*<sup>®</sup>) 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](mailto:economics@markit.com).

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