

HSBC Czech Republic Manufacturing PMI®

Manufacturing output falls at fastest rate in three-and-a-half years

Summary

The final batch of HSBC PMI® data for the Czech manufacturing sector for 2012 signalled a deepening downturn in the sector in December. Output, new export orders and purchases of new inputs all declined at the fastest rates in three-and-a-half years, while jobs were cut to the greatest extent since November 2009.

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 below 50.0 for the ninth month in a row in December, and fell from 48.2 to 46.0. That signalled the fastest overall deterioration in operating conditions in the Czech manufacturing sector since July 2009. The downward movement in the headline figure in December was reflected in all five of its component indexes.

Central to the ongoing deterioration in overall business conditions was a sharp fall in new orders received during December. The rate of contraction accelerated, and was the third-fastest indicated in the current nine-month sequence. Anecdotal evidence linked falling new business to weak demand in both domestic and export markets, with European markets highlighted as well as orders related to the auto and construction sectors. The volume of new export business decline at the fastest rate since June 2009.

Output declined for the fifth month running, and at the fastest rate in three-and-a-half years. Manufacturers also made inroads into existing workloads, as backlogs declined for the ninth month running.

Firms adjusted capacity requirements further in line with deteriorating market conditions. Employment in the goods-producing sector declined for the fifth month running, and at the fastest rate since November 2009. Meanwhile, purchases of inputs contracted at the strongest pace in three-and-a-half years.

Inflationary pressures remained muted in December. Input prices increased for the fifth month running, but at the weakest rate in that sequence. Higher costs were linked to energy, fuel, food and raw materials. Meanwhile, manufacturers cut their output prices for the eleventh month in succession, linked to competitive pressures. The rate of reduction in charges for final goods was the fastest since April 2010.

Comment

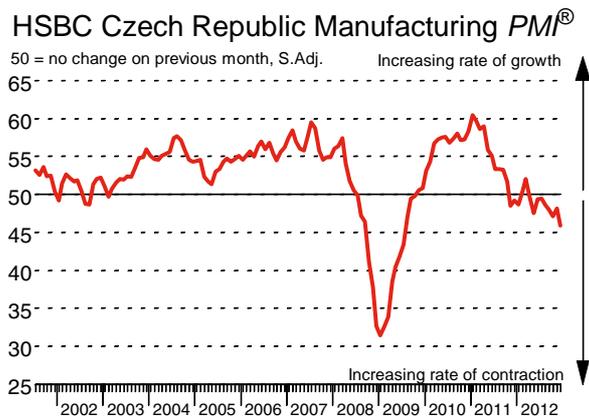
Commenting on the Czech Republic Manufacturing PMI® survey, Agata Urbanska, Economist, Central & Eastern Europe at HSBC, said:

"The December PMI marks a very negative end to 2012 pointing to acceleration in the pace of deterioration in the manufacturing sector. The PMI index fell to the lowest since July 2009. Also the deterioration in December was broadly based with all five components of the headline PMI weakening. Output, new export orders and purchasing activity fell at the strongest rates since mid-2009. The PMI index fell to 47.1 in Q4 from 48.7 in Q3. This highlights a high risk of a fourth consecutive q-o-q GDP fall in Q4, as well as undermining any outlook for a meaningful recovery in 2013. It should also fuel the CNB Board discussion on further monetary policy loosening via FX interventions. There is a consensus agreement in the Board on using FX interventions as the next step, though the policymakers argued for turning to these only later in 2013. Weak data might bring these forward."

Key points

- New export business and purchasing activity fall at strongest rates in 42 months
- Employment contracts at sharpest rate for over three years
- Output prices cut for eleventh successive month

Historical Overview



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 economics@markit.com.

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