

# HSBC Czech Republic Manufacturing PMI®

## Manufacturing PMI improves to five-month high in January

### Summary

HSBC PMI® data for the Czech manufacturing sector indicated a weakening downturn at the start of 2013. Having registered the strongest fall in three-and-a-half years in December, output declined only modestly in January. This reflected a weaker fall in incoming new business. Pressure on input costs intensified, however, and firms continued to shed staff. Moreover, manufacturers remained unable to raise their own selling prices.

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. Remaining below 50.0 for the tenth consecutive month in January, the PMI signalled an ongoing downturn in business conditions in the goods-producing sector. That said, the headline index rose from December's 41-month low of 46.0, to 48.3, the highest since last August.

Manufacturing new orders in the Czech Republic contracted for the tenth consecutive month in January, and have now fallen 13 times in the past 15 survey periods. That said, the pace of decline slowed from the previous month's sharp pace, and was only moderate. New export business fell at a weaker pace, but continued to weigh on overall new order inflows. Firms continued to report weak demand from European markets, and also a lack of new work from the construction and autos sectors in particular.

The ongoing downturn in new business led to a further fall in manufacturing output. Production has declined for six straight months, although the rate of contraction in the latest period was only modest and the slowest since last August. Backlogs of work were depleted further, indicative of spare capacity in the sector.

Manufacturers continued to cut workforces on average in January, the sixth such instance of job shedding in as many months. Moreover, the rate of reduction was only slightly weaker than December's 37-month record. Firms also cut purchases of new inputs during January, albeit at a much slower rate.

Average input prices rose sharply in January, at a rate that was greater than the long-run survey trend. Firms highlighted greater energy prices and the effect of higher VAT. In contrast, prices charged for final manufactured goods declined for the twelfth consecutive month, reflecting efforts to remain competitive and attempts to clear unsold stock.

### Comment

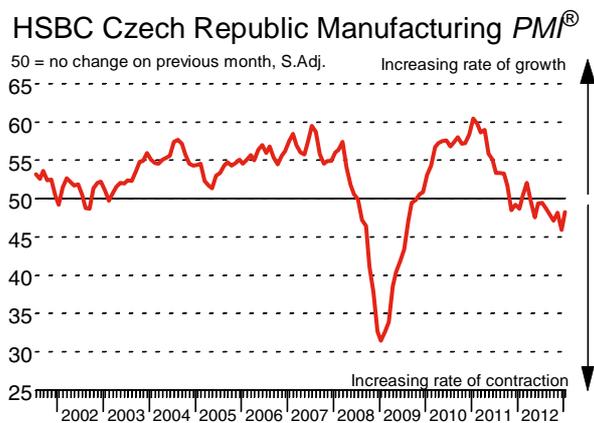
Commenting on the Czech Republic Manufacturing PMI® survey, Agata Urbanska, Economist, Central & Eastern Europe at HSBC, said:

*"January manufacturing PMI shows correction to the December drop across all the components of the headline index. The output index showed the slowest rate of decline since August and the new orders contracted at the slowest pace since July. There was only marginal improvement of the employment reading from December and it still points to the highest rate of contraction in employment since November 2009. Improving business sentiment indicators should support new export orders in the coming months. The new export orders index in January showed the slowest pace of contraction in four months. Despite an increase of input prices manufacturers continued to cut output prices. On balance the January PMI showed a welcome correction to a very disappointing December reading but it continues to show deteriorating conditions in manufacturing and the improvement in terms of slowing pace of contraction is only very gradual."*

### Key points

- Czech manufacturing downturn eases, reflecting slower falls in output and new orders
- Further solid fall in employment signalled
- Input cost inflation accelerates but firms continue to cut output prices

### 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*<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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