# **HSBC Purchasing Managers' Index® Press Release**

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# HSBC Czech Republic Manufacturing PMI®

# Marginal growth in production maintained in May

## **Summary**

Business conditions in the Czech manufacturing sector stabilised in May despite a further slight fall in new orders, HSBC PMI<sup>®</sup> data showed. The volume of output rose marginally for the second month running, having previously fallen for eight months in a row. Moreover, firms expanded workforces for the first time since July 2012. Survey data also signalled a further drop in cost pressures.

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 improved to 50.1 in May, from 49.5 the previous month, signalling an end to the 13-month sequence of deteriorating business conditions in the Czech manufacturing sector. That said, the latest figure only indicated a stabilisation, and not an outright improvement in the business climate since April.

The volume of new business fell for the third month in succession in May, and has now declined 13 times in the past 14 months. That said, the rate of contraction remained only marginal in the latest period. New export business fell for the nineteenth consecutive month, but only slightly as some firms reported improving demand from European markets including Germany and Poland.

Growth of manufacturing output was maintained in May, albeit at a marginal pace. This sequence of expansion followed an eight-month spell of decline. Backlogs of work continued to decrease, however, suggesting ongoing spare capacity.

The rise in production was accompanied by an increase in employment in May, the first round of job creation since last July. But manufacturers continued to cut purchasing activity and stocks of both inputs and final goods. Input volumes fell at the fastest rate in four months but suppliers' delivery times lengthened slightly, reflecting low stocks at vendors.

Manufacturers' input prices fell for the second month running in May, the first back-to-back decline registered in three-and-a-half years. Lower metals prices were reported, although the overall reduction in input prices was only slight. Meanwhile, goods producers cut their own prices for the sixteenth successive month.

### Comment

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

"The manufacturing PMI index lends support to our expectation of economic recovery in the Czech Republic in 2013. The Q1 2013 GDP data were worse than expected and showed deepening contraction. But the April/May PMI readings indicate that the economic growth has likely bottomed in Q1. The output index showed rising production for the second month in a row in May, for the first time since June last year. Employment also rose for the first time in ten months. A continued growth recovery in Germany remains critical to improving activity in the Czech Republic. And with weaker data from China recently and German PMI, improving but in contraction territory, the risks of a second consecutive year of economic contraction have certainly not abated yet."

## **Key points**

- Second successive fractional increase in output aids overall stabilisation in business conditions
- Manufacturing employment rises for first time in tenmonths
- Input prices fall for second month running, albeit marginally

### **Historical Overview**

# HSBC Czech Republic Manufacturing PMI®



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* $^{(9)}$  (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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