

HSBC Czech Republic Manufacturing PMI®

Output growth picks up in June as new orders rise

Summary

Business conditions in the Czech manufacturing sector posted the first notable improvement for over a year in June, according to HSBC PMI® data from Markit. Output rose at a faster rate and new orders increased for the first time in four months, helped by a resumption of export growth. Employment growth was fractional, however, and firms continued to cut their output prices, highlighting the ongoing fragility of demand in the manufacturing sector.

The headline HSBC Czech Republic Manufacturing PMI is a composite single-figure indicator of manufacturing performance. The PMI rose for the third month running to 51.0 in June, from 50.1 in May. That signalled the best overall improvement in operating conditions since March 2012, although the Index remained below its long-run trend level of 52.3.

The three main components of the headline index – new orders, output and employment – all registered positive influences in June, only the second such outcome in the past 20 months. Meanwhile, suppliers' delivery times were broadly neutral and stocks of purchases continued to weigh slightly on the headline figure, albeit to a lesser extent.

Total new orders rose for the first time in four months in June. Moreover, the increase was stronger than that shown in February, and was supported by a rise in new export business for the first time since October 2011.

New business drove output higher in June. Furthermore, the rate of growth accelerated from the marginal pace shown over the previous two months to the fastest since March 2012. Backlogs were unchanged in June.

Greater production requirements generated a rise in the volume of inputs purchased by manufacturers, the first increase in 15 months. That said, growth was only marginal and stocks of inputs continued to fall. Suppliers' delivery times were broadly unchanged since May.

Manufacturing employment meanwhile rose for the second month running in June. The rate of job creation slowed, however, to a marginal rate.

Price pressures remained muted. Average input prices rose for the first time in three months, but at only a marginal rate that was well below the survey's 12-year average. Meanwhile, prices charged for final manufactured goods declined for the seventeenth month in a row as firms continued to report competitive market conditions.

Comment

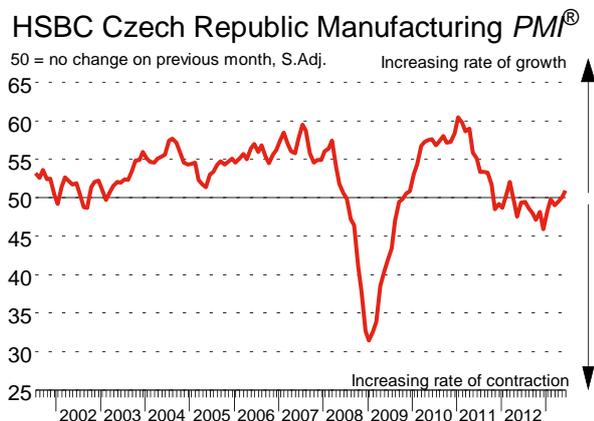
Commenting on the Czech Republic Manufacturing PMI® survey, Agata Urbanska, Economist, Central & Eastern Europe at HSBC, said:

"It is a positive sign that the improving trend in the PMI survey was sustained in June. The upturn is increasingly broad-based with new orders now also recording growth in June next to expanding production and employment. New export orders rose for the first time since October 2011 despite still weak German manufacturing PMI. The PMI index averaged 50.2 in Q2 2013, up from a bottom of 47.1 in Q4 2012 and above the 50-points growth/contraction threshold for the first time since Q1 2012. But a very weak GDP growth in Q1 2013 (-2.2% y-o-y) will not allow the Czech economy to avoid contraction in 2013. We expect positive q-o-q GDP growth rates from Q2 but absent recovery in China and sub-50 manufacturing PMI in Germany remain important downside risks."

Key points

- Strongest increase in output since March 2012
- New export orders grow for first time since October 2011
- Output prices continue to fall

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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