

HSBC Czech Republic Manufacturing PMI®

Strongest rise in new orders for nearly two years underpins manufacturing recovery

Summary

HSBC PMI® data for the Czech manufacturing sector indicated a strengthening recovery at the start of the second half of 2013. New orders, exports, output and employment all rose in July, in a sign of demand gaining momentum. Inflationary pressures remained weak, with both input and output prices falling during the month.

The headline HSBC Czech Republic Manufacturing PMI is a composite single-figure indicator of manufacturing performance. The PMI rose for the fourth month running to 52.0 in July, from 51.0 in June. That signalled the best overall improvement in business conditions since March 2012, and was the second-highest reading since September 2011. It was also only slightly weaker than the long-run survey average of 52.3.

Four of the five components of the headline index – new orders, output, employment and suppliers' delivery times – exerted positive influences in July. Of these, new orders exerted the strongest overall contribution, followed by output. Stocks of purchases continued to weigh on the headline figure, but to the weakest extent since December 2011.

The volume of new orders rose for the second successive month in July, the first sustained increase in new work in the sector in 16 months. Moreover, the rate of growth was the fastest since August 2011. Survey data signalled that new export business rose at the fastest rate since September 2011, and firms reported improving demand from a range of markets including the US, UK, Germany, Russia, Poland and the Far East.

Manufacturing output expanded for the fourth month in a row in July, at a rate little-changed from June's 15-month high. Output growth was weaker than the rise in new business, however, generating a further increase in backlogs of work.

Czech manufacturing employment rose for the third month running in July, and at the fastest rate since October 2011. Firms cut input purchases slightly, however, as they extended the current phase of destocking to 24 months. Meanwhile, average input prices fell for the third time in four months, and at a similar rate to April's 45-month record.

Czech manufacturers continued to cut their output prices in July. This extended the current sequence of discounting to 18 months, although the rate of reduction eased.

Comment

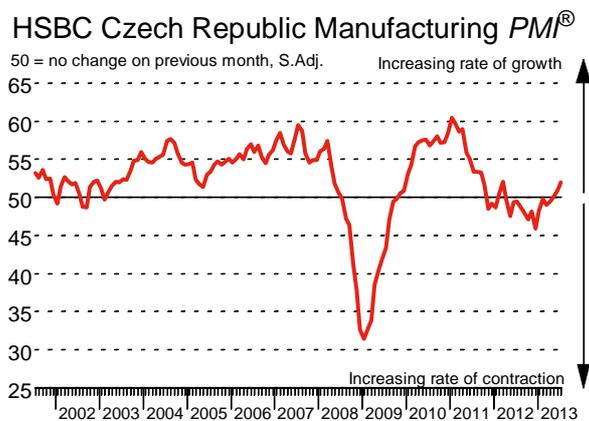
Commenting on the Czech Republic Manufacturing PMI® survey, Agata Urbanska, Economist, Central & Eastern Europe at HSBC, said:

"Another positive reading. The manufacturing PMI index stood above the 50 points threshold for the third consecutive month in July and shows that growth is gaining momentum. In July the output PMI index fell marginally but remained in the growth zone while the new orders index rose to the highest level in almost two years. The new exports orders index rose to the highest level since Sep-11. The employment index has also extended gains pointing to a positive hiring trend for the third month running. Manufacturers seem to remain careful and the stock of purchases is still shrinking but at a slower pace. Better activity indices are still matched by falling input and output prices. The PMI survey supports our forecast of the Czech economy returning to growth on quarterly basis following deep 1.3% q-o-q contraction in Q1 2013. Having said that, improving PMI readings are yet to be reflected in economic activity data or business and consumer confidence indicators recorded by the Czech statistical office."

Key points

- New business boosted by improving export demand
- Production grows for fourth month running
- Input prices fall for third time in four months

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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