

HSBC Czech Republic Manufacturing PMI®

New orders rise at strongest rate in over two years

Summary

The Czech Republic's manufacturing recovery gained momentum in August, according to HSBC PMI® data compiled by Markit. The latest survey revealed a sharp rise in new orders, boosted by new export business. This led to a faster increase in production and sustained workforce growth. Moreover, solid purchasing growth led to the first rise in input stocks in over two years.

The HSBC Czech Republic Manufacturing PMI is a composite single-figure indicator of manufacturing performance. The PMI remained above the no-change mark of 50.0 for the fourth month running in August and rose to 53.9, from 52.0. The latest figure signalled the strongest overall improvement in business conditions since June 2011. All five components of the headline index exerted positive contributions in August, the first broad-based improvement since July 2011.

Manufacturing new orders rose for the third month running in August, the longest growth sequence in nearly two years. Moreover, the rate of expansion accelerated to the fastest since May 2011. Data signalled solid growth in domestic markets and the fastest rise in new export orders since April 2011.

Improving new business inflows led to a strengthening in output growth in August. The volume of manufacturing production rose for the fifth month running, and at the fastest rate since September 2011. Meanwhile, the volume of outstanding work increased for the third consecutive month. The rate of backlog growth was also the strongest since September 2011.

Higher workloads and sharper increases in new orders led to rising demand for inputs at manufacturers. The volume of purchasing activity grew at the fastest rate in nearly two years, having declined marginally in July. As a result, stocks of purchases rose for the first time since July 2011.

Manufacturers in the Czech Republic increased employment for the fourth successive month in August. That marked the longest sequence of job creation in 22 months. The rate of workforce growth eased since July to a modest pace.

Inflationary pressures remained soft mid-way through the third quarter. Input prices fell for the fourth time in five months, albeit at a marginal rate. Meanwhile, prices charged for finished manufactured goods declined for the nineteenth month running. That was the joint-longest sequence of discounting in the survey history, although the rate of reduction in the latest period was also marginal.

Comment

Commenting on the Czech Republic Manufacturing PMI® survey, Murat Ulgen, Chief Economist, Central & Eastern Europe and sub-Saharan Africa at HSBC, said:

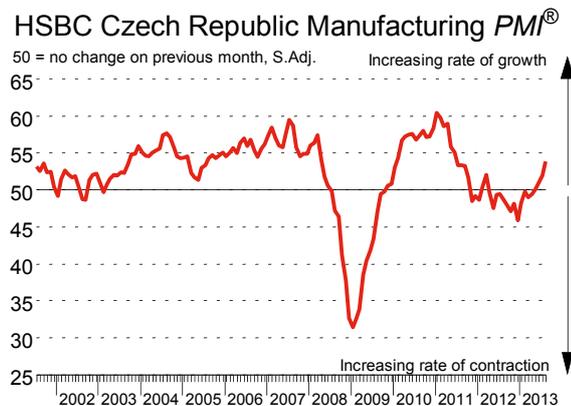
"The improvement in business conditions in Czech Republic's manufacturing sector is becoming more sustained with accelerating manufacturing sector growth for the fourth month in a row in August. The output sub-component reached its highest level in two years, while new orders were also boosted by further healthy pickup in new export orders. On the other hand, employment conditions lost some pace vis-à-vis the previous but the sector still managed to create jobs for the fourth consecutive month. Better demand conditions led to higher stocks of purchases and larger backlogs.

"However, both input and output prices still remained in the contraction territory, albeit at a slightly reduced pace, possibly arguing for continued slack in the Czech economy. Nonetheless, the sequential GDP growth in the second quarter surprised slightly to the upside, whilst forward-looking PMI indicators are also arguing for continued improvement as of the third quarter of the year. As a small open economy with more than one-third of its exports destined to Germany, the Czech Republic looks well positioned to leverage on Germany's brighter outlook."

Key points

- New business boosted by sharp increase in new export orders
- Production growth accelerates
- Manufacturing employment rises for fourth consecutive month

Historical Overview



For further information, please contact:

HSBC

Murat Ulgen
Chief Economist, Central & Eastern Europe & Sub-Saharan Africa
Telephone +44 20 7991 6782
Email muratulgen@hsbc.com

Monika Postova
Executive Assistant to CEO & Head of Corporate Banking
Telephone +420 225 024 512
Email monika.postova@hsbc.com

Filip Koutný
Director Treasury
Telephone +420-225-024-701
Email filip.koutny@hsbc.com

Markit

Trevor Balchin, Senior Economist
Telephone +44-1491-461-065
Email trevor.balchin@markit.com

Caroline Lumley, Corporate Communications
Telephone +44-20-7260-2047
Mobile +44-7815-812-162
Email caroline.lumley@markit.com

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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