HSBC Purchasing Managers' Index® Press Release

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HSBC Czech Republic Manufacturing PMI®

Strong output growth maintained in September

Summary

The manufacturing recovery in the Czech Republic continued in September, according to HSBC PMI® data compiled by Markit. Output growth was maintained at a strong pace, supported by rising new orders from both domestic and export markets.

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. Remaining firmly in expansion territory in September, the PMI signalled another improvement in operating conditions. The headline figure fell from August's 53.9, but the latest figure of 53.4 remained above the long-run average of 52.4. For the second month running, all five components contributed positively. The average PMI reading for Q3 (53.1) was the highest since Q3 2011.

The volume of new orders received by manufacturers increased for the fourth month running in September, the longest growth sequence in nearly two years. The rate of growth was solid despite easing since August, and supported by another sharp rise in new export contracts. This in turn was partly attributed by survey respondents to improving European and US demand.

Production grew for the sixth month in succession in September. The rate of expansion remained historically high despite easing since August. Backlogs of work increased for the fourth month running, however, and at the fastest rate in two years.

Manufacturers invested in new staff to support growing demand. Employment in the goods-producing sector rose for the fifth month running in September, at a rate broadly unchanged from August.

September data also indicated increased purchasing activity among Czech manufacturers. Moreover, the rate of growth in input volumes was the strongest since June 2011. This generated another rise in input stocks in the sector, and the greatest lengthening in suppliers' delivery times for over a year.

Average input prices rose for the first time in three months in September, influenced by higher oil prices. Firms also reported higher prices for steel, food and wood. That said, the overall rate of input price inflation was weak in the context of historic survey data.

Czech manufacturers continued to offer discounts to customers to win or maintain business in September. Factory gate prices fell for the twentieth consecutive month, albeit at a modest rate.

Comment

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

"September PMI data remain strong. The headline manufacturing index backtracked somewhat compared to August, mirroring German data, but remains strong, above July level and at the highest level since Q3 2011. The key components that corrected lower in September are output, new orders including new export orders and stock of purchases. But all of them are still stronger than two months ago. The overriding trend is that of continued improvement in the leading indicators since the PMI index broke above the 50 points contraction/growth threshold in May. Activity data are yet to reflect those positive changes. But we do expect these to turn positive by Q4 2013. The improvement of the manufacturing PMI is matched by improving broad sentiment indicators by the Czech statistical office. In September, the board economic confidence index showed the balance of expectations with regard to future economic outlook turning positive for the first time since April-12."

Key points

- Production expands for sixth month running
- New order growth eases
- Fifth successive month of job creation

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*® (PM®) 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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