

HSBC Czech Republic Manufacturing PMI®

Fastest rise in output for two-and-a-half years

Summary

Manufacturing business conditions in the Czech Republic continued to improve in October, according to HSBC PMI® data compiled by Markit. Production rose at the strongest rate in two-and-a-half years, driven by a further robust increase in new orders. Moreover, firms increased headcounts at the fastest rate since September 2011.

The headline HSBC Czech Republic Manufacturing PMI is a composite single-figure indicator of manufacturing performance derived from indicators for new orders, output, employment, suppliers' delivery times and stocks of purchases. The PMI remained above the neutral level of 50.0 in October, extending the current sequence of improving business conditions to six months. Moreover, having fallen to 53.4 in September, the headline index rebounded to 54.5, signalling the strongest expansion since June 2011. For the third month running, all five components of the PMI provided positive contributions.

The volume of new orders rose for the fifth month running in October. The rate of expansion was robust, and the second-fastest since August 2011. Growth of new export business eased to a four-month low, but was solid nevertheless and strong in the context of historic survey data. Firms reported a broad base of sources of export demand, including Europe, the US, Russia, Asia and Latin America.

Rising intakes of new work generated another increase in output in October. Production grew for the seventh month in a row, and at the fastest pace since April 2011. Despite this acceleration, backlogs of work increased for the fifth consecutive month.

Linked to rising workloads and positive demand expectations, Czech goods producers took on staff at an accelerated pace in October. Manufacturing employment rose for the sixth month running, and at the sharpest rate since September 2011.

Input buying increased at the fastest rate since April 2011, and inventories of inputs rose for the third month running. Firms reported stock shortages at suppliers and linked this to longer input delivery times, which lengthened to the greatest extent since June 2011.

Inflationary pressures remained subdued in October. Input prices rose only marginally, with firms mentioning higher prices for steel, foodstuffs, plastics, wood and technical gases. Meanwhile, prices charged for final manufactured goods rose for the first time since January 2012, but at a fractional rate.

Comment

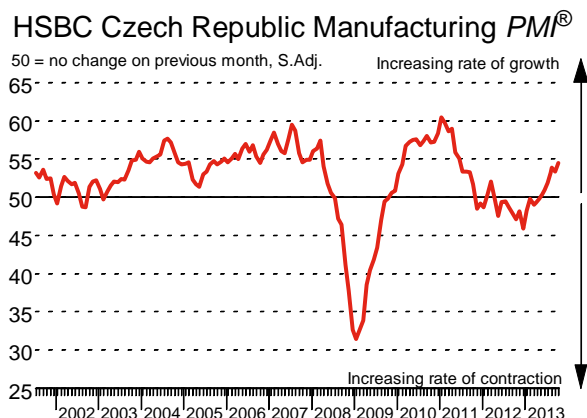
Commenting on the Czech Republic Manufacturing PMI® survey, Agata Urbanska-Giner, Economist, Central & Eastern Europe at HSBC, said:

"The strength of the manufacturing PMI index is a positive surprise. It matches the gains recorded in the manufacturing sector surveys in Germany nevertheless the momentum there seemed to have turned a bit weaker (though more so in the service sector) while the Czech PMI recorded a solid month on month gain in October. New orders index rose very modestly and the new export orders index have declined. But that was compensated by rising output and employment. Activity data have recently turned better with a first positive year on year growth reading for seasonally adjusted industrial production recorded in August. The PMI survey implies this upward trend will extend. Germany's recovery will be the main driving factor while inconclusive elections are a downside risks to growth recovery should they result in a protracted political stalemate. Input prices rose for the second month in a row in October though at a slower pace than in September. More importantly output prices rose for the first time since January 2012. This should moderate central bank's concerns about the risk of deflation."

Key points

- Production expands for seventh month running
- Strongest rate of job creation in over two years
- Manufacturing backlogs continue to rise

Historical Overview



Sources: Markit, HSBC.

For further information, please contact:

HSBC

Agata Urbanska-Giner
Economist, Central & Eastern Europe
Telephone +44-207-992-2774
Email agata.urbanska@hsbcib.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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