HSBC *Purchasing Managers' Index*® 2012

compiled by markit

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HSBC Czech Republic Manufacturing PMI®

Czech manufacturing new business continues to fall at end of 2011

Key findings:
- New orders fall for second month running
- Output broadly flat over the month
- Employment cut for second successive survey

The latest HSBC Czech *PMI*™ data for the manufacturing sector indicated a sustained worsening in overall business conditions at the end of 2011. New orders, employment and purchasing activity at goods producers all declined for the second month in succession in December, while output was broadly unchanged since November. Input prices rose modestly, while firms cut their charges on average amid strong competitive pressures.

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. Any figure greater than 50.0 indicates overall improvement of the sector.

The PMI remained below the no-change mark of 50.0 in December, indicating a back-to-back deterioration in the manufacturing business climate. The Index improved slightly from November's 27-month low of 48.6, to 49.2, indicating a slower overall contraction of the sector. On a quarterly basis, the PMI averaged below neutrality (49.8) for the first time since Q3 2009 (46.7).

One of the key components of the headline index, new orders, signalled a faster rate of decline in December. New business received by manufacturers has fallen for two months running, and the latest contraction was the strongest since July 2009.

New export orders also declined for the second successive month, with firms commenting widely on the crisis in Europe affecting demand for goods. Weaker order books from Germany were highlighted.

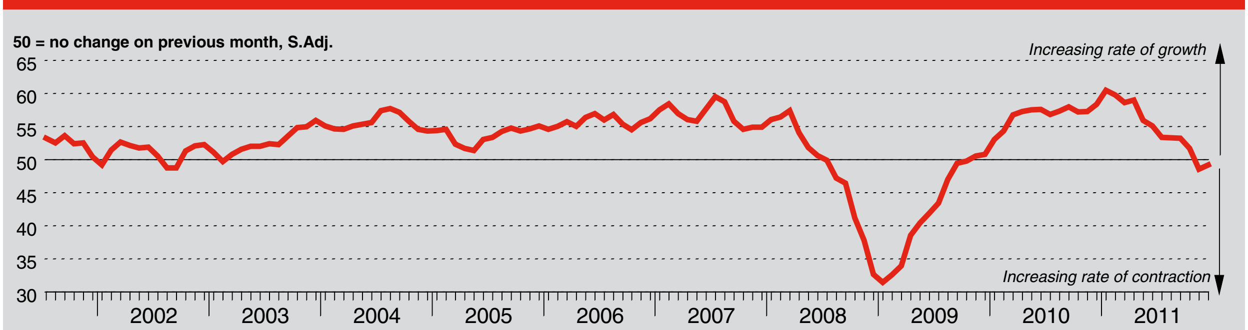
Lower intakes of new work led manufacturers to cut workforces and purchasing further in December. The rate of decline accelerated slightly in the case of employment, while a weaker fall in input volumes was registered.

Although new business fell in December, the volume of outstanding work rose slightly. This mainly reflected almost no change in output compared with November. The lack of production growth also impacted on finished goods stocks, which fell at a rate similar to October's 16-month record.

Despite the overall decline in purchasing activity in the manufacturing sector, suppliers' delivery times continued to lengthen, as they have every month since September 2009. Moreover, the extent of delays worsened, as a number of firms reported shortages of inputs such as metals, plastics and timber.

Inflationary pressures in the goods-producing sector remained relatively subdued in the final month of 2011. Average input prices rose for the second month running, but at a modest rate in the context of historic survey data. Meanwhile, firms cut their output prices slightly as they sought to boost sales volumes in the face of strong competition.

HSBC Czech Republic *Purchasing Managers' Index*® (*PMI*®)



The HSBC Czech Republic *Purchasing Managers' Index*® (*PMI*®) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times and stocks of goods purchased. A reading of the PMI below 50.0 indicates that the manufacturing economy is generally declining; above 50.0, that it is generally expanding. A reading of 50.0 signals no change. The greater the divergence from 50.0, the greater the rate of change signalled by the index. *Purchasing Managers' Index*® and *PMI*® are registered trade marks of Markit Economics Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.

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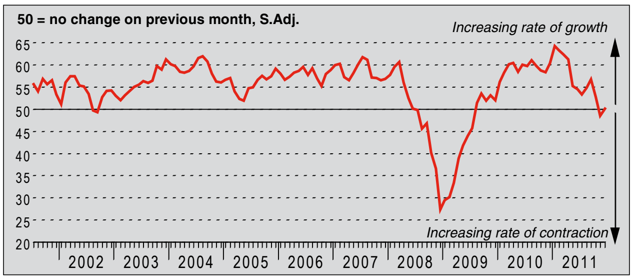
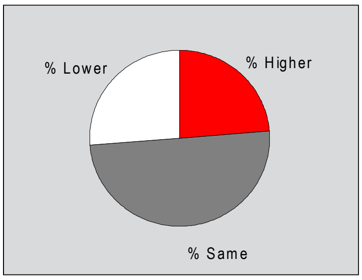
Output Index

Q. Please compare your production/output this month with the situation one month ago.

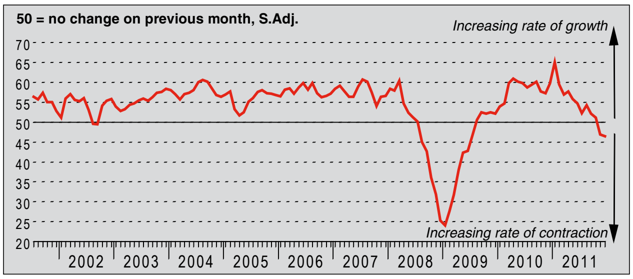


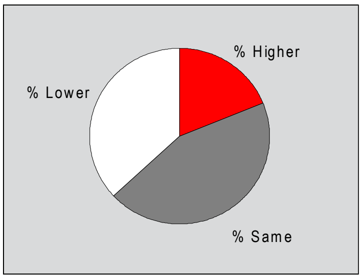


Czech manufacturing production was broadly unchanged on the month in December, following November's contraction. The seasonally adjusted Output Index was only fractionally above the no-change mark of 50.0. The flat trend in production was linked by survey respondents to a lack of incoming new work.

New Orders Index

Q. Please compare the level of new orders received this month with the situation one month ago.

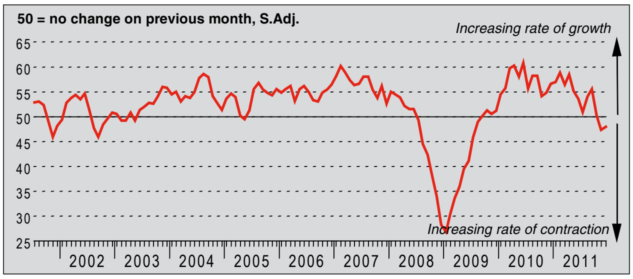


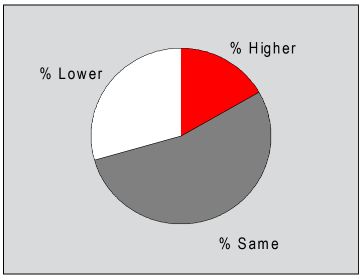


The seasonally adjusted New Orders Index remained below the no-change mark of 50.0 in December, signalling a second successive monthly reduction in the volume of new business at Czech manufacturers. Moreover, the rate of decline accelerated since November, as the Index fell to its lowest since July 2009. Firms linked lower new orders to deteriorating market conditions with the European crisis mentioned, and also weaker German demand.

New Export Orders Index

Q. Please compare the level of new export orders received this month with the situation of one month ago.

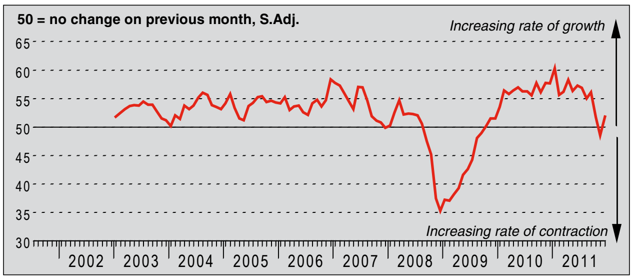


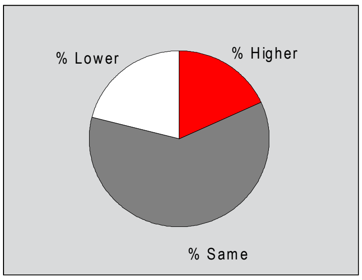


The volume of new orders received by Czech goods producers from export markets contracted for the second month in succession in December. The seasonally adjusted New Export Orders Index rose slightly since November, signalling a weaker rate of decline, but remained well below its long-run trend level of 52.2. Firms linked weaker new export business to the ongoing crisis in Europe, and a lack of new orders from German clients in particular.

Backlogs of Work Index

Q. Please compare the level of outstanding business in your company this month with the situation one month ago.





Work outstanding in the Czech manufacturing sector rose in December, marking a reversal from November's decline (the first since September 2009). The rise in incomplete work mainly reflected stagnant output during the month. The seasonally adjusted Backlogs of Work Index improved to a three-month high, but remained below its long-run average of 52.6.

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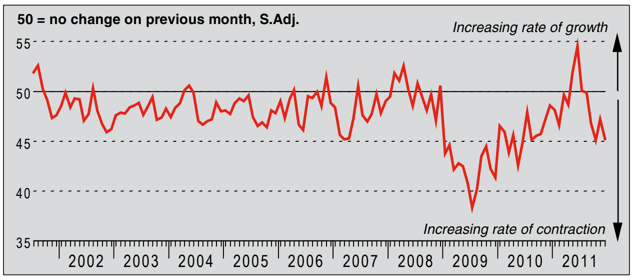
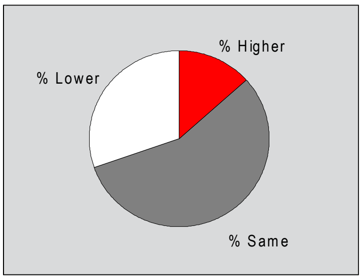
Stocks of Finished Goods Index

Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.

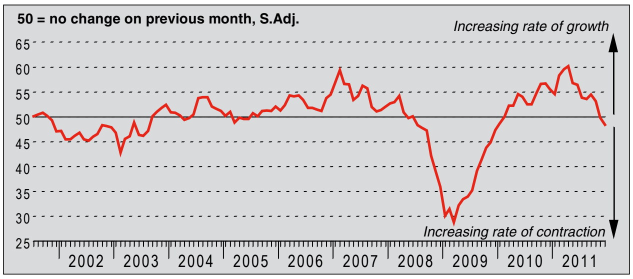


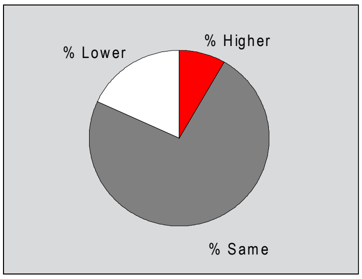


The overall level of final goods held in stock at Czech manufacturers declined further in December. The rate of contraction accelerated since November, almost equalling October's 16-month record. The current sequence of decline now stretches to five months. Some firms linked lower inventories to shipments outstripping production, attributed in turn to a lack of new work.

Employment Index

Q. Please compare the level of employment at your unit with the situation one month ago.

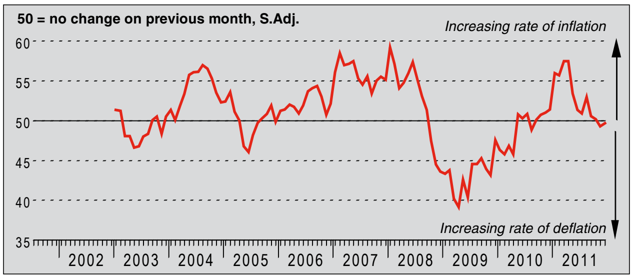


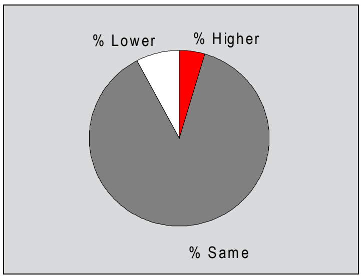


Czech manufacturing employment fell for the second month running in December. Prior to November, jobs had risen in the sector for 20 successive months. The rate of job shedding accelerated in the latest period, to the fastest since December 2009. Firms generally linked staff cuts to an adjustment of capacity as a result of inadequate receipts of new work.

Output Prices Index

Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.

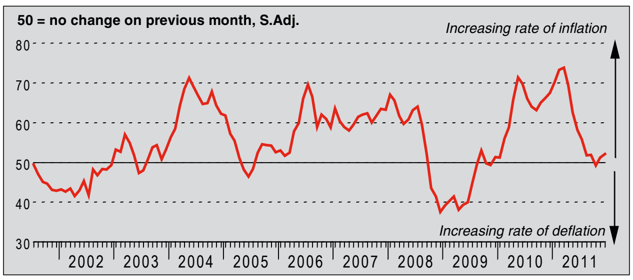


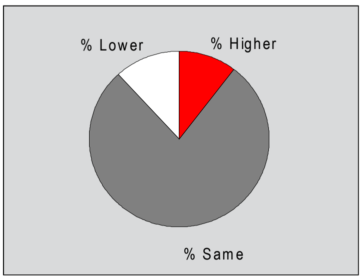


Discounting was signalled in the Czech manufacturing sector for the second month running in December. The seasonally adjusted Output Prices Index remained below the no-change mark of 50.0, albeit only just, indicating a marginal fall in the average price charged for final goods. Lower output prices mainly reflected tough competition for sales, though a number of firms linked discounting to reduced pressure on input costs.

Input Prices Index

Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.

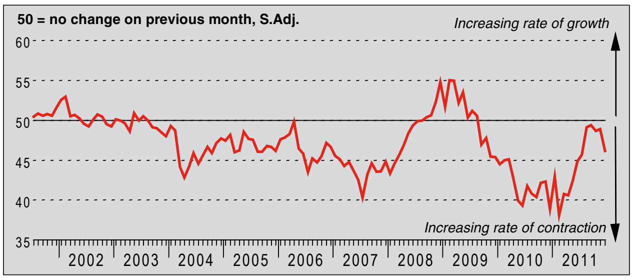


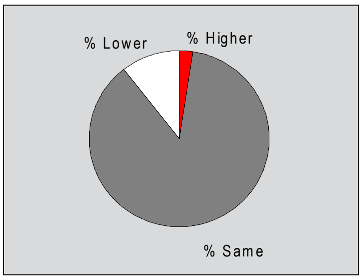


Average input prices paid by Czech manufacturers rose moderately in December. The seasonally adjusted Input Prices Index remained above the no-change mark of 50.0 for the second month running, having signalled a minor fall in prices in October. The latest figure signalled a relatively weak rate of inflation in the context of historic survey data, albeit the strongest since July. Items reported as up in price included fuel, meat and metals.

Suppliers' Delivery Times Index

Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.

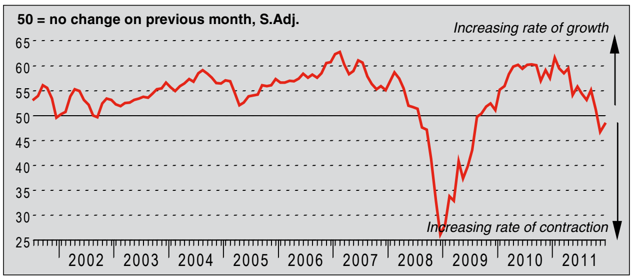


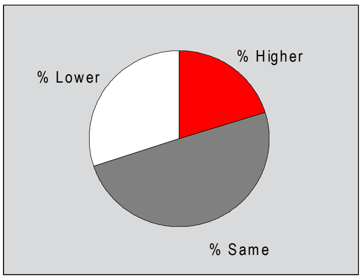


The performance of vendors supplying Czech manufacturers continued to deteriorate in December. The average time taken to deliver inputs to goods producers lengthened to the greatest extent since July. The latest anecdotal evidence primarily attributed delivery delays to shortages of raw materials such as metals, plastics and timber.

Quantity of Purchases Index

Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.

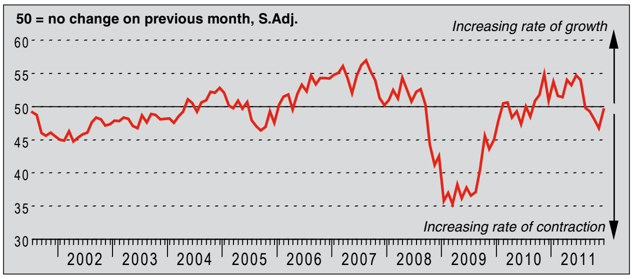


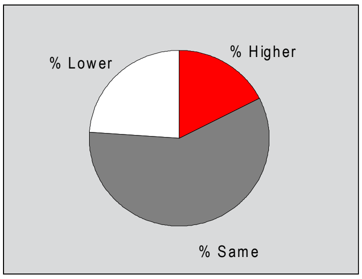


The volume of inputs purchased by Czech manufacturers declined for the second successive month in December. Prior to November, purchasing activity had risen continuously since September 2009. That said, the seasonally adjusted Quantity of Purchases Index rose on the month, indicating a weaker rate of contraction.

Stocks of Purchases Index

Q. Please compare your stocks of purchases (in units) with the situation one month ago.





Stocks of raw materials and other inputs held by Czech manufacturers declined on average in December. The current run of inventory depletion now stretches to five months. That said, the rate of contraction slowed from November's 23-month record to a marginal pace. Firms linked lower stock levels to reduced workloads.

Notes on the Data and Method of Presentation

The *Purchasing Managers' Index*® 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 on 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 derived from the Chartered Institute of Purchasing & Supply's survey of the UK economy: 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.

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