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HSBC Czech Republic Manufacturing PMI®

Czech manufacturing output stabilises in January

Key findings:

- Production up fractionally since December
- · New orders and employment decline further
- Input price inflation at six-month high

The latest HSBC Czech *PMI*[™] data for the manufacturing sector indicated an overall deterioration in business conditions at the start of 2012, as falling new orders and employment offset a marginal gain in output. The Eurozone was again reported as a source of weak demand, leading to lower new export business received. Firms cut purchases as a result, which alleviated pressure on suppliers somewhat. Meanwhile, input price inflation accelerated to its highest in six months.

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 January, signalling a third successive overall monthly deterioration in the manufacturing business climate. The Index fell slightly from 49.2 in December to 48.8 in January, but the latest figure signalled only a modest worsening in overall manufacturing performance. The sub-50 level of the PMI reflected the new orders, employment and stocks of purchases components.

Having been broadly flat in the final month of 2011, manufacturing production in the Czech Republic increased slightly in January. The Output Index was the highest in three months, but still well below its long-run average.

Survey data suggested that firms supported output by working

through existing business during the month. Backlogs of work were cut for the second time in three months, at the same pace as that recorded last November.

Incoming new business declined further in January, extending the current run of contraction to three months. A number of firms reported weakening demand from Western European markets, and new export orders also fell for the third successive survey. That said, the rates of decline in both total new business and new export contracts eased since December.

Falling intakes of new business influenced firms' hiring decisions in January. Czech manufacturing employment fell for the third month running, and the rate of job shedding accelerated further to the fastest since December 2009.

Goods producers also cut back on purchases of inputs during the latest period. Purchasing activity fell for the third successive survey, leading to lower stocks of inputs. Inventories of both inputs and final products declined for the sixth month running. Suppliers' delivery times lengthened further, albeit only modestly.

Cost pressures picked up during January, as input price inflation strengthened to a six-month high. Sources of upward pressure on input prices included higher VAT, energy and metals. That said, input cost inflation remained weak compared with the long-run survey average. Output prices rose fractionally following two months of discounting by manufacturers.



The HSBC Czech Republic *Purchasing Managers' Index*® (*PM*®) 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 *PM*® 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.

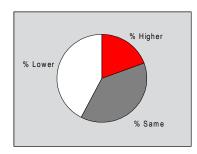




Output Index

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

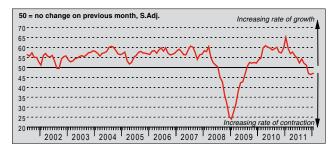


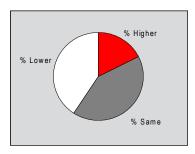


Czech manufacturing output rose marginally in January, having been broadly flat the previous month. The seasonally adjusted Output Index edged up, to the highest since last October. The weak rate of expansion signalled by the latest figure reflected a lack of new business growth in the sector. The Index remained below its long-run average during the month.

New Orders Index

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

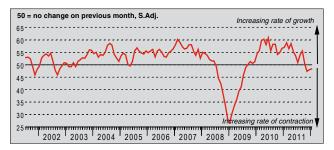


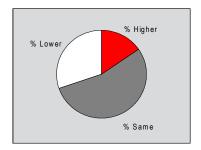


The volume of new business placed with Czech manufacturers fell for the third successive month in January. Firms reported weak underlying demand and a worsening economic situation, partly linked to the Eurozone crisis. That said, the rate of decline eased slightly to the slowest in the current sequence.

New Export Orders Index

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



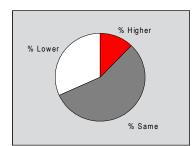


New export orders also contracted for the third month running in January. Anecdotal evidence often attributed lower export order intakes to weak demand from Western European markets. That said, the seasonally adjusted New Export Orders Index rose slightly for the second month running from November's 28-month low, indicating the weakest rate of contraction in the current sequence.

Backlogs of Work Index

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

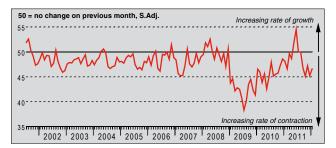


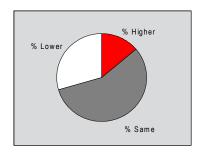


The volume of outstanding business held by Czech goods producers declined for the second time in three months in January. The seasonally adjusted Backlogs of Work Index matched last November's 27-month low, and remained weak in the context of historic survey data. Prior to November, backlogs had risen continuously for over two years. The majority of survey respondents reporting lower backlogs linked the declines to reduced intakes of new business.

Stocks of Finished Goods Index

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



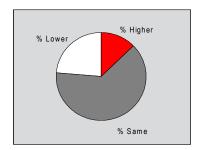


Manufacturers' inventories of final products continued to decline on average in January. Some firms reported efforts to minimise stock holdings, while others linked falling inventory levels to a lack of incoming new work which subsequently impacted on production. The current sequence of contraction now extends to six months. The rate of reduction eased since the final month of 2011, but remained sharp in the context of historic survey data.

Employment Index

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



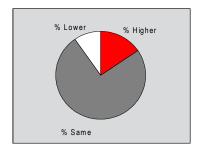


Employment in the goods-producing sector of the Czech Republic fell for the third successive month in January. Moreover, the rate of job shedding accelerated further, as signalled by a drop in the seasonally adjusted Employment Index. The latest figure indicated the fastest rate of decline since December 2009.

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.



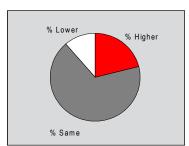


The seasonally adjusted Output Prices Index rose above the no-change mark of 50.0 in January, indicating higher prices charged for Czech manufactured goods compared with one month previously. That followed two months of price discounting. Firms linked higher prices for their products to higher VAT, rising raw material prices and movements in exchange rates. That said, the overall rate of output price inflation was marginal.

Input Prices Index

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

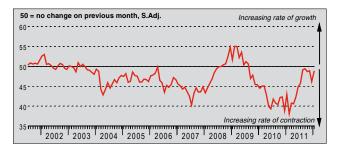


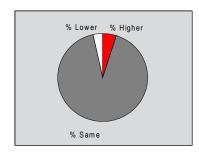


Average prices paid by Czech manufacturers for their inputs rose for the third month running in January. The seasonally adjusted Input Prices Index moved higher, signalling the fastest rate of inflation since last July. That said, inflationary pressures remained much weaker than in 2010 and the first half of 2011, and the Index was below its long-run trend level of 55.7. Items reported as up in price included metals and oil-based products, as well as energy in general. Firms also reported the impact of higher VAT and exchange rate movements.

Suppliers' Delivery Times Index

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



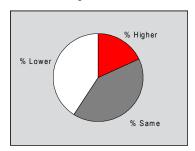


The seasonally adjusted Suppliers' Delivery Times Index remained below the no-change mark of 50.0 in January, signalling that the time taken to deliver inputs to manufacturers had lengthened further. The current sequence of deteriorating vendor performance now stretches to 29 months. That said, the Index rose from December's five-month low, indicating only a modest lengthening in times in the latest period.

Quantity of Purchases Index

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

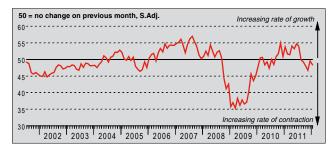


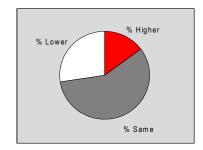


December survey data marked a third successive monthly decline in the volume of inputs purchased by Czech manufacturers. The rate of contraction accelerated slightly, and was the second-fastest since July 2009. Many firms linked lower purchasing activity to a lack of incoming new work, which fed through to future output requirements.

Stocks of Purchases Index

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





The level of inputs held in stock at Czech manufacturers declined further in January. The seasonally adjusted Stocks of Purchases Index remained below the no-change mark of 50.0 for the sixth successive month, signalling the longest sequence of decline in two years. That said, the rate of contraction was only modest.

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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