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HSBC Czech Republic Manufacturing PMI®

Czech manufacturing new orders broadly stable in February

Key findings:

- Fractional rise in new business and higher output results in PMI breaching no-change mark of 50.0
- New export orders fall at fastest rate since July 2009
- · Input price inflation accelerates to eight-month high

The latest HSBC Czech *PMI*[®] data for manufacturing indicated a stabilisation of the sector in February. New orders were broadly stable, generating the first meaningful gain in production since last October. That said, external demand remained weak, as new export orders declined at the fastest rate since mid-2009. Meanwhile, cost pressures built up, and manufacturers were largely unable to raise their own prices.

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 edged above the no-change mark of 50.0 in February, having pointed to deterioration over the previous three months. At 50.5 the headline figure signalled a broad stabilisation of business conditions, as new orders were up fractionally and output expanded, but employment declined further.

The volume of incoming new work received by Czech goods producers rose fractionally in February, ending a three-month sequence of contraction. That said, data signalled ongoing weakness in external markets as new export business declined for the fourth month running, and at the fastest rate since July 2009. This was partly linked by survey respondents to poor demand from European markets.

The overall stabilisation of new orders generated growth of output

in February, an improvement on the recent flat trend which followed last November's decline. The rate of output growth matched last October's modest pace, but was much weaker than the post-crisis average. Output growth was partly supported by a further cut in backlogs of work, which fell for the third time in four months.

Although output rose across the manufacturing sector, the volume of inputs purchased fell slightly. This extended the current sequence of decline to four months, and resulted in the steepest drop in input stocks held at manufacturers since December 2009.

Manufacturing employment in the Czech Republic continued to fall in February as firms sought to adjust workforces to meet current output requirements. The current run of job shedding now stretches to four months, albeit at a much weaker trend rate than that seen in the second half of 2008 and 2009.

February survey data signalled rising cost pressures for goods producers. Average input prices increased at the fastest rate since June 2011, linked to metals, plastics and other oil-related products. Input cost inflation was also slightly stronger than the long-run survey average in the latest period.

Czech manufacturers continued to face tough competition for business in February, reflected in a marginal fall in output prices. Charges have declined three times in the past four months as input costs have risen, suggesting growing pressure on firms' margins.



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.

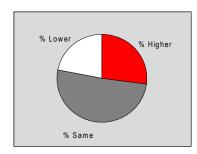




Output Index

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



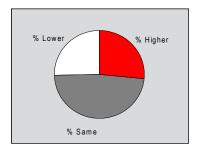


Czech manufacturing production rose moderately in February, following a broadly flat trend in the previous two months. The seasonally adjusted Output Index remained above the no-change mark of 50.0 for the third successive month, and improved to its highest since last October. A number of firms linked higher production to new projects and improving market conditions. That said, the rate of growth remained weak in the context of historical survey data.

New Orders Index

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



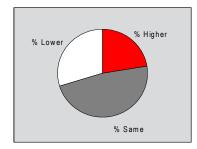


The volume of new orders received by Czech goods producers rose marginally in February. That followed a three-month sequence of decline. Around 27% of firms reported higher new business receipts, compared with about one-quarter that stated declines. Anecdotal evidence linked new business wins to both expanded customer bases and new products, with demand for products related to the autos sector mentioned by some panellists.

New Export Orders Index

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



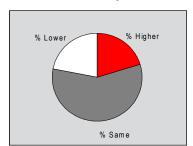


In contrast to the overall trend for new business, new work received from export markets fell in February. The seasonally adjusted New Export Orders Index remained below the no-change mark of 50.0 for the fourth month running, and moved lower to signal the fastest rate of contraction since July 2009. Where panellists reported lower new export orders, this was commonly linked to weak demand from other European countries.

Backlogs of Work Index

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



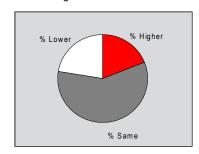


The volume of outstanding work held in the Czech manufacturing sector declined further in February. Backlogs have fallen three times in the past four months, although the rate of contraction remained modest in the latest period. Where outstanding workloads fell, at 22% of survey respondents, firms generally reported a lack of incoming new orders.

Stocks of Finished Goods Index

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



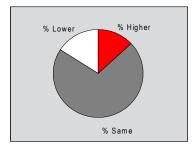


Post-production inventories continued to fall in February. The current sequence of contraction now stretches to seven months. The seasonally adjusted Stocks of Finished Goods Index signalled that the rate of decline was broadly unchanged from January's robust pace. The Index was slightly below its long-run average of 47.7.

Employment Index

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



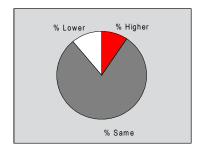


Manufacturing employment in the Czech Republic continued to decline in February. The current period of job shedding now stretches to four months. The seasonally adjusted Employment Index signalled a slightly weaker rate of decline than in January, rising slightly on the month, but remained below its long-run average (49.7). Survey respondents who cut headcounts during the month (16%) generally linked this to productivity drives and organisational changes.

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.



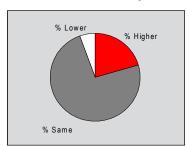


Survey data signalled an ongoing lack of pricing power at Czech goods producers in February. The seasonally adjusted Output Prices Index has trended around the neutral threshold of 50.0 for the past six months, and signalled a marginal decline in factory gate prices in the latest period. Just over 11% of firms reported lower charges compared with January, and 80% reported no change. Competitive pressures were generally reported to be the root cause of lower output prices.

Input Prices Index

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



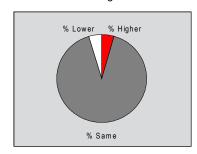


Cost pressures faced by Czech manufacturers built up in February. The seasonally adjusted Input Prices Index signalled rising average input costs for the fourth consecutive month, and the strongest rate of inflation since last June. The latest figure was also greater than the long-run series average of 55.7. Metals, plastics and other oil-related products were widely reported as having risen in price during the month.

Suppliers' Delivery Times Index

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



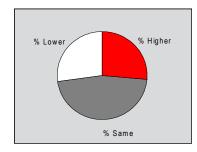


The seasonally adjusted Suppliers' Delivery Times Index remained below the no-change mark of 50.0 in February, signalling a further deterioration in the performance of vendors supplying inputs to Czech goods producers. Moreover, delays were slightly more commonplace than in January. Average lead times have lengthened continuously for two-and-a-half years.

Quantity of Purchases Index

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

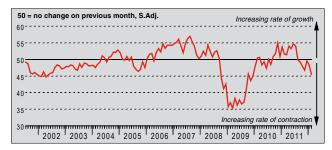


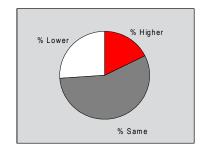


Purchasing activity in the Czech manufacturing sector declined for the fourth successive month in February. That said, the pace of reduction was only marginal, and the weakest in this sequence. Instances of lower input buying, linked either to falling new orders or efforts to control stock levels, were broadly matched by higher purchases linked to new business wins.

Stocks of Purchases Index

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





Pre-production inventories declined for the seventh successive month in February. Moreover, the seasonally adjusted Stocks of Purchases Index sank to a 26-month low, and indicated a sharp rate of reduction. More than one-quarter of survey respondents reported lower stocks of raw materials and other inputs, partly linked to higher output.

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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