Embargoed until: 09:30 (PRAGUE), 2 April 2012

# HSBC Czech Republic Manufacturing PMI®

Czech manufacturing output growth at six-month high in March

### Key findings:

- Faster growth of production and new orders drives PMI to six-month high
- Manufacturing employment stabilises
- Input price inflation eases from February's eight-month peak

The latest HSBC *PMI*® report signalled an overall improvement in operating conditions in the Czech manufacturing economy. Production, new orders and purchasing volumes all rose since February, while employment stabilised following a four-month period of job shedding. Inflationary pressures were subdued, as input prices rose at a softer pace and firms cut their output charges slightly in an effort to boost competitiveness.

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 above the no-change mark of 50.0 in March, and improved from February's 50.5 to a six-month high of 52.1. That signalled a moderate improvement in overall business conditions and reflected stronger gains in output and new orders, as well as a stabilisation in employment. Prior to February, the PMI had registered below 50.0 for three successive surveys. The PMI remained below its long-run average of 52.8, however

Central to the improvement in business conditions in March was a rise in new business, building upon February's fractional gain. This contrasted to falling new orders from last November through to January. Meanwhile, new export business was broadly unchanged, following a solid decrease in the previous

month. A number of companies reported winning new business from the key German market.

The resumption of overall new business growth resulted in the strongest rise in output for six months in March. Moreover, the volume of outstanding work increased for only the second time in the past five months, albeit modestly. But the rates of expansion in production and backlogs were both yet to return to their long-run trend levels.

Manufacturing employment in the Czech Republic was broadly stable in March, having declined in the prior four survey periods. Although the majority of firms stated no change in staffing, there were a number of reports that additional workers had been hired in order to boost capacity to meet demand.

Average input prices rose in March, but the rate of inflation remained relatively weak and eased since February. The main items reported as having increased in price included fuel, plastics and other oil-related products. Meanwhile, prices charged by manufacturers for their finished goods declined marginally, and have not posted any meaningful rise last August. This reflected ongoing competitive pressure in the sector.

Growth of purchasing activity resumed in March, in order to support higher production requirements. That said, the overall level of inputs held in stock across the sector continued to decline.



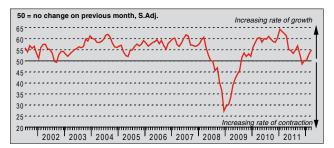
The HSBC Czech Republic *Purchasing Managers' Index*® (*PM*®) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in 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.

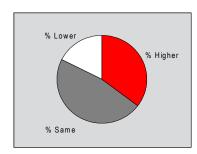




#### **Output Index**

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



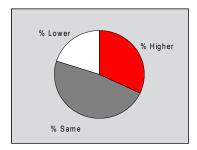


Czech manufacturing production rose at a solid rate in March, following near-stagnation at the turn of the year. The seasonally adjusted Output Index moved further above the no-change mark of 50.0, and signalled the strongest rate of expansion since last September. The Index was broadly in line with its long-run average during the month (55.0). Many survey respondents linked growth of output to higher intakes of new orders during the month.

#### **New Orders Index**

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



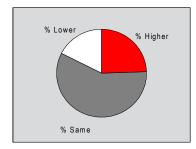


The seasonally adjusted New Orders Index remained above the no-change mark of 50.0 for the second successive month in March, indicating further growth of new business at Czech goods producers. That followed a three-month sequence of declining new order volumes. The rate of expansion in the latest period was the strongest since August 2011, but still weak in the context of historic survey data. Germany was mentioned as a source of export growth by a number of companies.

# New Export Orders Index

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



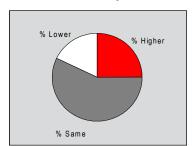


March survey data signalled a stabilisation in export demand for Czech manufactured goods. That followed a four-month sequence of contraction. The seasonally adjusted New Export Orders Index improved from February's 31-month low, and was indicative of broadly no change in new export business compared with one month earlier. There was mention of a revival in new work received from European markets during the month.

#### Backlogs of Work Index

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



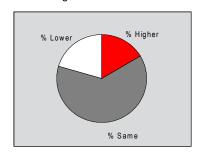


The volume of outstanding business received by Czech manufacturers rose in March, having fallen in each of the first two months of the year. This reflected higher receipts of new orders during the month. That said, the seasonally adjusted Backlogs of Work Index was at a level indicative of only a modest rate of growth. The Index was below its long-run average of 52.5 during the latest period.

#### Stocks of Finished Goods Index

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



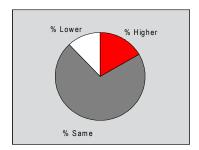


Warehouse levels of finished goods in the Czech manufacturing sector continued to decline on average in March. The seasonally adjusted Stocks of Finished Goods Index remained below the no-change mark of 50.0 for the eighth month running, and signalled a strong rate of depletion. Firms reported selling off old stocks and improving sales demand.

#### **Employment Index**

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



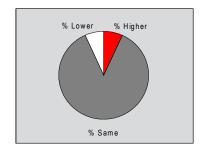


Survey data indicated a stabilisation in the Czech manufacturing workforce at the end of the first quarter. That followed a four-month period of job shedding, the first sequence of declines since that which ended in early-2010. Around 71% of survey respondents reported no change in staffing since the previous month, and the seasonally adjusted Employment Index signalled broadly no change across the sector as a whole.

#### **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.



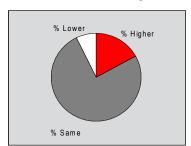


The latest findings indicated a lack of pricing power at Czech goods producers in March, despite the gain in new business across the sector. The seasonally adjusted Output Prices Index was below the neutral threshold of 50.0 for the fourth time in five months, signalling falling charges for manufactured goods on average. That said, the rate of reduction was only marginal. Anecdotal evidence portrayed widespread competition for business, which led to discounting or frozen prices at a number of goods producers.

#### Input Prices Index

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

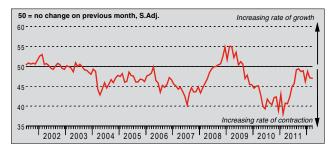




Cost pressures rose for the fifth month running in March, following last October's hiatus. That said, the seasonally adjusted Input Prices Index fell for the first time in that sequence, indicating a weaker rate of input cost inflation. The Index was also below its long-run average of 55.7 during the latest period. Where input prices rose, at 17% of survey respondents, the main contributing factors put forward were fuel and oil-related products such as plastics.

#### Suppliers' Delivery Times Index

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



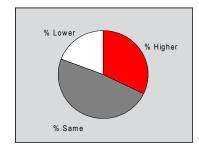


The performance of suppliers to Czech manufacturers continued to deteriorate on average in March. Average lead times lengthened for the thirty-first month in succession, at a rate little-changed from that registered in February. Some panellists specifically mentioned delays of steel deliveries due to shortages.

## Quantity of Purchases Index

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



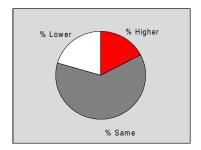


The volume of inputs purchased by manufacturers in the Czech Republic grew in March. That followed four months of continuous decline. Firms directly attributed higher purchasing activity to intakes of new work and rising production requirements. The seasonally adjusted Quantity of Purchases Index was at a level indicative of a moderate rate of growth, and was below its long-run average of 53.8.

#### Stocks of Purchases Index

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





The seasonally adjusted Stocks of Purchases Index remained well below the no-change mark of 50.0 in March, signalling falling levels of preproduction stocks on average at Czech goods producers. The rate of depletion eased from February's 26-month record, but was still relatively sharp. Input stocks have fallen across the sector for the past eight months.

#### 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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