HSBC *Purchasing Managers' Index*® 2012

compiled by markit

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

HSBC Czech Republic Manufacturing PMI®

Czech manufacturing sector stalls in April

Key findings:

- PMI eases below neutral mark of 50.0 as new orders decline
- Manufacturing production growth slows to modest pace
- Input price inflation strengthens to ten-month high

The latest HSBC *PMI*® report signalled a stagnation in business conditions in the Czech manufacturing economy at the start of the second quarter. Central to the deterioration in performance was a fall in new orders received, which led to a slight cut in staffing and slower output growth. Export demand remained subdued, while cost inflationary pressures increased.

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 fell from March's 52.1 to 49.7 in April. That signalled a marginal deterioration in overall business conditions, primarily reflecting lower new orders, employment and stocks of purchases. Moreover, it was the third-largest one-month drop in the headline index for over three years. The PMI has registered below the neutral threshold four times in the past six months.

Driving the overall weakening in the business climate in April was a fall in the volume of new work received. That followed a two-month sequence of growth, although the rate of decline in the latest period was weaker than that registered between November and January. Foreign demand remained weak, as new export orders fell for the sixth successive month.

Czech manufacturing production rose in April, despite the marginal fall in new orders. Output has risen for the past five months, though the rate of expansion was only modest in the latest period and below the survey's long-run average.

Output growth was supported by work on outstanding business. Subsequently, backlogs of work declined for the third time in 2012 so far, and at the fastest rate since July 2009.

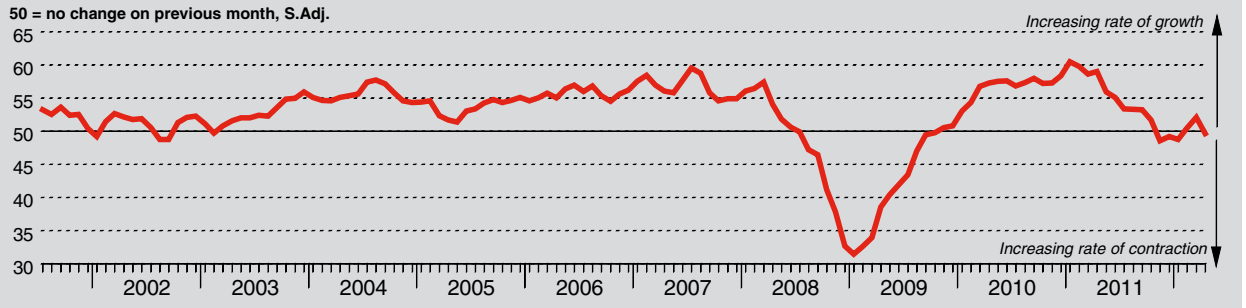
With backlogs falling and the volume of new orders also lower than one month previously, manufacturers in the Czech Republic trimmed their workforces at the start of the second quarter. It was the fifth time in the past six months that employment in the sector had contracted, though the rate of job shedding in the latest period was only marginal.

Survey data signalled little pressure on supply chains in April. The volume of inputs ordered fell slightly, and suppliers' delivery times were broadly unchanged from March. Reflecting a lack of new inputs, stocks of pre-production materials declined at one of the sharpest rates in the past two years.

Despite subdued demand, input price inflation strengthened to a ten-month high in April. Firms reported a range of items up in price compared with one month previously, including metals, plastics, wood and fuel. Input cost inflation was stronger than the long-run survey average in April.

Intense competitive pressure in the goods-producing sector resulted in a broadly flat trend in firms' output prices, in line with the trend shown over the past eight months.

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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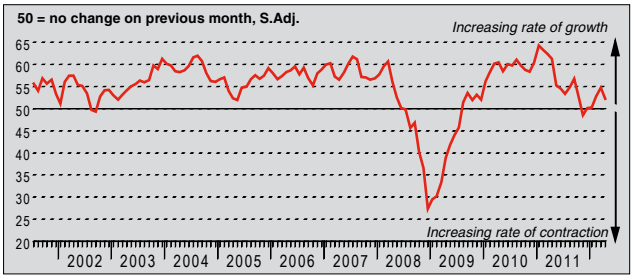
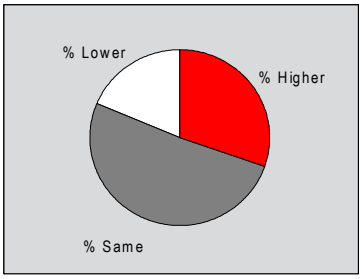
Output Index

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

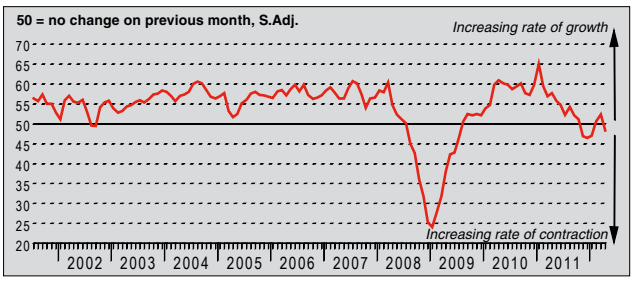


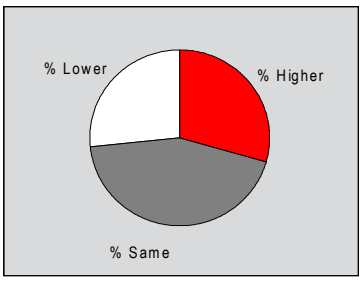


Manufacturing production in the Czech Republic rose for the fifth successive month in April. That said, the rate of growth eased from March's six-month high, to a moderate pace. The seasonally adjusted Output Index remained below its long-run average of 54.9 during the latest period, and also slightly weaker than the average for the first quarter of 2012.

New Orders Index

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

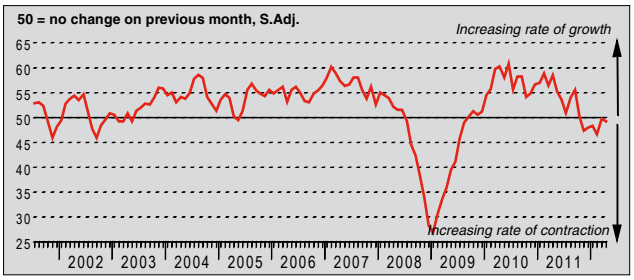


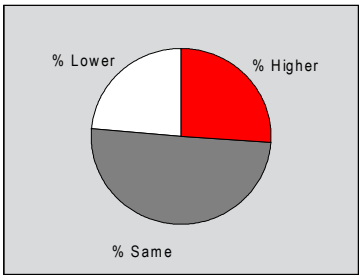


Following a two-month sequence of growth, the volume of new work received by Czech goods producers declined in April. The rate of contraction was modest, and weaker than those registered between November 2011 and January 2012. Firms reported a prevailing mood of uncertainty among clients, with weak demand in both domestic and export markets. There were specific reports of falling new business related to the automotive sector.

New Export Orders Index

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

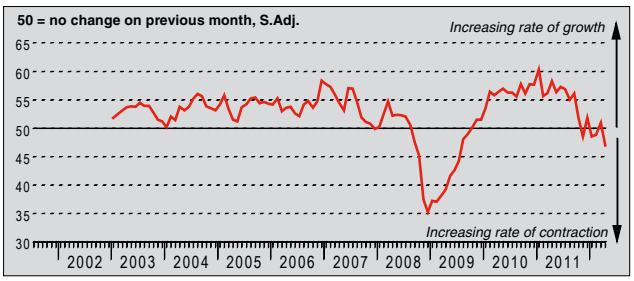


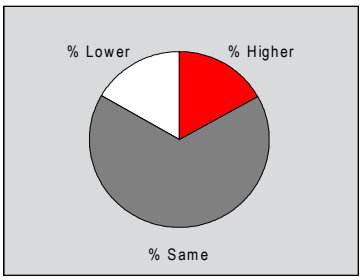


The volume of new export orders in the Czech manufacturing sector continued to fall in April. The current sequence of continuous reduction now stretches to six months. However, the seasonally adjusted New Export Orders Index remained only slightly below the no-change threshold of 50.0, indicating a marginal rate of decline.

Backlogs of Work Index

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

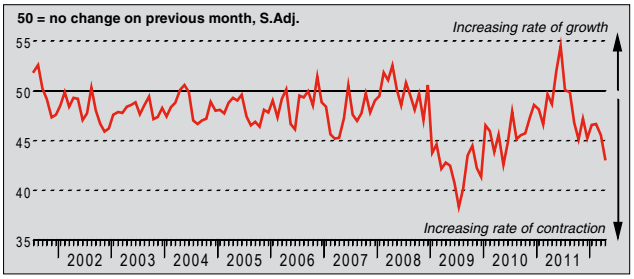


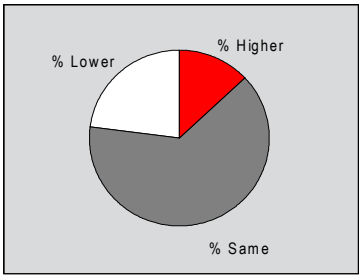


Outstanding business held at Czech manufacturers fell in April. That contrasted with a modest increase in incomplete workloads in March. The seasonally adjusted Backlogs of Work Index fell sharply on the month, and indicated the steepest rate of contraction since July 2009. Where firms reported lower backlogs than one month previously, the main reasons cited were a shortage of new orders and the swift shipping of products to clients.

Stocks of Finished Goods Index

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

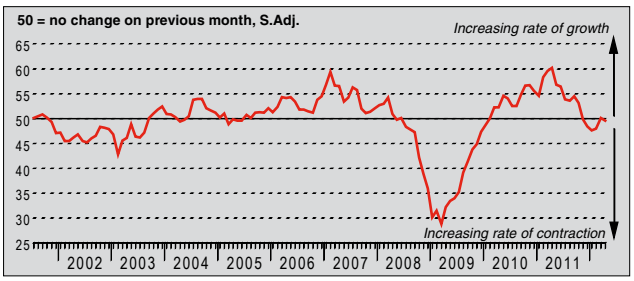


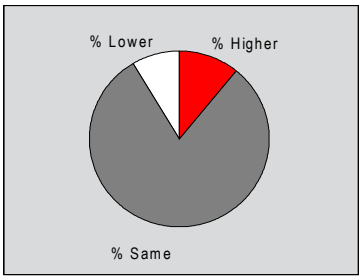


The overall level of finished goods held in stock at Czech manufacturers declined for the ninth successive month in April. Moreover, the Index fell for the second successive survey, to a level that signalled the fastest rate of reduction since May 2010. It was also the tenth-lowest figure in the survey history, stretching back to July 2001. A number of firms reported selling off stocks to improve cash flow, and adopting order-only production strategies.

Employment Index

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

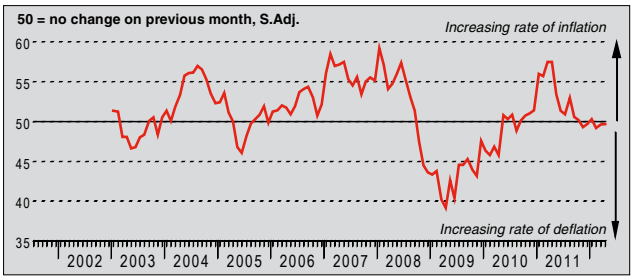


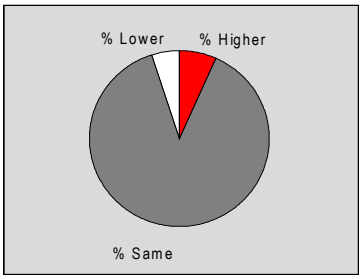


April survey data signalled a marginal reduction in the Czech manufacturing workforce, after adjusting for seasonal factors. Net job shedding in the sector has been registered five times in the past six months, following a 20-month sequence of uninterrupted hiring growth. Some firms noted that leavers had not been replaced in the latest period, and efforts to control costs in light of lower production requirements were also mentioned.

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.

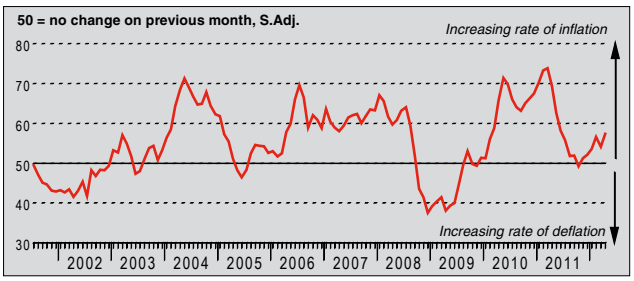


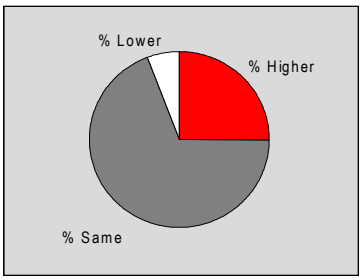


Survey data continued to signal a broadly flat trend in output prices in the Czech goods-producing sector at the start of the second quarter. The seasonally adjusted Output Prices Index remained close to the no-change mark of 50.0, as has been the case for the past eight months. The Index was just below 50.0 in April, indicating a fractional reduction in factory gate prices. Firms generally commented that competitive pressures remained intense, severely restricting their ability to raise output prices.

Input Prices Index

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

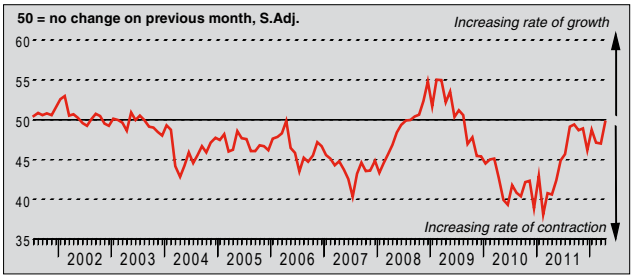


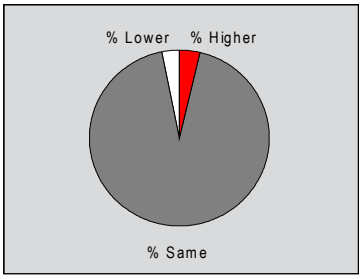


The rate at which manufacturers' input prices increased accelerated in April. The seasonally adjusted Input Prices Index rose on the month, to signal the fastest rate of input cost inflation since June 2011. The Index was also above its long-run average of 55.7. Firms reported a wide range of inputs up in price during the month, including metals, wood, plastics and fuel.

Suppliers' Delivery Times Index

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

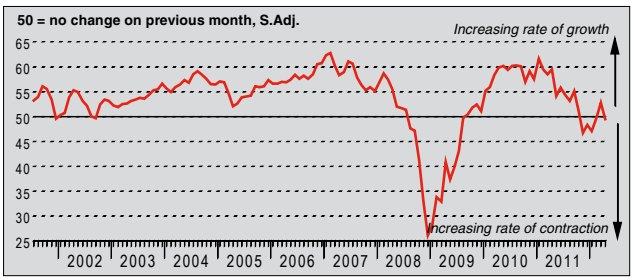


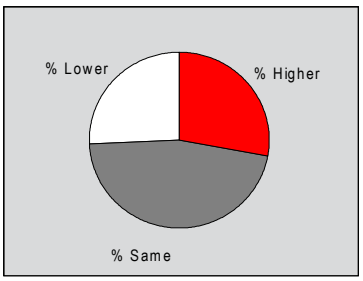


Vendor performance was broadly unchanged from one month previously in April, reflecting stagnant demand for new inputs. The seasonally adjusted Suppliers' Delivery Times Index was close to the no-change mark of 50.0, signalling that average lead times for inputs were little-changed from March. The vast majority of survey respondents reported that delivery times were unmoved.

Quantity of Purchases Index

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

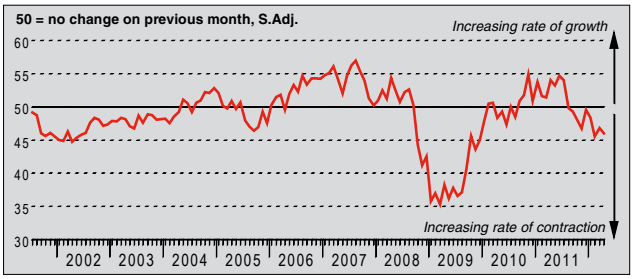


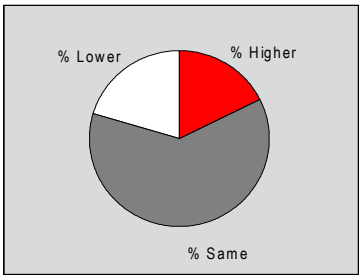


The seasonally adjusted Quantity of Purchases Index slipped back below the neutral level of 50.0 in April, signalling a fall in the volume of inputs purchased by Czech goods producers. That followed the first expansion in five months in March. That said, the rate of contraction in the latest period was only marginal. Anecdotal evidence mainly linked falling input volumes to weak inflows of new business.

Stocks of Purchases Index

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





The overall level of pre-production stocks at Czech manufacturers declined for the ninth successive month in April. Moreover, the rate of contraction accelerated on the month, and was the second-fastest in over two years. Firms linked declining stock levels to lower current and expected production requirements.

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.

Warning