

HSBC Czech Republic Manufacturing PMI®

Czech manufacturing new orders fall sharply in May

Key findings:

- Lower new business leads to cut in employment and stagnant output
- Manufacturing PMI sinks to 33-month low
- Input price inflation little-changed from April's ten-month high

The latest HSBC PMI® report signalled an outright deterioration in business conditions in the Czech manufacturing economy in May, continuing the weak trend so far in the second quarter. New orders fell at the fastest pace in almost three years, while output stalled and firms shed jobs on average. Inflation of firms' input prices remained strong, although competitive pressures generated another round of price discounting for final goods.

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 was firmly in contraction territory in May, registering 47.6, down from 49.7 the previous month. That signalled a deterioration in overall business conditions. Of the five components of the headline index, four registered negative influences, while suppliers' delivery times was neutral. The PMI has registered below the neutral threshold five times in the past seven months, and the latest figure pointed to the greatest overall worsening in business conditions in the goods-producing sector since August 2009.

Manufacturing new orders declined for the second month running in May. Furthermore, the rate of contraction accelerated sharply, to the fastest since June 2009. Survey data and anecdotal evidence suggested weak demand from both domestic and

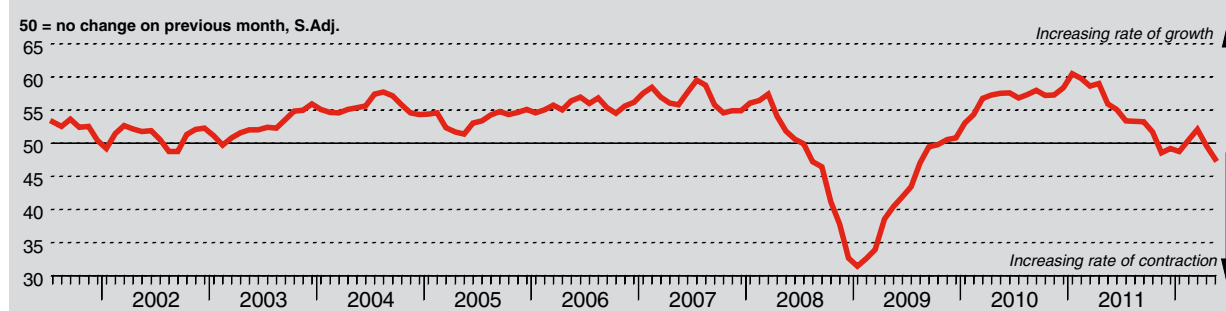
external markets, linked to the crisis in Western European economies. New export business fell for the seventh successive month, and at the fastest rate since July 2009.

The back-to-back drop in new business led to a stagnation in output in May. Survey data indicated that the level of output was fractionally lower than one month previously, ending a five-month sequence of moderate expansion. The fall in production would have been greater had firms not made further inroads into backlogs, which declined overall for the second month running.

Reduced output requirements resulting from lower new orders led to cuts to both workforces and purchasing volumes in May. Manufacturing employment in the Czech Republic has fallen six times in the past seven months, and the rate of job shedding accelerated slightly in the latest period. The trend for purchasing activity followed the same pattern, registering a sixth decline in seven months and a faster reduction in May. This alleviated pressure on supply chains, and vendor delivery times were unchanged from April on average.

Input price inflation remained strong in May, and sharper than the survey's historic average. The rate of inflation was little-changed from April's ten-month high, and linked by firms to higher prices for fuel, energy and raw materials such as foodstuffs, metals, paper, plastics and other oil-based items. But competitive pressure in the sector prevented firms from increasing their own prices for final goods, which declined slightly for the fourth month running.

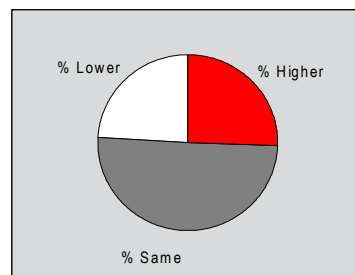
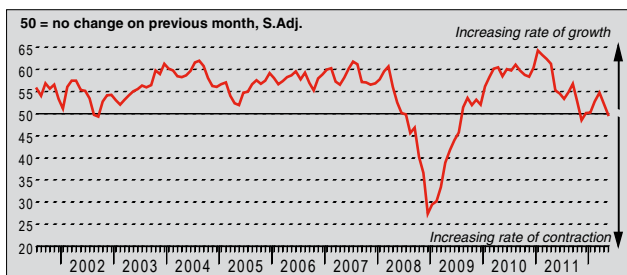
HSBC Czech Republic Purchasing Managers' Index® (PMI®)



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.

Output Index

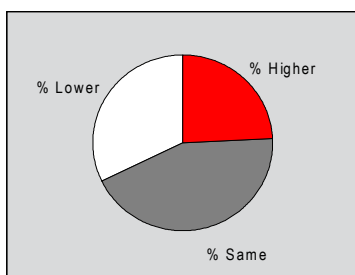
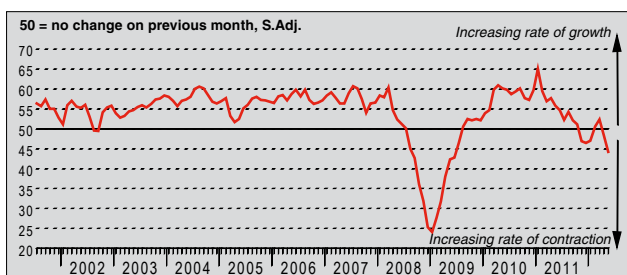
Q. Please compare your production/output this month with the situation one month ago.



Czech manufacturing output was broadly flat in May, registering no growth for the first time since last November. The seasonally adjusted Output Index edged just below the no-change mark of 50.0, indicating a negligible decline. Almost one-quarter of firms reported lower production compared with one month previously, mainly linked to declining new orders.

New Orders Index

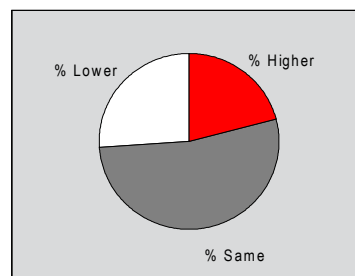
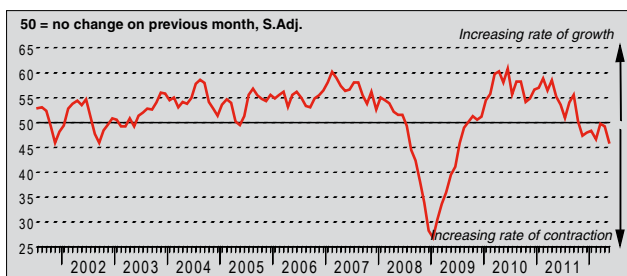
Q. Please compare the level of new orders received this month with the situation one month ago.



The seasonally adjusted New Orders Index fell sharply for the second month in a row in May. The latest figure was well below neutrality and signalled a marked decline in new business received by Czech goods producers. The rate of contraction was the fastest in almost three years, with around 32% of respondents stating declines. Firms reported poor market conditions in European export markets and also weak domestic demand.

New Export Orders Index

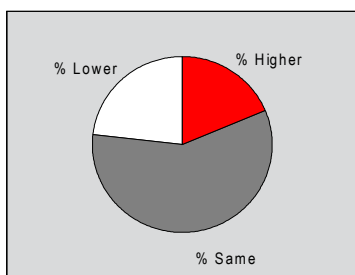
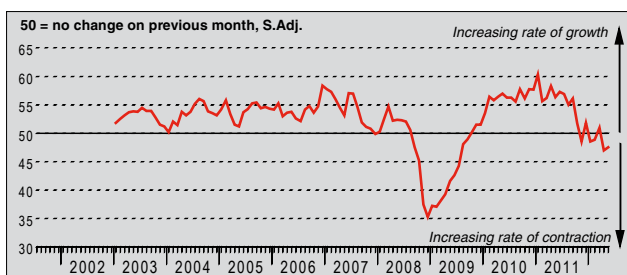
Q. Please compare the level of new export orders received this month with the situation of one month ago.



New export business received by manufacturers in the Czech Republic declined for the seventh successive month in May. Moreover, the rate of contraction accelerated to the fastest since July 2009. The seasonally adjusted New Export Orders Index was well below its long-run average of 52.1. Anecdotal evidence linked lower new export orders to weak demand in Western Europe, notably Germany, and also the US and UK.

Backlogs of Work Index

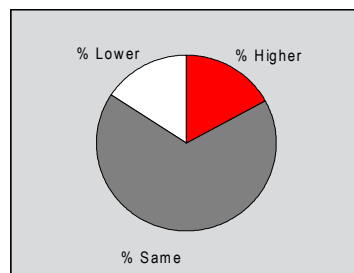
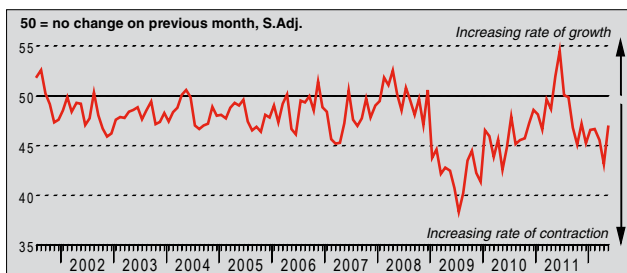
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



A lack of incoming new work led to a further decline in backlogs in the Czech manufacturing sector in May. Incomplete workloads have contracted five times in the past seven months. The seasonally adjusted Backlogs of Work Index rose slightly since April, indicating a moderate rate of reduction. Firms reported the completion and shipping of orders, and using up stocks.

Stocks of Finished Goods Index

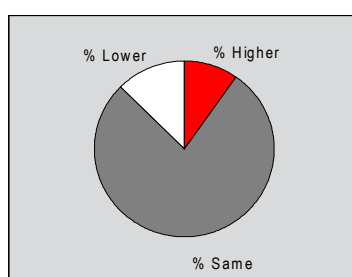
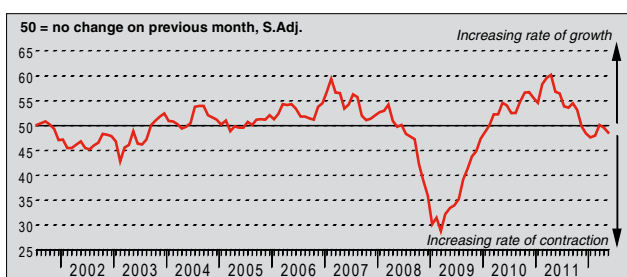
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



The seasonally adjusted Stocks of Finished Goods Index remained below the no-change mark of 50.0 for the tenth successive month in May, signalling an overall reduction in final goods inventories at Czech manufacturers. A number of companies reported deliberate efforts to clear out stocks during the month. That said, the overall rate of contraction eased sharply from April's 23-month record, to the weakest since last November.

Employment Index

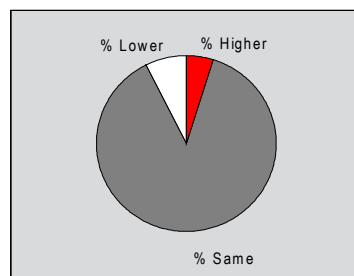
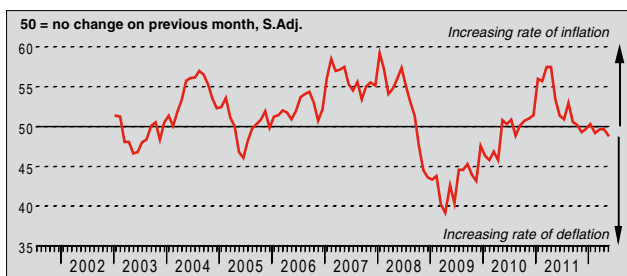
Q. Please compare the level of employment at your unit with the situation one month ago.



Czech goods producers cut workforces on average in May. Except for a broad stabilisation in March, employment in the sector has fallen every month since last November. The seasonally adjusted Employment Index fell since April, but only signalled a modest rate of decline. Lower headcounts reflected a shortage of work, with firms reporting that they were not recruiting in the current climate or were cutting hours.

Output Prices Index

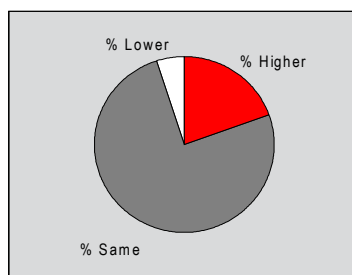
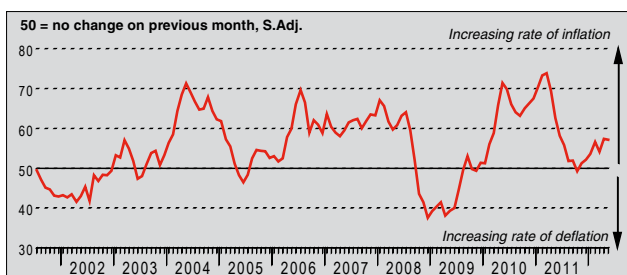
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Czech manufacturers continued to trim their output prices in May, in an attempt to boost sales. The average price charged for final manufactured products fell slightly for the fourth month running. Though marginal, the rate of reduction in May was the fastest seen over this sequence. Anecdotal evidence attributed discounting to competitive pressures and a general climate of weakening demand.

Input Prices Index

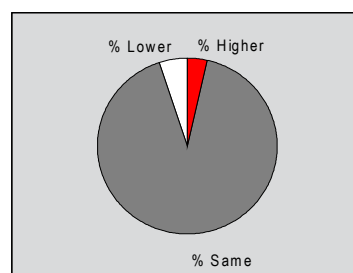
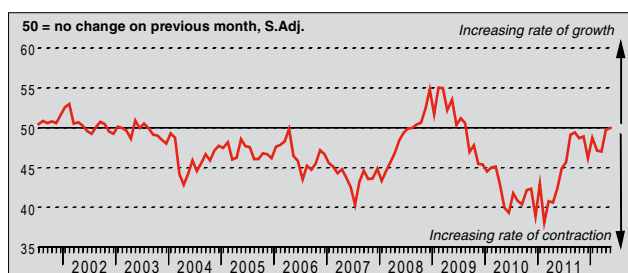
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Cost pressures facing Czech manufacturers remained strong in May. The seasonally adjusted Input Prices Index signalled rising average input costs for the seventh successive month, and remained above its long-run average of 55.7. Moreover, the Index was little-changed from April's ten-month high. Firms reported a wide range of inputs as up in price since one month previously, including fuel, energy and raw materials such as foodstuffs, metals, paper, plastics and other oil-based items.

Suppliers' Delivery Times Index

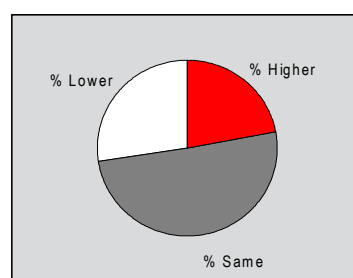
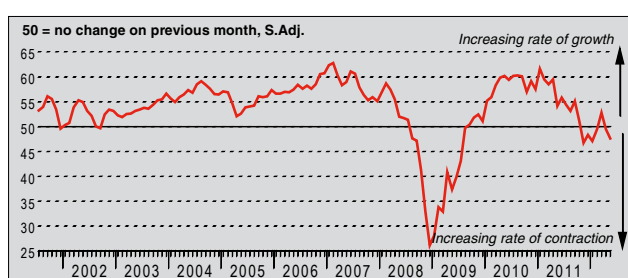
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Supplier performance in the Czech manufacturing sector was unchanged from one month previously. The seasonally adjusted Suppliers' Delivery Times Index equalled the no-change mark, following a 32-month period of sub-50 readings. Reflecting this, more than 91% of survey respondents reported that vendor delivery times were unchanged from one month previously.

Quantity of Purchases Index

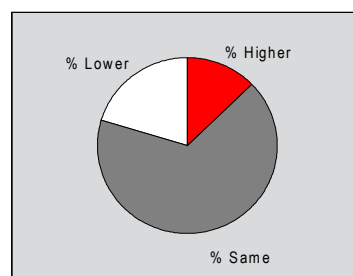
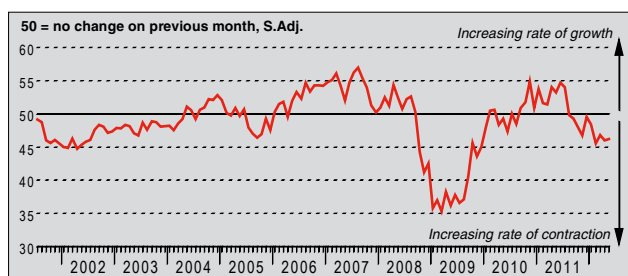
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Purchasing activity in the Czech manufacturing sector declined for the sixth time in seven months in May. The seasonally adjusted Quantity of Purchases Index fell further below neutrality, signalling the fastest rate of contraction since January. Firms mainly reported that lower purchasing resulted from reduced production requirements.

Stocks of Purchases Index

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



The current sequence of destocking of inputs in the Czech manufacturing sector was extended to a tenth successive month in May. The rate of contraction remained strong, and steeper than the survey's historic average. Firms linked inventory clearance to lower output requirements and anticipations of future reductions in purchase prices.

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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