HSBC *Purchasing Managers' Index*® 2012

compiled by markit

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

HSBC Czech Republic Manufacturing PMI®

Czech manufacturing output flat in June

Key findings:

- Production broadly unchanged on the month, as new orders decline at much slower pace
- Manufacturing PMI below 50.0 for third successive month
- Employment rises at modest pace

The latest HSBC *PMI*® report signalled a further overall deterioration in business conditions across the Czech manufacturing economy in June, but a slightly improved situation compared with May. New orders fell at a much slower rate, while production was broadly unchanged and firms expanded workforces having cut staff the previous month. Price pressures continued to fade, as input price inflation slowed to near-stagnation and firms cut their output charges at the fastest pace since April 2010.

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 in contraction territory in June, posting 49.4. That signalled a deterioration in overall business conditions for the third month running. Over the second quarter as a whole the PMI averaged 48.9, the worst quarterly average since Q3 2009 (46.7). That said, the PMI rose from May's 33-month low of 47.6.

Of the five components of the headline index, two registered negative influences – namely new orders and stocks of purchases – while suppliers' delivery times and output were broadly neutral and employment was positive.

Manufacturing new orders declined in June, rounding off contraction throughout the second quarter. But the rate of decline slowed sharply since May to a modest pace.

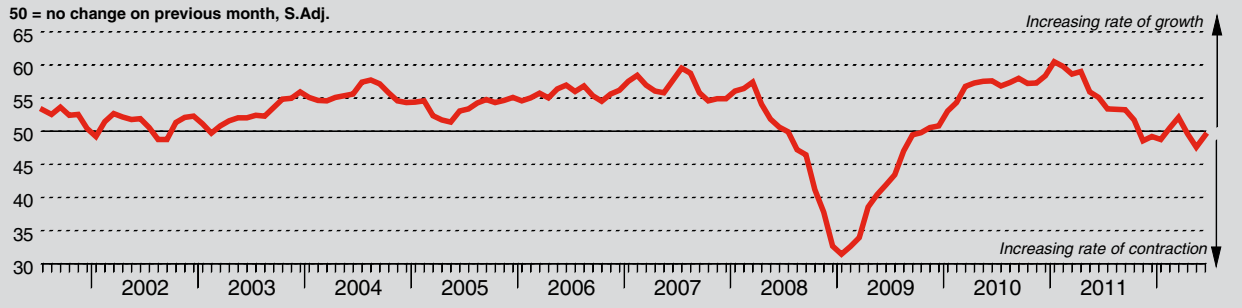
Linked to the ongoing crisis and uncertainty in Western European markets, new export business in the Czech manufacturing sector fell for the eighth month running in June. The rate of decline eased, but the current sequence is the second-longest in the survey history.

A lack of incoming new work resulted in broadly no change in output in June. An outright contraction in production was avoided through the completion of backlogs, which declined for the sixth time in the past eight months.

The main positive from the latest survey was an increase in employment, following job shedding in the previous two months. Meanwhile, purchasing volumes were flat and stocks of inputs fell at a robust pace. Consequently, suppliers' delivery times were broadly unchanged over the month.

Inflationary pressures continued to wane in the goods-producing sector. Average input prices rose only marginally as the rate of inflation slowed sharply since May, linked to lower prices for metals and construction-related raw materials. Reflecting competitive pressure in a weak demand environment, firms cut their factory gate prices for the fifth month running, and at the fastest rate since April 2010.

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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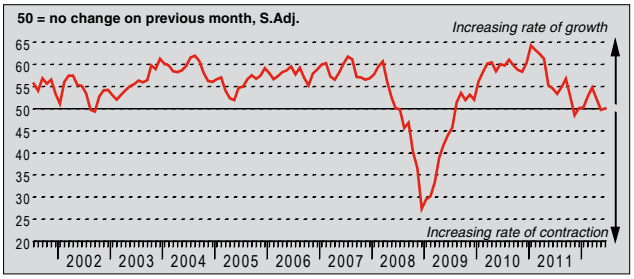
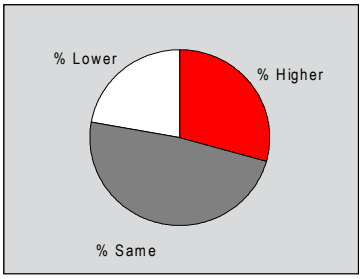
Output Index

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

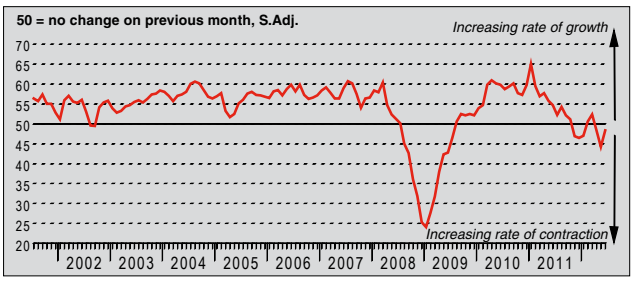


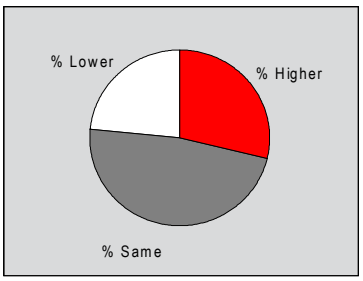


The seasonally adjusted Output Index was broadly indicative of no change in production in the Czech manufacturing sector in June, in line with the trend shown the previous month. Output rose only marginally over the second quarter as a whole and at a similar pace as that registered in Q4 2011 (which was the weakest quarter since Q3 2009). The stagnant trend in production mainly reflected a lack of incoming new work in the sector.

New Orders Index

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

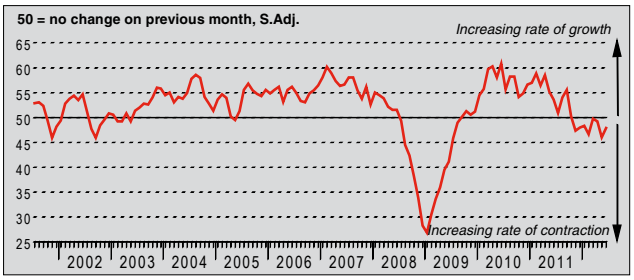


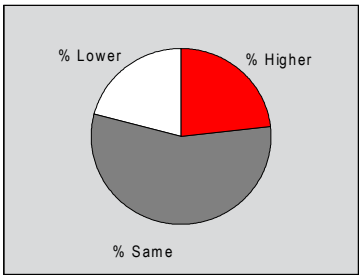


The volume of new orders received by Czech goods producers fell for the third month in succession in June. New business has contracted six times in the past eight months. The rate of decline slowed from May's near three-year record, however, as signalled by a rise in the seasonally adjusted New Orders Index. Firms linked lower new order volumes to widespread economic uncertainty and weak demand from Western European markets in particular.

New Export Orders Index

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

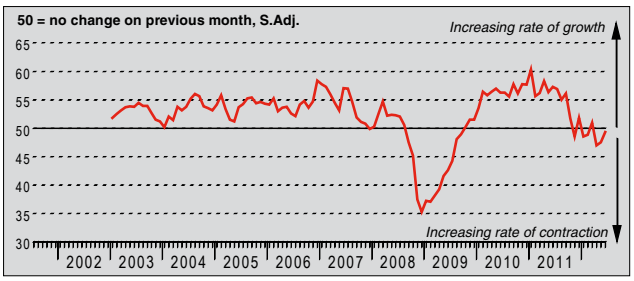


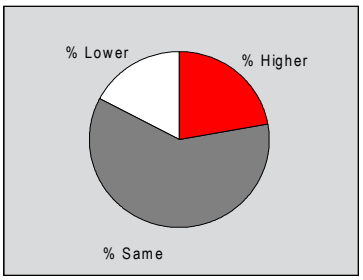


Remaining below the no-change mark of 50.0, the seasonally adjusted New Export Orders Index signalled a decline in foreign demand for Czech manufactured goods at the end of the second quarter. The current sequence of contraction now stretches to eight months. The rate of decline eased in June, to a pace that matched the average over this period. Firms reported weaker demand from Germany, Austria and other Western European markets.

Backlogs of Work Index

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





Survey data indicated a minor fall in backlogs in June. Outstanding workloads have declined six times in the past eight months, but the rate of contraction in June was the slowest over this period. Of the 17% of survey respondents that reported declining backlogs, the main reason given was falling new orders.

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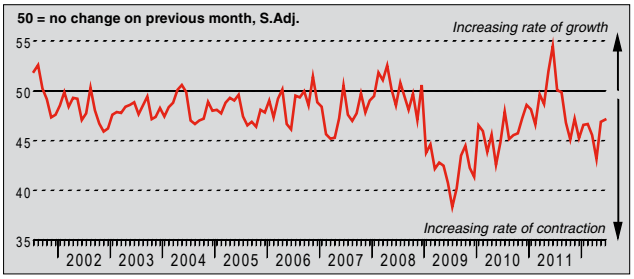
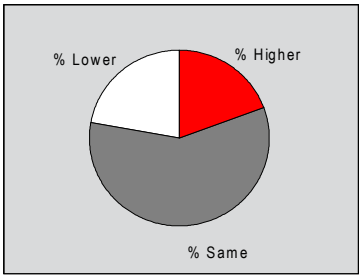
Stocks of Finished Goods Index

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

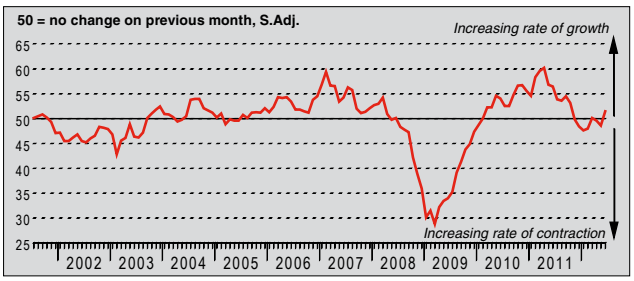


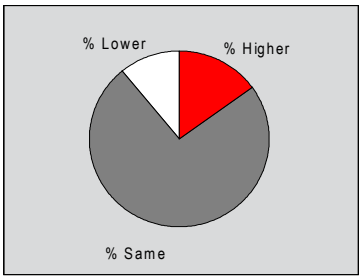


The overall level of final goods held in manufacturers' warehouses declined in June. The current sequence of inventory depletion now stretches to 11 months. That said, the seasonally adjusted Stocks of Finished Goods Index rose on the month, and signalled the weakest rate of contraction since last November. The Index was slightly below its long-run average of 47.6. Firms reported selling off stocks to raise cash and cut overheads, faster shipment of goods to clients and lean production strategies.

Employment Index

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

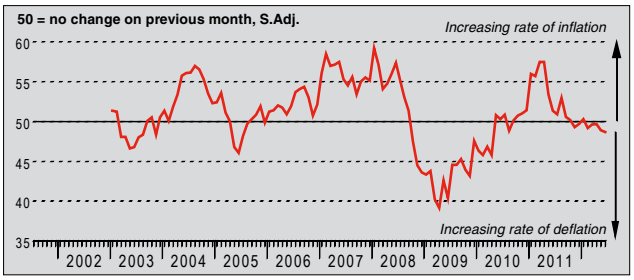


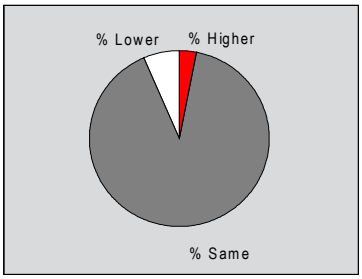


Despite the flat trend in output and falling new orders, Czech manufacturers expanded their workforces on average in June. That followed two months of job shedding in the sector. The rate of job creation was stronger than that seen in March, but weaker than the trend shown from March 2010 through to October 2011. Some firms linked recruitment to expected business in the coming months, and the adoption of new technology.

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.

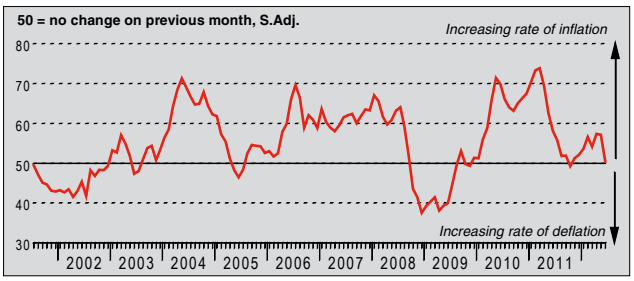


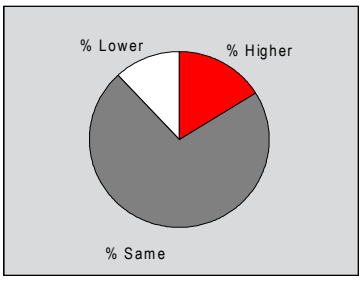


Factory gate prices in the Czech Republic fell for the fifth month in succession in June. The seasonally adjusted Output Prices Index signalled only a modest rate of reduction, but was nevertheless at its lowest level since April 2010. The vast majority of companies reported holding prices constant over the month, reflecting competitive pressures in the goods-producing sector.

Input Prices Index

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

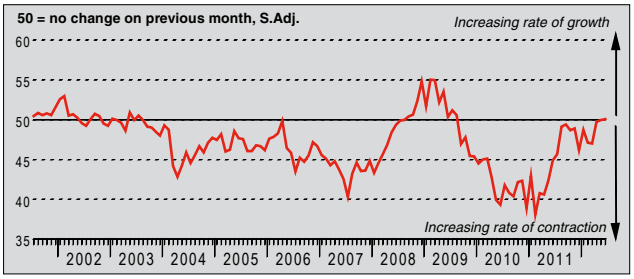


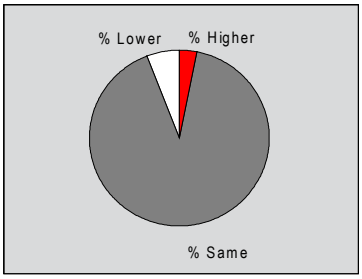


June data indicated a near-stagnation in cost pressures facing Czech manufacturers. The seasonally adjusted Input Prices Index posted its steepest month-on-month fall in 13 months, to a level indicative of only a marginal rise in average input costs. The Index was at its second-lowest level of the past two-and-a-half years. Firms reported a range of raw materials as having fallen in price, including metals and construction materials, and also successful negotiations with suppliers.

Suppliers' Delivery Times Index

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

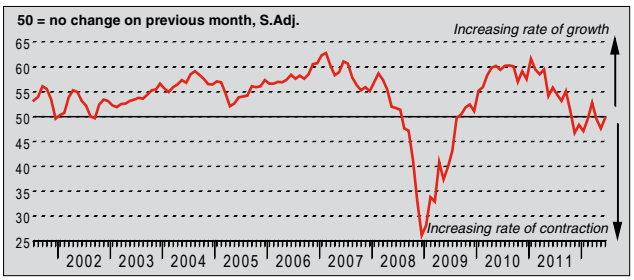


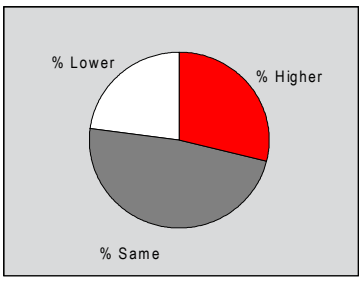


Supplier performance in June was broadly unchanged from that registered one month previously. This was in line with the overall trend shown throughout the second quarter. Prior to this period, suppliers' delivery times had lengthened every month since September 2009. Anecdotal evidence highlighted a general lack of pressure on vendor capacity resulting from lacklustre demand.

Quantity of Purchases Index

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

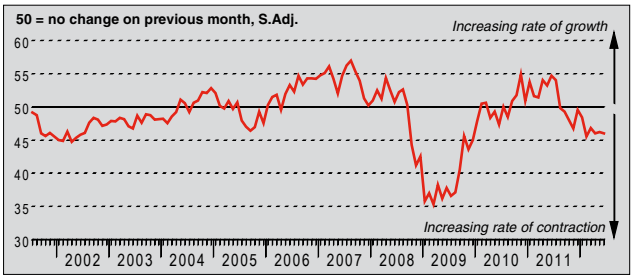


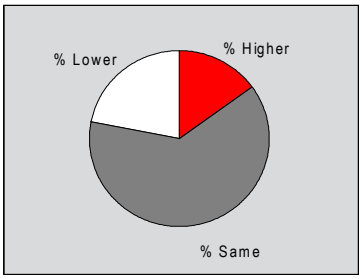


The volume of inputs purchased by Czech manufacturers was little-changed in June, as the seasonally adjusted Quantity of Purchases Index registered close to the neutral threshold of 50.0. This represented a stabilisation following May's contraction, which was the fastest in four months. Input volumes have risen only once in the past eight months. Where purchasing fell, firms linked this to declining new orders and production.

Stocks of Purchases Index

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





Czech goods producers' input inventories declined at a rate close to February's 26-month record in June. The seasonally adjusted Stocks of Purchases Index registered below the no-change mark of 50.0 for the eleventh month in succession, and remained below its long-run trend level of 48.9. Firms mainly linked lower stocks to reduced workloads.

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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