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HSBC Czech Republic Manufacturing PMI®

Czech manufacturing business conditions deteriorate further

Key findings:

- Manufacturing PMI below neutrality for fourth successive month
- · Production remains flat
- Employment rises at modest pace but new orders continue to decline

The latest HSBC *PMI*° report signalled an ongoing mild downturn in the Czech manufacturing economy at the start of the third quarter. New orders and purchases of inputs by manufacturers both fell for the fourth successive month, while output remained stagnant. Inflationary pressures continued to ease, as input prices fell for the first time since last October and prices charged by goods producers declined for the sixth month running.

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 below the no-change mark of 50.0 in July, continuing the pattern seen since April. The deterioration in overall business conditions signalled by the headline figure remained modest, however, as the PMI was little-changed at 49.5 from June's 49.4.

Of the five components of the headline index, only two registered negative influences — new orders and stocks of purchases. Output was neutral, while suppliers' delivery times and employment both provided positive contributions.

Manufacturing new orders declined for the fourth successive month in July. The rate of contraction remained only modest,

however, having slowed sharply in June from May's 35-month record. The current sequence of decline is the second-longest in the 11-year survey history.

New export business received in the Czech manufacturing sector fell for the ninth month running in July, the second-longest sequence in the survey history. The rate of decline was unchanged from June, and matched the average over the current sequence of reduction.

The ongoing downturn in new business resulted in another flat trend in production in July. Manufacturing output has been largely unchanged for the past three months, following a five-month sequence of modest expansion. Reflecting the lack of pressure on capacity, backlogs fell at the strongest rate in three years in July.

Manufacturers cut their purchases of inputs for the fourth successive month in July, albeit at a mild rate. Despite this, suppliers' delivery times lengthened for the first time in three months. Meanwhile, employment in the sector rose for the second month running, but only marginally.

Manufacturers' average input prices fell in July, reflecting lower raw material costs such as steel and oil-related items. The rate of reduction was only marginal, but the first registered since last October. Meanwhile, output prices fell for the sixth month running, and at the fastest rate since April 2010.



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.

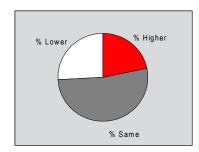




Output Index

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

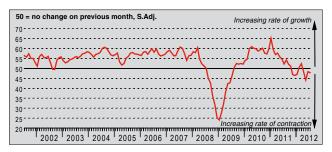


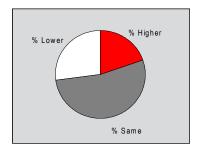


The seasonally adjusted Output Index equalled the no-change mark of 50.0 in July, signalling no change in Czech manufacturing production compared with June. That followed a similar pattern observed during the previous two months. The absence of output growth in the sector again primarily reflected weak new order inflows.

New Orders Index

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

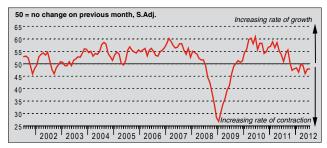


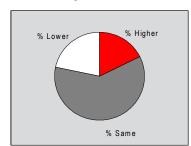


The volume of new orders received by Czech manufacturers declined for the fourth successive month in July. The seasonally adjusted New Orders Index was below 50.0 for the seventh time in the past nine months, although the latest figure signalled only a modest rate of reduction. Firms linked lower new business to weak underlying demand, with a number of companies commenting that contracts had been postponed.

New Export Orders Index

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



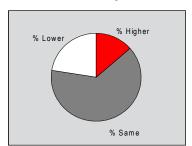


New export business declined in July at a rate unchanged from that registered the previous month. The current period of continuous contraction now stretches to nine months, and the rate of decline signalled in the latest period matched the average over that sequence. Czech manufacturers reported weak international demand generally, and delayed investments by some clients.

Backlogs of Work Index

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

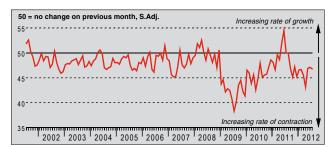


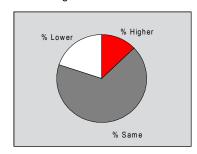


Spare capacity remained evident in the Czech goods-producing sector in July. Backlogs of work declined for the fourth month in succession, and at the fastest rate in three years. The seasonally adjusted Backlogs of Work Index has registered below the no-change mark of 50.0 seven times in the past nine months. A number of firms reported the completion of large contracts during the month, and a lack of incoming new work.

Stocks of Finished Goods Index

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





Inventories of final goods held in the Czech manufacturing sector declined for the twelfth month in succession in July. The rate of reduction was slightly weaker than the average seen over that sequence, however. Firms linked lower inventory holdings to the swift shipping of goods to clients, and the completion of orders.

Employment Index

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



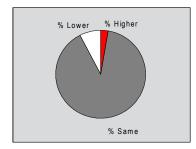


Manufacturing employment in the Czech Republic rose for the second consecutive month in July. The rate of job creation eased to a marginal pace, however, as the seasonally adjusted Employment Index fell from June's eight-month high. Around 10% of survey respondents reported raising headcounts, linked to expectations of higher output requirements in the coming months.

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.



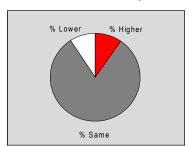


Prices levied for Czech manufactured goods declined for the sixth successive month in July. Moreover, the seasonally adjusted Output Prices Index fell on the month, and indicated the fastest rate of reduction since April 2010. Firms linked lower charges to subdued market demand, and also to recent falls in raw material prices.

Input Prices Index

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

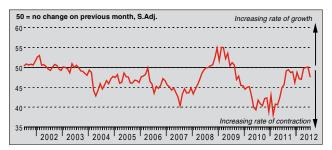


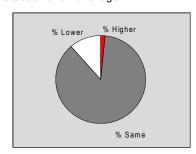


Average input prices paid by Czech goods producers fell in July. The seasonally adjusted Input Prices Index moved below the neutral threshold of 50.0 for the first time since last October, and only the second time in the past 32 months. Firms highlighted lower prices for steel and oil-related inputs. That said, the rate of reduction in average input prices was only marginal.

Suppliers' Delivery Times Index

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



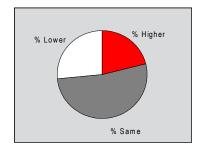


Suppliers' delivery times lengthened to the greatest extent in four months in July. That followed broadly no change in vendor performance during the second quarter. That said, the seasonally adjusted Suppliers' Delivery Times Index remained above its long-run trend level of 47.2 during the month.

Quantity of Purchases Index

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

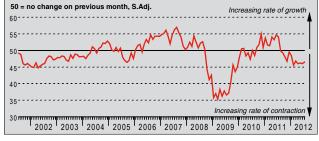


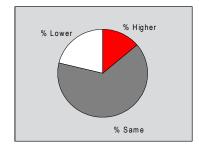


Demand for raw materials and semi-manufactured inputs in the Czech goods-producing sector continued to decline in July. The current sequence of reduction now stretches to four months. The rate of decline accelerated slightly since June, but remained modest overall. Firms linked lower purchasing activity to falling new orders and production requirements.

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 below the no-change mark of 50.0 in July, signalling lower average input inventories at Czech manufacturers for the twelfth successive month. The rate of decline eased slightly since June, but remained solid overall. Firms attributed lower warehouse stocks to subdued market conditions, and efforts to control costs.

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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