

# HSBC Czech Republic Manufacturing PMI®

Downturn in Czech manufacturing business conditions stretches to fifth month

**Key findings:**

- Manufacturing PMI falls from 49.5 to 48.7, signalling steeper deterioration in business climate
- New export orders decline for tenth month running
- Input prices rebound from July's fall

The downturn in the Czech manufacturing economy persisted through August, according to the latest HSBC PMI® data compiled by Markit. New business fell at a sharper rate, leading to a renewed decline in production and lower input purchases. Firms also cut workforces and lowered their charges. Compounding the difficult business environment was a resurgence of cost inflationary pressures during the month.

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 August, extending the current sequence of sub-50.0 readings to five months. Moreover, the deterioration in overall business conditions signalled by the headline figure worsened slightly since July, as the PMI fell from 49.5 to 48.7.

Four of the PMI's five component indexes contributed to the decline in the headline index in August, the exception being suppliers' delivery times. The biggest overall negative influence came from employment.

Manufacturing output in the Czech Republic registered an outright contraction in August, having been broadly flat during the previous two months. The overall rate of decline was modest,

however, as firms continued to support production through the completion of outstanding business. Backlogs of work fell for the fifth successive month as a result.

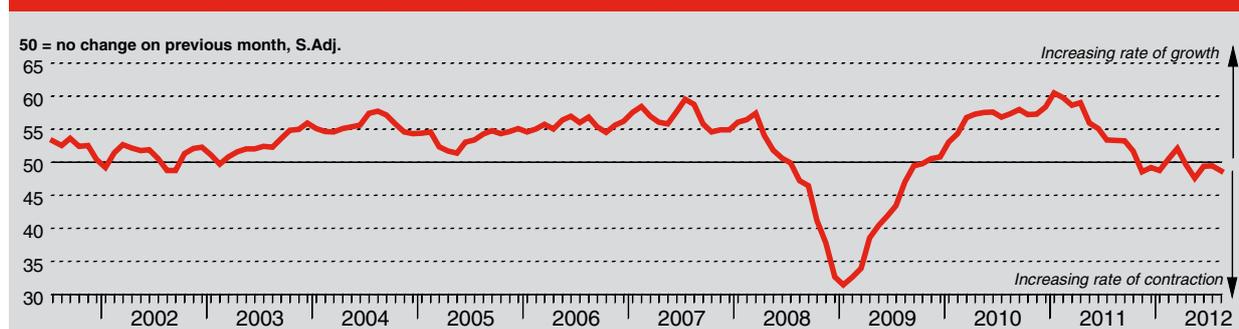
Central to the overall worsening in business conditions facing Czech manufacturers was a fall in the volume of new orders. Contraction has been registered for five months in a row, and the latest decline was the strongest since May. Moreover, new export business has declined every month since last November. There was specific mention of weak auto-related demand during the month.

Czech manufacturing employment fell in August, ending a two-month run of job creation. Firms also cut back on purchases of new inputs, the volume of which declined for the fifth consecutive month and at the fastest rate since last November. Despite falling demand for inputs, suppliers' delivery times lengthened during the month.

Goods producers cut their output prices for the seventh month in a row in August, reflecting tough trading conditions. Moreover, the rate of discounting accelerated to the fastest since April 2010.

Average input prices paid by manufacturers rose in August, having declined marginally the previous month. Some firms linked greater cost pressures to oil prices, though the overall rate of input price inflation remained weak in the context of historic survey data.

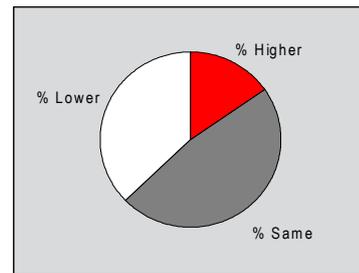
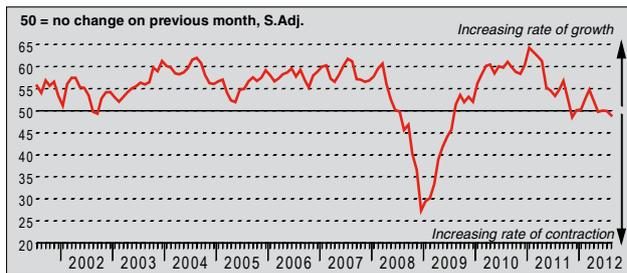
HSBC Czech Republic Purchasing Managers' Index® (PMI®)



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 trademarks of Markit Economics Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trademarks of Markit Group Limited.

## Output Index

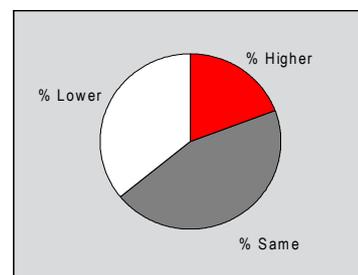
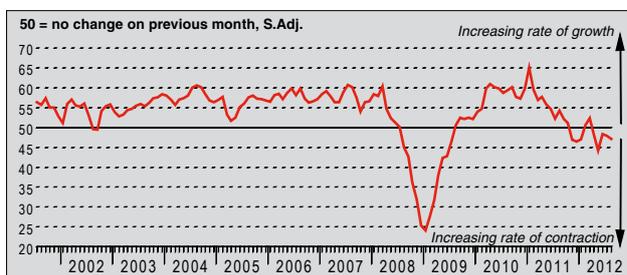
Q. Please compare your production/output this month with the situation one month ago.



Manufacturing output in the Czech Republic fell for the first time in three months in August. Adjusted for seasonal factors, the Output Index declined to its lowest level since last November, but still signalled only a modest rate of contraction. Anecdotal evidence linked lower production to weakening underlying demand.

## New Orders Index

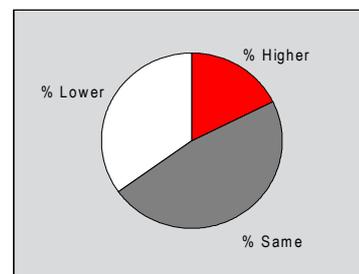
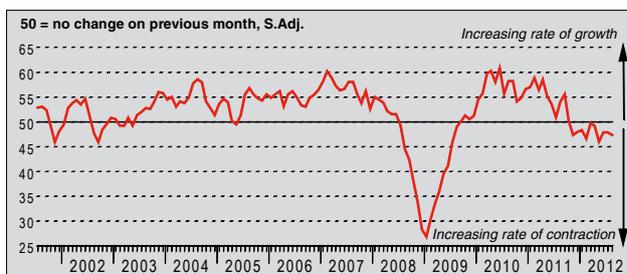
Q. Please compare the level of new orders received this month with the situation one month ago.



The volume of new business received by Czech goods producers fell at a faster pace in August. The current sequence of contraction now stretches to five months, and the rate of depletion in the latest month was the second-fastest over that period. Firms reported difficulty in closing deals in the tough economic climate, and also weak demand specifically related to the auto sector.

## New Export Orders Index

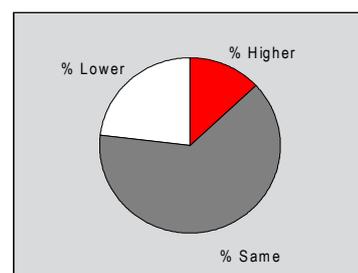
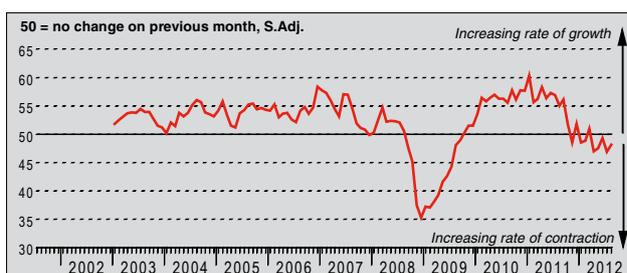
Q. Please compare the level of new export orders received this month with the situation of one month ago.



New work received from export markets continued to decline in August. The seasonally adjusted New Export Orders Index has remained below the neutral threshold of 50.0 since November 2011. Moreover, the rate of decline accelerated slightly to the fastest since May. Firms reported fewer new projects and notably weak demand from the auto sector.

## Backlogs of Work Index

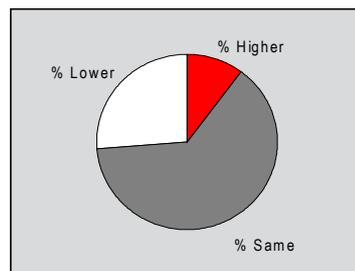
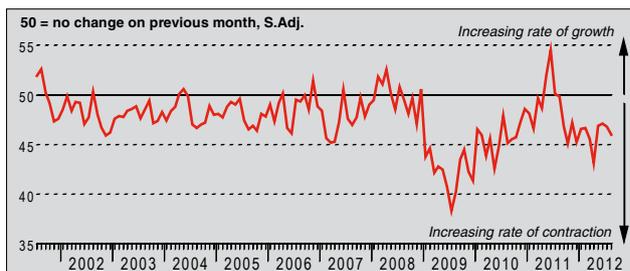
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work in the Czech goods-producing sector fell for the fifth consecutive month in August. Moreover, the seasonally adjusted Backlogs of Work Index was below 50.0 for the eighth time in the past ten months. Firms mainly linked lower levels of work outstanding to weak order inflows. That said, the rate of decline in backlogs slowed since July.

### Stocks of Finished Goods Index

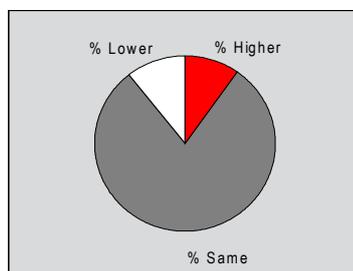
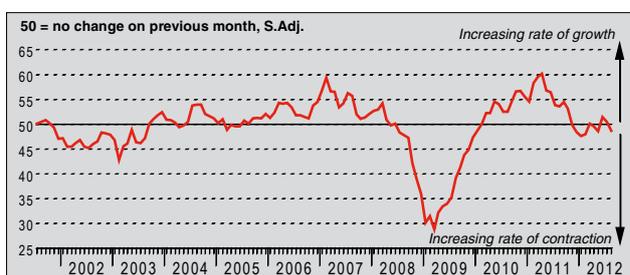
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



The level of finished goods held in stock at Czech manufacturers declined mid-way through the third quarter, continuing the trend shown since August 2011. Moreover, the seasonally adjusted Stocks of Finished Goods Index fell on the month, signalling the fastest rate of contraction since April. Firms mainly linked lower warehouse stocks to reduced production volumes. The Index remained below its long-run average of 47.6.

### Employment Index

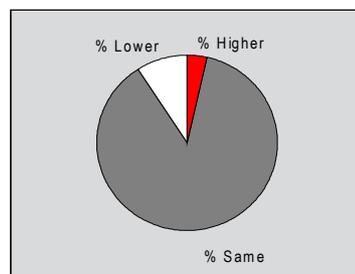
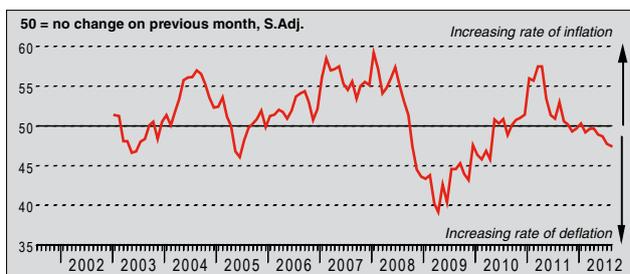
Q. Please compare the level of employment at your unit with the situation one month ago.



Manufacturers in the Czech Republic shed staff in August, following a two-month period of job creation. The rate of reduction in the latest period was modest, but slightly sharper than the average over 2012 to date. The overall loss of staff across the sector reflected insufficient workloads. Employment in the sector has risen only three times in the past ten months.

### Output Prices Index

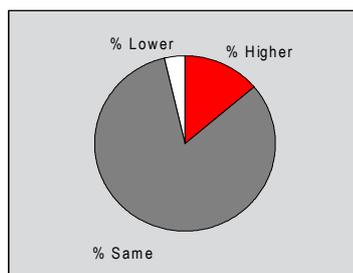
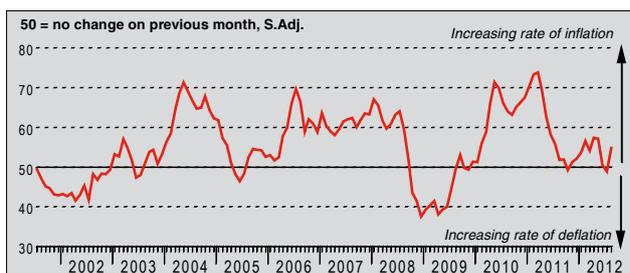
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



The seasonally adjusted Output Prices Index remained below the no-change mark of 50.0 in August, signalling price discounting among manufacturers. The latest anecdotal evidence linked lower charges to a variety of factors, including competition for business, exchange rates and lower raw material prices. Charges have fallen continuously for seven months, and the latest rate of reduction was the fastest since April 2010.

### Input Prices Index

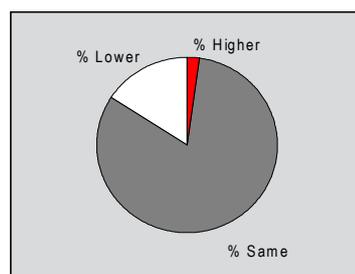
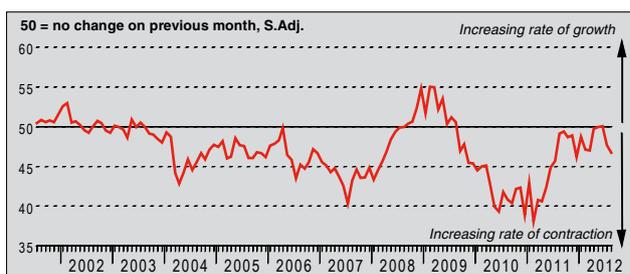
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Average input prices rose in August, having fallen the previous month for the first time since last October. The seasonally adjusted Input Prices Index rebounded to a three-month high, but remained below its long-run trend level of 55.6. Firms partly linked renewed inflationary pressures to oil prices.

## Suppliers' Delivery Times Index

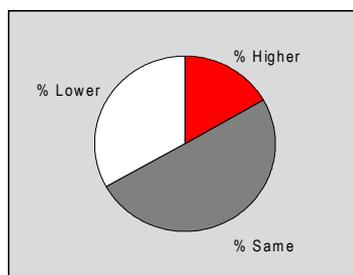
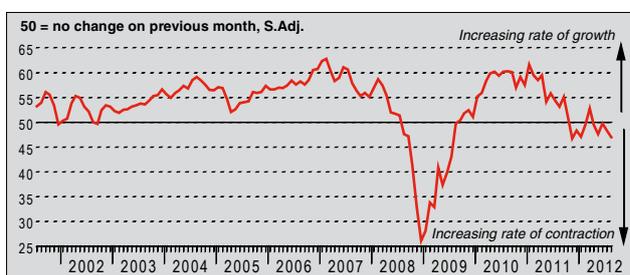
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Vendor performance in the Czech manufacturing sector deteriorated for the second month running in August, despite weakening market conditions. The seasonally adjusted Suppliers' Delivery Times Index fell over the month, signalling that lead times had lengthened to the greatest extent in 2012 so far. Some firms reported shortages of inputs.

## Quantity of Purchases Index

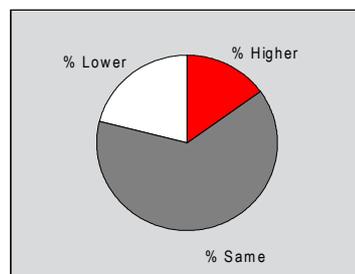
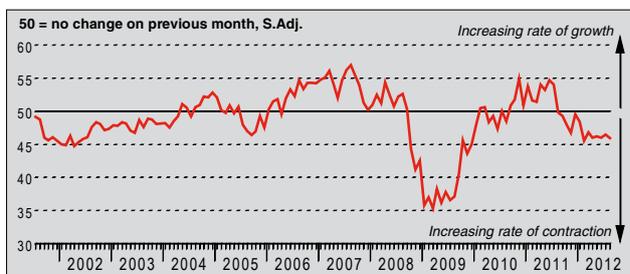
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



The volume of new purchases made by Czech manufacturers declined for the fifth consecutive month in August. Moreover, the rate of contraction accelerated to the fastest since November 2011. The main contributing factor to lower input volumes was reduced production requirements. Purchasing activity has fallen nine times in the past ten months.

## Stocks of Purchases Index

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



The volume of inputs held in stock at Czech goods producers declined on average in August. The current sequence of continuous contraction now stretches to 13 months. The rate of depletion accelerated slightly since July, and was sharp in the context of historic survey data. Firms linked falling stock levels to lower backlogs and declining new orders.

## Notes on the Data and Method of Presentation

The *Purchasing Managers' Index*<sup>®</sup> 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*<sup>®</sup> (PMI)<sup>®</sup> 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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