Embargoed until: 09:30 (PRAGUE), 1 October 2012

# HSBC Czech Republic Manufacturing PMI®

Downturn in Czech manufacturing sector accelerates further

#### Key findings:

- Manufacturing PMI falls again to 48.0, rounding off worst quarter since Q3 2009
- · Output declines at fastest rate since July 2009
- Input prices rise at marked pace

The downturn in the Czech manufacturing economy showed little sign of ending in September, according to the latest HSBC *PMI*® data compiled by Markit. Output declined at the fastest rate in over three years, while demand from both domestic and export markets remained weak. Purchasing, stocks and employment all declined further during the month. Moreover, the rate of input price inflation was the highest since June 2011.

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 September, extending the current sequence of sub-50.0 readings to six months. Moreover, the deterioration in overall business conditions signalled by the headline figure worsened slightly since August, as the PMI fell from 48.7 to 48.0, the lowest since May. The average PMI reading for Q3 posted 48.7, the lowest since Q3 2009 (46.7).

Production fell further in September, the first time the survey data had indicated a back-to-back decline in output since mid-2009. Moreover, the rate of contraction accelerated in September, to the fastest since July 2009.

Driving production lower over the month was a further drop in the volume of new business received. New orders have declined for six successive months, though the rate of contraction stabilised after accelerating in both July and August. Data signalled that new export orders fell at a slower rate than total new work, indicating weakness in domestic markets. That said, new export orders have now declined for 11 months in a row.

Manufacturing employment fell for the second successive month in September. Jobs in the sector have been cut eight times in the past 11 months, albeit at generally modest rates. Firms also cut their level of purchasing activity in the latest period, leading to a further contraction in their inventories of raw materials and other inputs. Stocks of final goods also fell, as warehouses were sufficient to meet current demand. Stocks of both pre-and post-production goods have declined overall for the past 14 months.

Cost pressures built up in September. The rate of input price inflation accelerated to a marked rate, one that was greater than the long-run survey average. Firms highlighted oil, plastics and agricultural products as having increased in price during the month.

Prices charged by Czech manufacturers continued to fall in September. The current sequence of discounting now stretches to eight months, although the rate of reduction was the slowest since June.



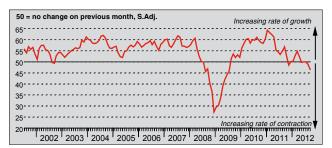
The HSBC Czech Republic *Purchasing Managers' Index*® (*PM*®) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in 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.

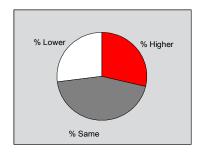




#### **Output Index**

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



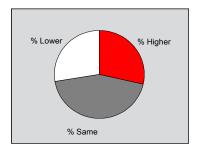


Manufacturing output in the Czech Republic fell for the second month running in September, the first back-to-back decline registered in over three years. Moreover, the rate of contraction accelerated to the fastest since July 2009. The seasonally adjusted Output Index has posted below the no-change mark of 50.0 four times in the past 11 months. Firms mainly linked lower output to fewer new orders, notably from automakers.

#### New Orders Index

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

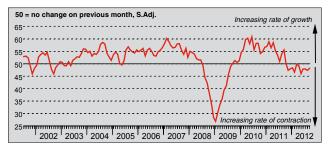


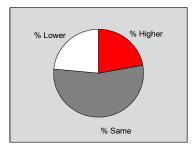


New orders received by Czech goods producers fell for the sixth month running in September. Incoming new business has now fallen nine times in the past 11 months. The seasonally adjusted New Orders Index was unchanged from August, signalling a stable rate of contraction. Firms reported weak client demand from both domestic and export markets, linked to poor European business conditions.

# New Export Orders Index

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



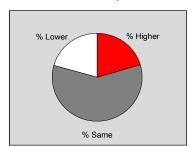


The seasonally adjusted New Export Orders Index remained below the no-change mark of 50.0 for the eleventh successive month in September, signalling a sustained decline in international demand for Czech manufactured goods. The current sequence of contraction is the second-longest in the survey history, but of a much weaker severity than that seen from 2008-09.

# Backlogs of Work Index

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



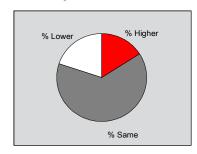


September data indicated a sixth successive monthly drop in the volume of outstanding business held by Czech manufacturers. The seasonally adjusted Backlogs of Work Index was little-changed from August, signalling a stable, modest rate of decline. Firms generally linked falling backlogs to lacklustre workloads and weakening demand, which allowed them to complete existing contracts and keep stock levels under control.

#### Stocks of Finished Goods Index

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

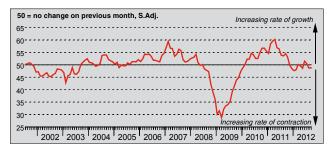


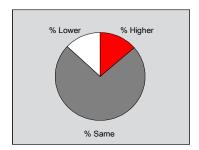


The level of post-production inventories in the Czech manufacturing sector declined for the fourteenth consecutive month in September. That said, the rate of depletion was the weakest since the first month in that sequence (August 2011). Firms reported clearing out old product lines and selling from stock as current levels were more than sufficient to meet requirements.

#### Employment Index

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



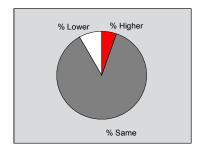


Manufacturing employment in the Czech Republic fell in September, as was the case the previous month. The seasonally adjusted Employment Index was broadly unchanged, indicating a stable, moderate rate of job shedding. Workforces have shrunk, on average, eight times in the past 11 months. Lower staffing reflected the loss of temporary workers, long-term adjustments and reduced volumes of new business.

# **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.



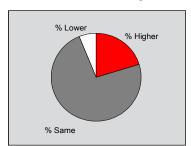


Goods producers in the Czech Republic reduced their factory gate prices on average. The rate of reduction was weaker than in July and August, but sharper than the trend during the first half of 2012. The current sequence of price discounting now stretches to eight months, reflecting the recent reductions in new business and lacklustre market conditions.

# Input Prices Index

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



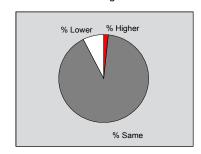


Average input prices rose for the second month running in September. Moreover, the rate of inflation accelerated to a marked pace, with the seasonally adjusted Input Prices Index reaching its highest since June 2011. The Index was also above its long-run average of 55.6. Just over one-in-five respondents reported higher average input costs than one month previously, linked to oil, fuel, plastics and agricultural commodities.

#### Suppliers' Delivery Times Index

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



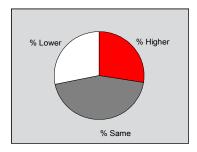


The average time taken for suppliers to deliver inputs to Czech manufacturers lengthened for the third month in succession in September. The rate of deterioration in vendor performance, as measured by delivery times, eased since August, and was broadly in line with the trend shown over the survey history.

#### Quantity of Purchases Index

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



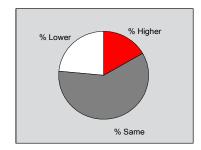


Reflecting declining new orders and output, the volume of purchasing undertaken by Czech manufacturers fell in September. The seasonally adjusted Quantity of Purchases Index remained below the no-change mark for the sixth successive survey, and the rate of contraction signalled was the fastest since July 2009. Purchases have declined ten times in the past 11 months.

# Stocks of Purchases Index

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





The level of pre-production stocks held by manufacturers declined, on average, for the fourteenth month in a row in September. The seasonally adjusted Stocks of Purchases Index edged lower on the month, and indicated the fastest rate of depletion since December 2009. Around 24% of survey respondents reported lower holdings of raw materials and other inputs, linked primarily to reductions in order books.

#### 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

The intellectual property rights to the HSBC Czech Republic Manufacturing PMI provided herein is owned by Markit Economics Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Purchasing Managers' Index 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.