

HSBC Czech Republic Manufacturing PMI®

Czech manufacturing downturn gathers further momentum in October

Key findings:

- Manufacturing PMI falls again to 38-month low of 47.2
- New orders decline at faster pace
- Purchasing activity by manufacturers falls at strongest rate since July 2009

Business conditions in the Czech manufacturing economy deteriorated for the seventh month in succession in October, according to the latest HSBC PMI® data compiled by Markit. Output declined for the third month running, reflecting a sharp drop in new business. In response, firms cut purchasing volumes at the fastest rate in over three years, and shed staff. Pressure on margins increased as input prices continued to rise sharply, while output prices declined.

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 October, extending the current sequence of sub-50.0 readings to seven months. Moreover, the pace of deterioration in overall business conditions signalled by the headline figure gathered further momentum, as the PMI fell from 48.0 to 47.2, the lowest since August 2009.

The downward movement in the headline figure in October mainly reflected a sharper decline in new orders received by Czech manufacturers. The current sequence of overall decline now stretches to seven months, with data signalling sharp falls in both domestic and export markets. New export business

has declined every month since November 2011, with the latest drop again linked by anecdotal evidence to the crisis in European markets in particular.

Declining new business inflows resulted in another drop in production in October. The rate of decline was little-changed from September's 38-month record. Moreover, the latest fall occurred despite the strongest decline in backlogs since July 2009.

Manufacturers adjusted workforces and inputs down in line with reduced output requirements in October. Employment in the goods-producing sector declined for the third consecutive month, and at the fastest rate since February. Meanwhile, purchasing activity fell for the eleventh time in the past 12 months, and at the strongest pace in over three years. Subsequently, input stocks declined for the fifteenth successive month.

October data signalled another marked rise in firms' average input prices, following a slight fall in July. The rate of input cost inflation remained steeper than the long-run survey average despite easing since September. Anecdotal evidence linked inflationary pressure to foodstuffs, fuel, leather, metals, and packaging. In contrast, prices charged for final manufactured goods fell for the ninth month in a row, reflecting intense competitive pressure in a weak demand environment.

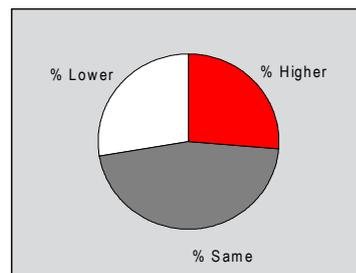
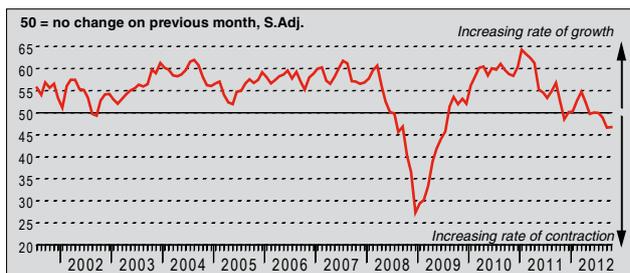
HSBC Czech Republic Purchasing Managers' Index® (PMI®)



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

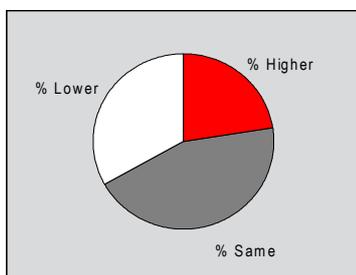
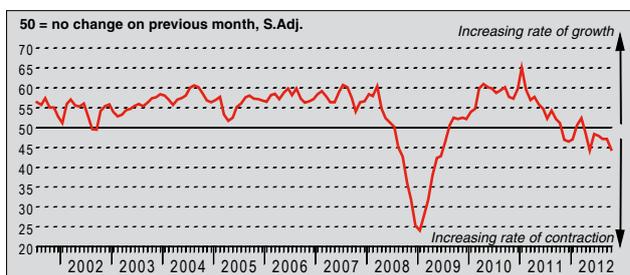
Q. Please compare your production/output this month with the situation one month ago.



Manufacturing output in the Czech Republic declined in October at a rate broadly similar to September's 38-month record. The level of production has now fallen for three successive months, following a stagnant trend from May through to July. Firms mainly linked declining output to weakening demand and lower receipts of new business.

New Orders Index

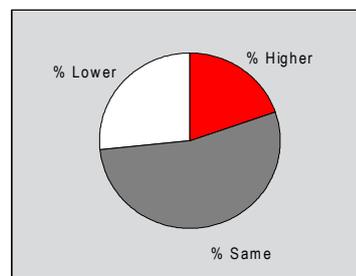
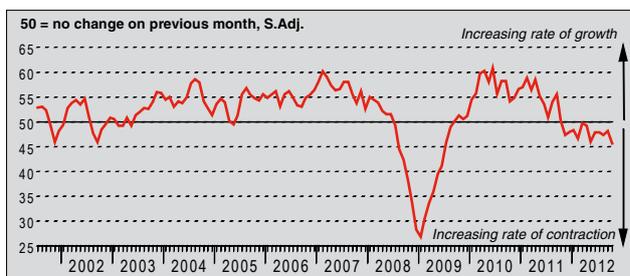
Q. Please compare the level of new orders received this month with the situation one month ago.



The seasonally adjusted New Orders Index remained below the no-change mark of 50.0 for the seventh month in succession in October, indicating a further drop in incoming new work at Czech goods producers. Moreover, the Index fell since September, and signalled the strongest rate of contraction since May. Weak overall demand, economic uncertainty and cautious customers were largely blamed for the latest fall in new orders.

New Export Orders Index

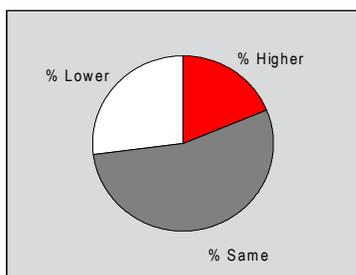
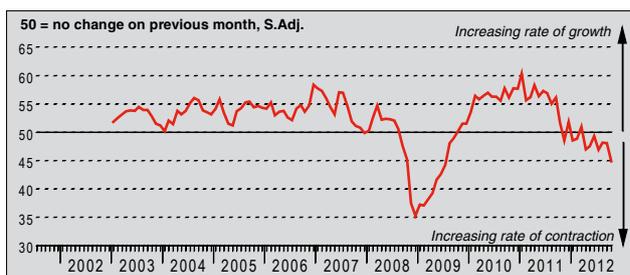
Q. Please compare the level of new export orders received this month with the situation of one month ago.



New export business received by Czech manufacturers declined for the twelfth successive month in October. Furthermore, the pace of contraction accelerated over the month, to the fastest since June 2009. More than one-quarter of firms reported lower intakes of new work from export markets. Weak European demand was highlighted as a key factor.

Backlogs of Work Index

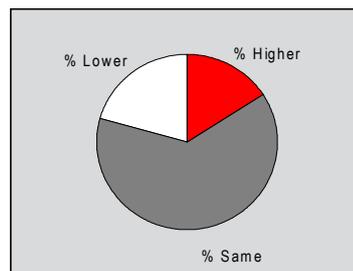
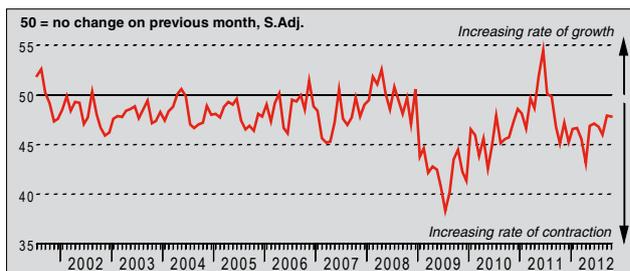
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Survey data highlighted ongoing spare capacity in the Czech manufacturing sector. The seasonally adjusted Backlogs of Work Index was at a level indicative of a marked fall in outstanding business, and the fastest since July 2009. Backlogs have fallen, on average, every month since April, and have risen only twice in the past year (December 2011 and March 2012). Firms reported a lack of pressure on operating capacity resulting from weak new order inflows.

Stocks of Finished Goods Index

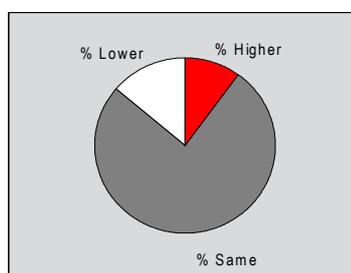
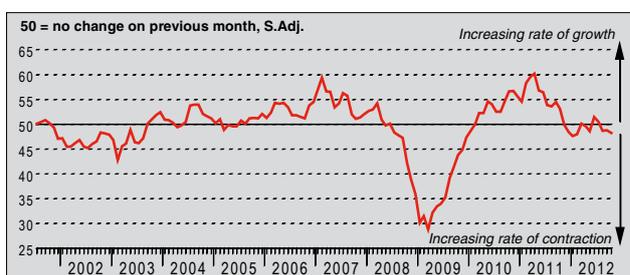
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Manufacturers in the Czech Republic depleted their final goods inventories on average in October. This extended the current period of streamlining in the sector to 15 months. Just over one-fifth of survey respondents cut stocks of finished goods, linked to a weak outlook and efforts to optimise warehouse inventory levels.

Employment Index

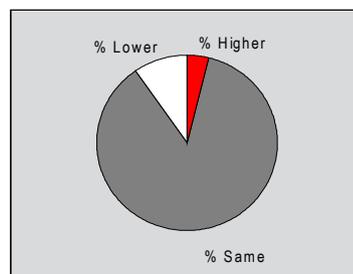
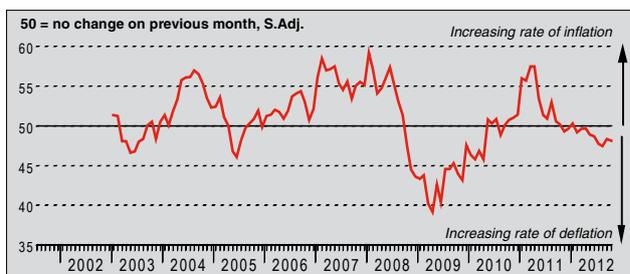
Q. Please compare the level of employment at your unit with the situation one month ago.



Employment in the Czech goods-producing sector fell for the third month running in October. The seasonally adjusted Employment Index edged lower during the month, and signalled the fastest rate of job shedding since February. Around 14% of firms reported lower staffing than one month previously, linked to reduced production requirements.

Output Prices Index

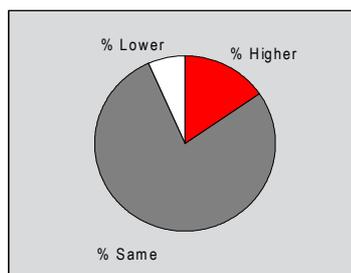
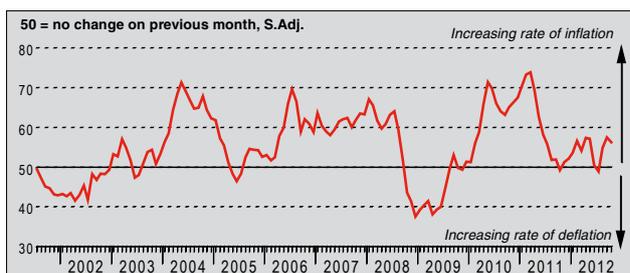
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



October marked another month of price discounting by Czech manufacturers. The rate of reduction in prices charged was little-changed from September's modest pace, and output prices have now fallen for the past nine months. Firms linked lower output prices to efforts to boost sales volumes and attract new customers in a competitive market environment.

Input Prices Index

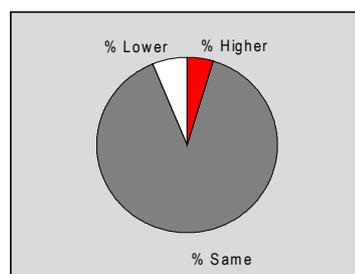
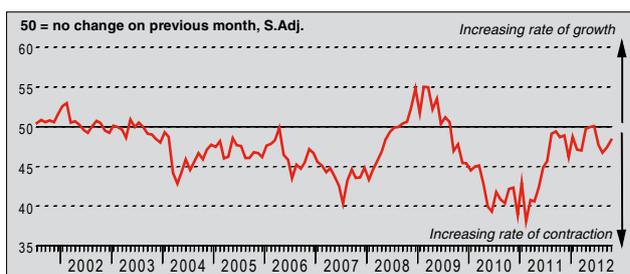
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Average input prices paid by manufacturers in the Czech Republic rose for the third month in succession in October. The rate of inflation eased from September's 15-month high, but the seasonally adjusted Input Prices Index was nevertheless above its long-run average of 55.6. Raw materials including foodstuffs, leather and metals were reported to have risen in price, as well as fuel and packaging.

Suppliers' Delivery Times Index

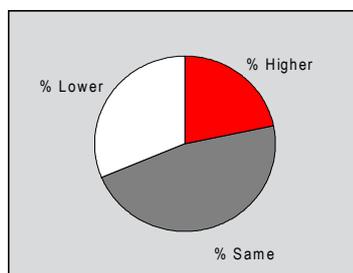
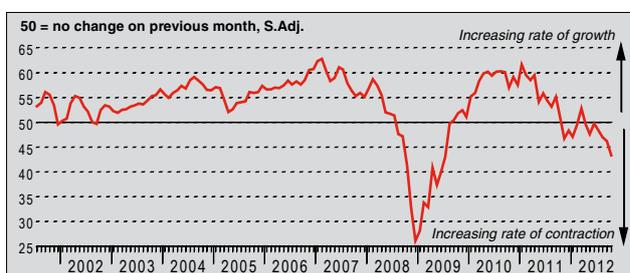
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



The performance of vendors supplying Czech goods producers with inputs deteriorated for the fourth month in succession in October. That said, the incidence of longer supplier delivery times was the smallest over that sequence. Moreover, anecdotal evidence suggested that longer lead times were not generally the result of demand pressure on vendor capacity.

Quantity of Purchases Index

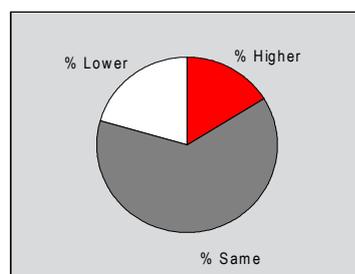
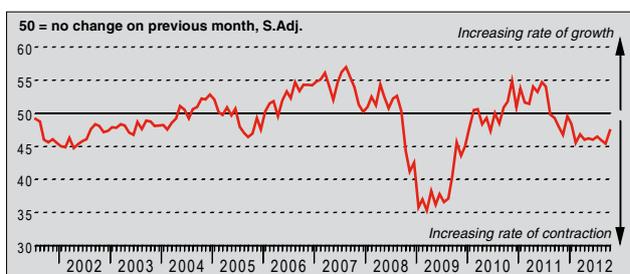
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Purchasing activity by manufacturers in the Czech Republic fell sharply in October. The seasonally adjusted Quantity of Purchases Index remained below the no-change mark of 50.0 for the seventh successive month, and fell for the fourth survey in a row. The latest figure signalled the fastest drop in orders of new inputs since July 2009.

Stocks of Purchases Index

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



Pre-production stocks at Czech manufacturers declined on average for the fifteenth month in a row in October. That said, the rate of depletion eased since the previous month, to the weakest since January. Around one-in-five companies reported streamlining inventories during the month. Firms reported using up old stocks and aligning inventories to lower 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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