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HSBC Czech Republic Manufacturing PMI®

Manufacturing output falls at fastest rate in three-and-a-half years

Key findings:

- New export business and purchasing activity also fall at strongest rates in 42 months
- Employment contracts at sharpest rate for over three years
- Output prices cut for eleventh successive month

The final batch of HSBC *PMI*® data for the Czech manufacturing sector for 2012 signalled a deepening downturn in the sector in December. Output, new export orders and purchases of new inputs all declined at the fastest rates in three-and-a-half years, while jobs were cut to the greatest extent since November 2009. Inflationary pressures remained muted, as input prices rose at a relatively weak rate and firms cut their output prices at the fastest pace in 32 months.

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 50.0 for the ninth month in a row in December, and fell from 48.2 to 46.0. That signalled the fastest overall deterioration in operating conditions in the Czech manufacturing sector since July 2009. On a quarterly basis, data for Q4 signalled the sharpest contraction since Q3 2009. The downward movement in the headline figure in December was reflected in all five of its component indexes.

Central to the ongoing deterioration in overall business conditions was a sharp fall in new orders received during December. The rate of contraction accelerated, and was the third-fastest indicated in the current nine-month sequence.

Anecdotal evidence linked falling new business to weak demand in both domestic and export markets, with European markets highlighted as well as orders related to the auto and construction sectors. The volume of new export business decline at the fastest rate since June 2009.

Weak inflows of new orders led to a further cut in production in December. Output declined for the fifth month running, and at the fastest rate in three-and-a-half years. Manufacturers also made inroads into existing workloads, as backlogs declined for the ninth month running.

Firms adjusted capacity requirements further in line with deteriorating market conditions. Employment in the goods-producing sector declined for the fifth month running, and at the fastest rate since November 2009. Meanwhile, purchases of inputs contracted at the strongest pace in three-and-a-half years. Stocks of both pre- and post-production goods continued to decline, with the stronger fall indicated for input inventories.

Inflationary pressures remained muted in December. Input prices increased for the fifth month running, but at the weakest rate in that sequence. Higher costs were linked to energy, fuel, food and raw materials. Meanwhile, manufacturers cut their output prices for the eleventh month in succession, linked to competitive pressures. The rate of reduction in charges for final goods was the fastest since April 2010.



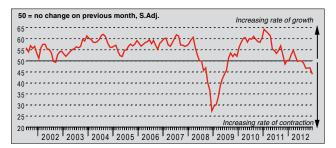
The HSBC Czech Republic *Purchasing Managers' Index*® (*PM*®) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in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

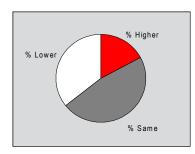




Output Index

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



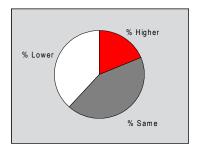


Goods production in the Czech Republic fell for the fifth month running in December. Adjusted for seasonal factors, the Output Index declined on the month, and signalled the fastest rate of contraction since June 2009. Falling production was often linked to weak export demand, particularly from European markets. Weak demand from the auto and construction sectors was also mentioned.

New Orders Index

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



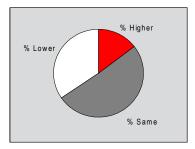


The volume of new orders received by Czech manufacturers declined for the ninth successive month in December. Having eased during the previous month, the rate of contraction accelerated, and was stronger than the average over the current sequence. Data signalled marked declines in new business from both export and domestic markets, with firms highlighting Europe and the construction sector 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.



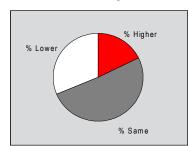


The seasonally adjusted New Export Orders Index remained below the no-change mark of 50.0 for the fourteenth successive month in December. That marked the joint-longest sequence of falling new export business in the survey history (albeit of a far weaker severity than the downturn in 2008-09). Moreover, the rate of decline in the latest month was the fastest since June 2009. Weak European demand was highlighted.

Backlogs of Work Index

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

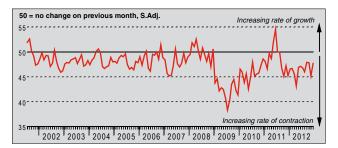


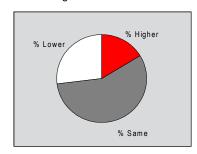


Backlogs of work at Czech goods producers fell for the ninth consecutive month in December, reflecting the ongoing downturn in new business inflows. That said, the rate of contraction in outstanding business slowed further from October's 39-month record, to the weakest since September. Anecdotal evidence mainly linked declining backlogs to weak demand.

Stocks of Finished Goods Index

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



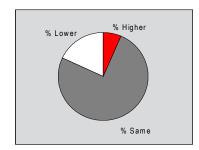


Inventories of final goods held by Czech manufacturers declined on average in the final month of 2012. That said, the rate of decline eased since November, and was weaker than the average over the current 17-month sequence of stock depletion. Firms mainly attributed declining stock levels to falling sales and reduced production.

Employment Index

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



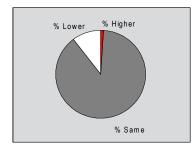


Manufacturing employment in the Czech Republic declined for the fifth successive month in December. Moreover, the rate of job shedding accelerated to the fastest since November 2009. The latest anecdotal evidence primarily linked falling headcounts to reduced production requirements. Employment in the goods-producing sector has risen only three times in the past 14 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.



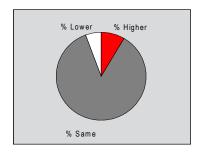


Survey data indicated the ongoing discounting of prices charged by Czech manufacturers in December. The seasonally adjusted Output Prices Index edged lower on the month, to signal the fastest rate of reduction since April 2010. The current sequence of falling charges now stretches to 11 months. Firms continued to link lower output prices to competitive pressures.

Input Prices Index

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



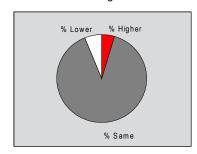


Average input prices paid by Czech manufacturers rose for the fifth successive month in December. That said, the rate of inflation eased further from September's 15-month peak, and was the slowest in the current sequence. The seasonally adjusted Input Prices Index was also below its long-run average of 55.6. Where cost burdens increased, this was linked to rising prices for fuel, energy, foodstuffs and raw materials.

Suppliers' Delivery Times Index

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



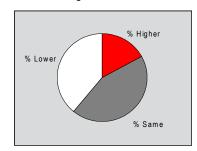


December data signalled that supplier performance in the Czech manufacturing sector was broadly unchanged from one month previously. The seasonally adjusted Suppliers' Delivery Times Index was broadly in line with the neutral mark of 50.0, following a five-month sequence of below 50.0 readings – which signal lengthening lead times.

Quantity of Purchases Index

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

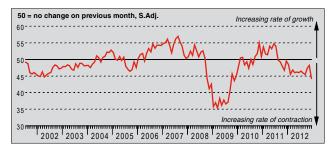


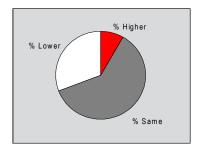


The seasonally adjusted Quantity of Purchases Index remained below the no-change mark of 50.0 for the ninth successive month in December, signalling falling orders of new inputs by Czech manufacturers. Moreover, the rate of decline signalled was the fastest in three-and-a-half years. Purchasing activity has contracted 13 times in the past 14 months. Firms mainly linked lower input volumes to falling new work.

Stocks of Purchases Index

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





Pre-production inventories at Czech manufacturers declined for the seventeenth successive month in December. That marked the longest sequence of continuous contraction in over eight-and-a-half years, albeit of a much weaker severity than the spell of decline during 2008-09. The rate of contraction accelerated sharply in the latest period, to the fastest since November 2009.

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® (PMl®) 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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