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HSBC Czech Republic Manufacturing PMI®

Manufacturing PMI improves to five-month high in January

Key findings:

- Czech manufacturing downturn eases, reflecting slower falls in output and new orders
- Further solid fall in employment signalled
- Input cost inflation accelerates but firms continue to cut output prices

HSBC *PMI*° data for the Czech manufacturing sector indicated a weakening downturn at the start of 2013. Having registered the strongest fall in three-and-a-half years in December, output declined only modestly in January. This reflected a weaker fall in incoming new business. Pressure on input costs intensified, however, and firms continued to shed staff. Moreover, manufacturers remained unable to raise their own selling prices.

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.

Remaining below 50.0 for the tenth consecutive month in January, the PMI signalled an ongoing downturn in business conditions in the goods-producing sector. That said, the headline index rose from December's 41-month low of 46.0, to 48.3, the highest since last August. The upward movement in the PMI reflected all five of its components, although only suppliers' delivery times (which is inverted for the PMI) exerted an overall positive influence.

Manufacturing new orders in the Czech Republic contracted for the tenth consecutive month in January, and have now fallen 13 times in the past 15 survey periods. That said, the pace of decline slowed from the previous month's sharp pace, and was only moderate. New export business fell at a weaker pace, but continued to weigh on overall new order inflows. Firms continued to report weak demand from European markets, and also a lack of new work from the construction and autos sectors in particular.

The ongoing downturn in new business led to a further fall in manufacturing output in the Czech Republic in January. Production has declined for six straight months, although the rate of contraction in the latest period was only modest and the slowest since last August. Backlogs of work were depleted further, indicative of spare capacity in the sector.

Manufacturers continued to cut workforces on average in January, the sixth such instance of job shedding in as many months. Moreover, the rate of reduction was only slightly weaker than December's 37-month record. Firms also cut purchases of new inputs during January, albeit at a much slower rate than in the final month of 2012.

Average input prices rose sharply in January, at a rate that was greater than the long-run survey trend. Firms highlighted greater energy prices and the effect of higher VAT. In contrast, prices charged for final manufactured goods declined for the twelfth consecutive month, reflecting efforts to remain competitive and attempts to clear unsold stock. Inventories of final goods declined for the eighteenth month running.



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.

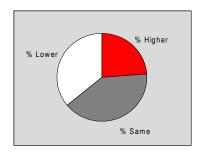




Output Index

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



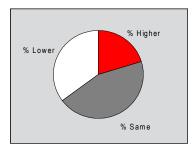


January data signalled an ongoing contraction in Czech manufacturing output, albeit at a much slower rate. The seasonally adjusted Output Index remained below the no-change mark of 50.0 for the sixth consecutive month but improved to a five-month high, in a marked turnaround from December's 42-month low. The modest fall in production mainly reflected a further drop in new business during the month.

New Orders Index

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



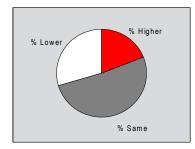


New orders received by Czech goods producers continued to fall in January. The current sequence of contraction now stretches to ten months. The seasonally adjusted New Orders Index rose, however, and indicated the slowest rate of decline since last July. The Index was also slightly higher than the average for 2012 (47.6). Firms linked falling new orders to weaker demand from the Eurozone, and from clients in the autos and construction sectors.

New Export Orders Index

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

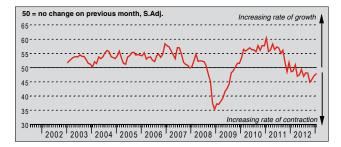


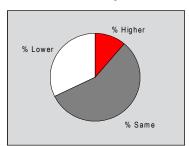


New export orders in the Czech manufacturing sector fell for the fifteenth consecutive month in January. That represents the longest sequence of continuous contraction in the survey history, albeit one of a much weaker severity than that registered in 2008-09. The rate of decline in the latest period was the slowest in four months. Anecdotal evidence linked weak export business to European markets.

Backlogs of Work Index

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



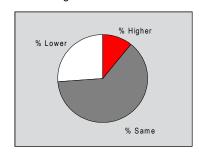


The level of outstanding business held by Czech manufacturers continued to decline in January. The current sequence of backlog depletion now stretches to ten months. Firms generally reported that workloads remained below full capacity. The seasonally adjusted Backlogs of Work Index rose further from October's low, however, and signalled the slowest contraction since last September.

Stocks of Finished Goods Index

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

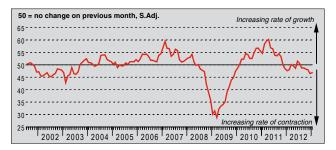


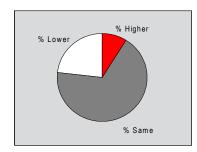


Inventories of final products in the Czech manufacturing sector declined on average in January, and at a faster rate than one month previously. The current period of stock depletion now extends to a year-and-a-half. Manufacturers linked declining stock levels to low production volumes, clearance sales and falling receipts of incoming new business.

Employment Index

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



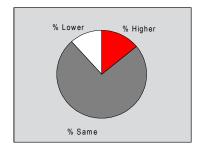


Czech goods producers cut workforces again at the start of the year. The seasonally adjusted rate of job shedding was slightly weaker than December's three-year record, but still the second-fastest since November 2009. Manufacturing employment in the Czech Republic has declined every month since last August.

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.



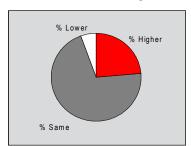


Downward pressure on prices charged for Czech manufactured goods was maintained in January. The seasonally adjusted Output Prices Index remained below the no-change mark of 50.0 for the twelfth successive month, but the latest figure signalled only a modest fall in selling prices. Firms reported offering discounts to sell off stock, and competitive pressures.

Input Prices Index

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



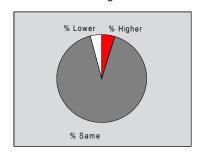


Cost pressures facing goods producers in the Czech Republic intensified in January. The rate of inflation of average input prices accelerated to a four-month high, and was greater than the trend for 2012. The current sequence of rising input prices now stretches to six months. Firms widely linked rising costs to higher VAT, energy prices and raw materials such as steel.

Suppliers' Delivery Times Index

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



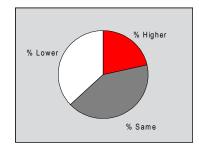


Suppliers' delivery times lengthened for the seventh successive month in January. That said, the level of the seasonally adjusted Index, only slightly below the neutral mark of 50.0, signalled only a marginal deterioration in vendor performance. Some firms reported that suppliers had streamlined their inventories, which was partly responsible for delays.

Quantity of Purchases Index

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

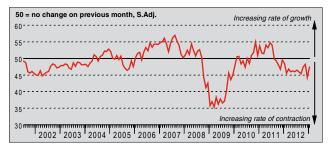


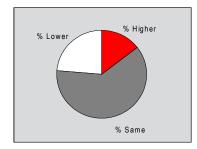


Purchasing activity in the Czech manufacturing sector declined for the tenth successive month in January. Goods producers linked lower purchases of inputs to falling new orders and sufficient stocks for current workloads. That said, the rate of contraction slowed sharply from December's 42-month record, and was the weakest since last August.

Stocks of Purchases Index

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





Czech goods producers' warehouse levels of inputs continued to decline on average in January, mainly attributed to low workloads. Stocks of purchases have fallen every month since August 2011. That said, the rate of depletion eased from December's 37-month record, and was slower than the trend over the current sequence of reduction.

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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