

HSBC Czech Republic Manufacturing PMI®

Renewed decline in manufacturing new orders in March

Key findings:

- New business falls following marginal increase in February
- PMI declines to 49.1
- Slower rate of input price inflation

HSBC PMI® data for March indicated that the Czech manufacturing sector continued to contract, marking a whole year of deteriorating business conditions. The overall rate of decline accelerated on the month, mainly reflecting a renewed fall in new orders. Output decreased for the eighth month running, while input price inflation slowed further.

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 posted 49.1 in March, indicating a marginal deterioration in business conditions in the goods-producing sector of the Czech Republic. That followed February's reading of 49.9, which had signalled a near-stabilisation. The PMI has remained below 50.0 for 12 consecutive months, although the average reading for Q1 (49.1) was the highest for any quarter over this sequence. The downward movement in the PMI in March reflected three of its five components, the exceptions being employment and stocks of purchases.

Manufacturing new orders declined in March, having risen marginally the previous month. The latest contraction was the fourteenth in the past 17 months. The overall rate of decline was modest, however, while new export orders fell only slightly,

suggesting that domestic markets were the main source of weakness. That said, the current downturn in new export business is the longest in the survey history.

The renewed contraction in new orders contributed to a further drop in manufacturing production in March. The current sequence of decline now stretches to eight months, although the rate of contraction remained only marginal in the latest period. The volume of outstanding business was little-changed for the second successive month.

Manufacturing employment in the Czech Republic declined for the eighth month running in March. That said, the rate of job shedding was the weakest over this period.

Goods producers cut the volume of inputs purchased in March, extending the current sequence of decline to one year. The pace of contraction was, however, only marginal. Suppliers' delivery times lengthened slightly during the latest period, while stocks of purchases declined at the slowest pace since November.

Inflationary pressures weakened further in March. Average input prices rose for the eight month running, but at the slowest rate in this sequence and one that was weaker than the long-run survey average. Meanwhile, manufacturers cut their prices for final goods for the fourteenth month running, albeit at the slowest rate since June 2012.

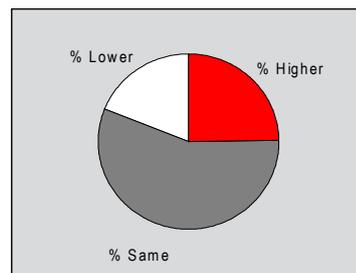
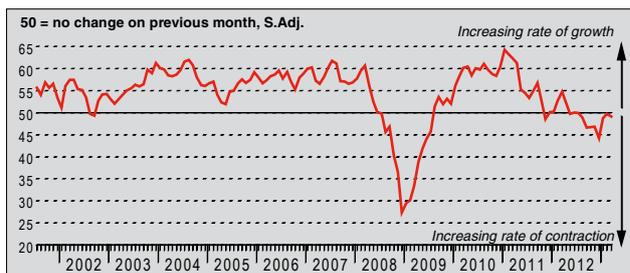
HSBC Czech Republic Purchasing Managers' Index® (PMI®)



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

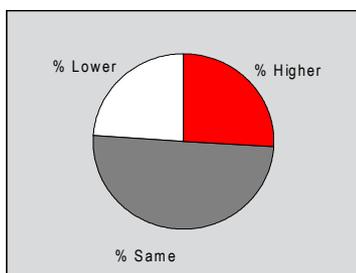
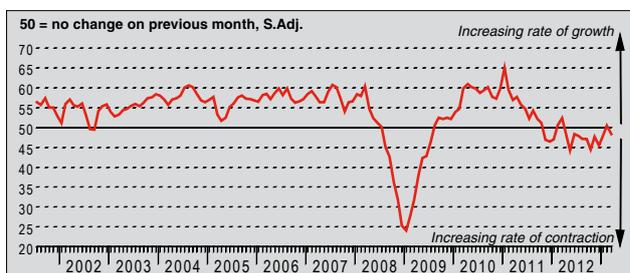
Q. Please compare your production/output this month with the situation one month ago.



Production in the Czech manufacturing sector fell in March, extending the current sequence of decline to eight months. Though mild overall, the rate of contraction accelerated to the fastest since the opening month of 2013. A number of firms linked lower output to falling new orders. That said, the trend rate of decline in production over the first quarter was weaker than those registered in both Q3 and Q4 2012.

New Orders Index

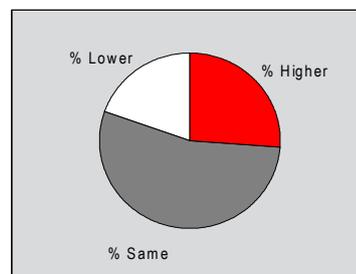
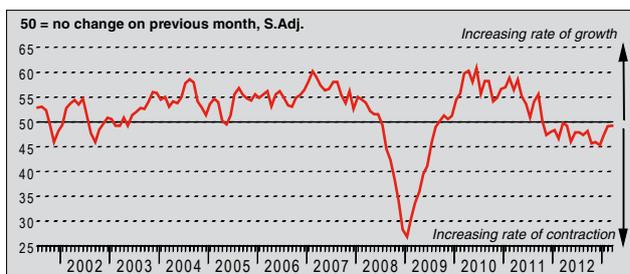
Q. Please compare the level of new orders received this month with the situation one month ago.



Manufacturing new orders declined in March. That followed a marginal increase in February, the first expansion in 11 months. Moreover, the seasonally adjusted New Orders Index has now posted below the no-change mark of 50.0 14 times in the past 17 months. Anecdotal evidence from survey respondents generally highlighted weak demand. That said, the overall decline was only modest.

New Export Orders Index

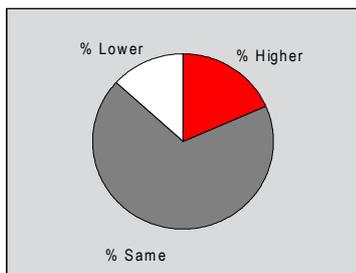
Q. Please compare the level of new export orders received this month with the situation of one month ago.



The seasonally adjusted New Export Orders Index remained below the no-change mark of 50.0 for the seventeenth successive month in March, signalling an ongoing reduction in new export business received by Czech goods producers. The rate of contraction remained marginal, however, and was the weakest since April 2012. Firms reported weak European demand and rising competition for business.

Backlogs of Work Index

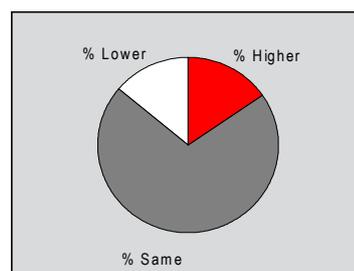
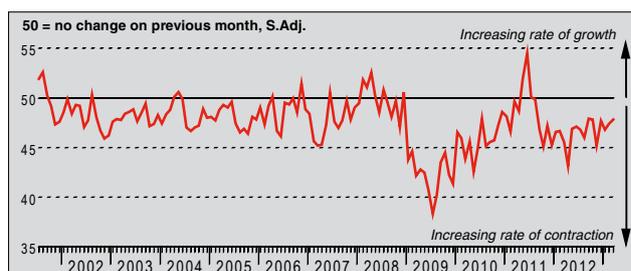
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work at Czech manufacturers were little-changed for the second month in a row in March. The seasonally adjusted Backlogs of Work Index was fractionally above the neutral threshold, having previously signalled declining volumes of incomplete work from April 2012 through to January 2013. The latest figure indicated a general lack of pressure on operating capacity in the sector.

Stocks of Finished Goods Index

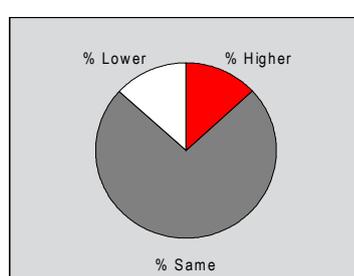
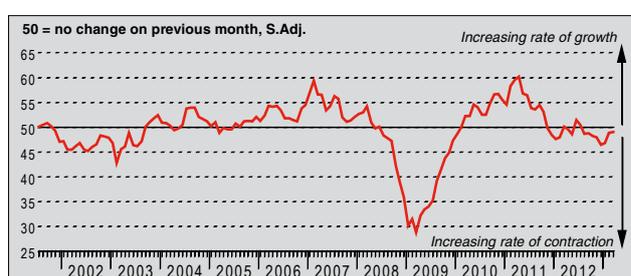
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



The volume of post-production inventories held by Czech goods producers declined for the twentieth month running in March. That said, the rate of contraction eased further to the weakest since last October. Firms reported selling off old stocks, with 14% of respondents stating that final goods inventories had been depleted during the month.

Employment Index

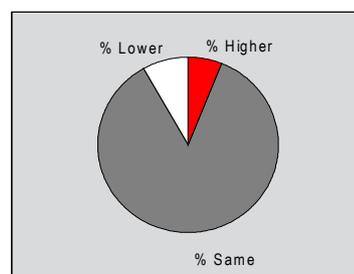
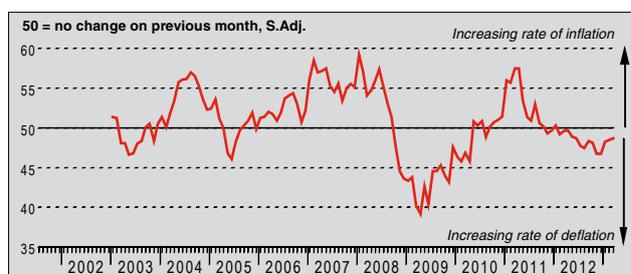
Q. Please compare the level of employment at your unit with the situation one month ago.



Manufacturing employment in the Czech Republic declined for the eighth consecutive month in March. Some firms reported cutting jobs due to smaller inflows of new orders. The overall rate of job shedding eased, however, to the weakest in the current sequence. The seasonally adjusted Employment Index was slightly below its long-run trend level of 49.6.

Output Prices Index

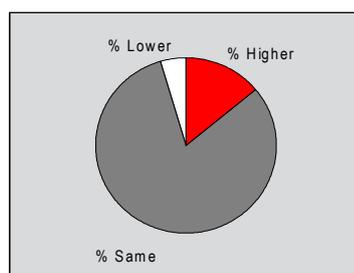
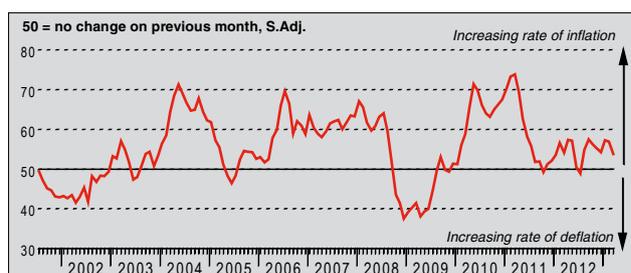
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Prices charged for final Czech manufactured goods declined for the fourteenth successive month in March. The seasonally adjusted Output Prices Index rose on the month, however, and indicated the slowest rate of discounting since June 2012. Firms reported having to offer lower prices in order to remain competitive and attract orders.

Input Prices Index

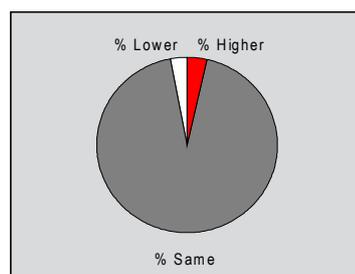
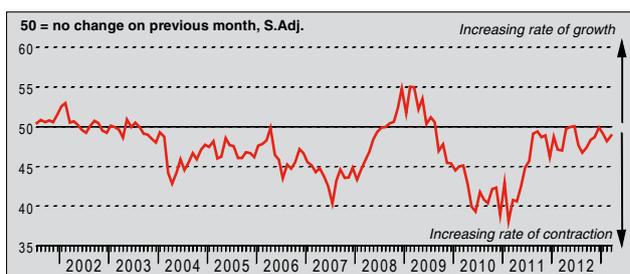
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Average input prices paid by Czech manufacturers rose for the eighth consecutive month in March. The seasonally adjusted Input Prices Index fell for the second month running, however, to the lowest in that sequence. The latest figure was below the long-run average of 55.6. Some firms reported reduced inflationary pressure on raw material prices linked to weak demand in the construction industry.

Suppliers' Delivery Times Index

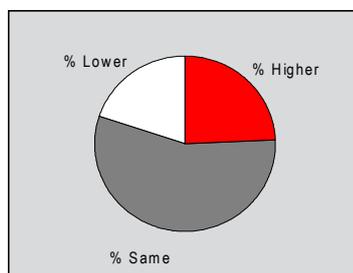
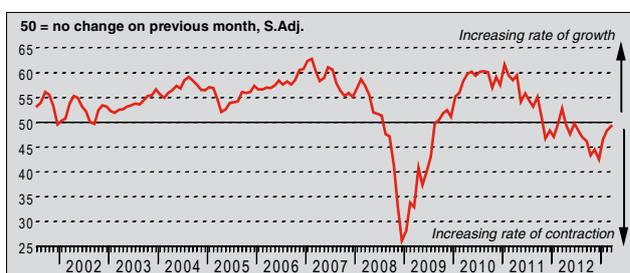
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Survey respondents continued to report deteriorating supplier performance in March. The seasonally adjusted Suppliers' Delivery Times Index remained below the no-change mark of 50.0 for the ninth consecutive month, although the latest figure signalled only a marginal lengthening in average lead times, improving on February's five-month low. Firms reported low stock levels at suppliers, linked to order-only strategies.

Quantity of Purchases Index

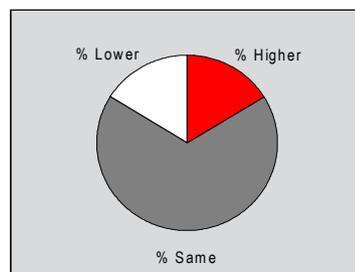
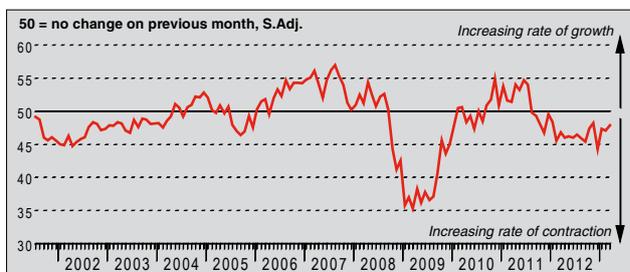
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Purchasing activity by goods producers in the Czech Republic declined for the twelfth consecutive month in March. Anecdotal evidence mainly linked lower input buying to falling new orders. That said the rate of contraction eased further from December's three-and-a-half year record, and was only marginal.

Stocks of Purchases Index

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



Continuing the trend shown since August 2011, the volume of pre-production goods held in stock at Czech manufacturers declined in March. Firms reported managing stock levels in line with current workloads. The seasonally adjusted Stocks of Purchases Index rose on the month, and signalled the weakest rate of contraction since November.

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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