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HSBC Czech Republic Manufacturing PMI®

Marginal increase in manufacturing production in April

Key findings:

- First increase in output since June, but new orders continue to decline
- PMI remains below 50.0 at 49.5
- Input prices fall at strongest rate since July 2009

Business conditions in the Czech manufacturing sector continued to deteriorate in April despite a slight increase in output, HSBC *PMI*® data showed. The overall worsening in the business climate was only marginal, however, and not as severe as those registered during the final months of 2012. New orders, employment and purchasing all fell at marginal rates, and firms continued to cut stocks of both inputs and final goods. Meanwhile, prices paid for new inputs fell at the fastest rate since July 2009, and prices charged for finished products declined for the fifteenth successive month.

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 49.5 in April, up slightly from 49.1 in March, indicating a marginal deterioration in business conditions in the goods-producing sector of the Czech Republic. The headline index has now remained below the neutral threshold for the past 13 months, although the trend rate of contraction signalled in 2013 so far is only marginal (49.2). The negative PMI reading for April reflected the new orders, employment, suppliers' delivery times and stocks of purchases components, as output registered a positive influence for the first time since June 2012.

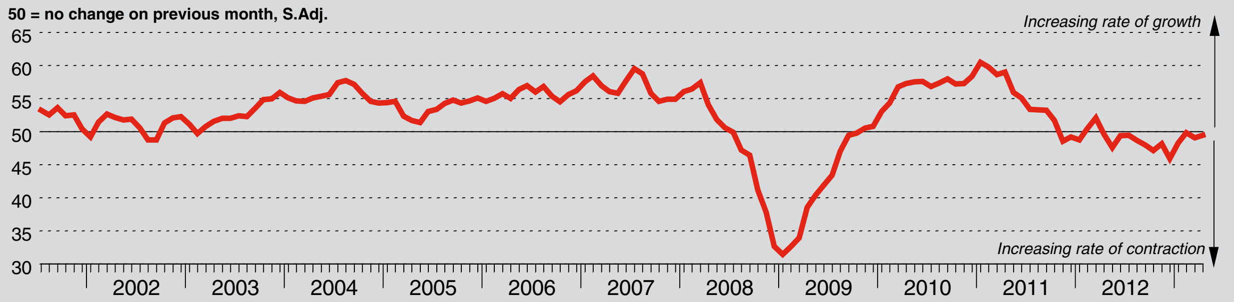
The latest survey data indicated a further fall in manufacturing new orders in the Czech Republic, the fifteenth contraction in the past 18 months. That said, the rate of decline slowed since March, and was only fractional. New export orders declined for the eighteenth successive month, and at the fastest rate since January. Survey participants highlighted weak European demand, and lower incoming new business from German markets in particular.

Production rose slightly in April, despite the fall in new orders. This led to a decline in backlogs of work for the first time since January. Purchases of inputs declined for the seventeenth time in 18 months, however, resulting in a further contraction in inventories. The rate of decline in input stocks was the fastest in 2013 so far, while finished goods inventories declined at the strongest rate in five months.

Manufacturing employment in the Czech Republic declined for the ninth month in a row in April. That said, the rate of job losses eased further to the slowest seen over the current sequence.

Survey data highlighted a lack of inflationary pressure in the goods-producing sector at the start of the second quarter. Average input prices fell at the fastest rate since July 2009, mainly reflecting lower metals prices. Meanwhile, prices charged by Czech manufacturers for their finished goods declined for the fifteenth consecutive month, and at the strongest rate since December. Firms reported intense competition for new business and requests for discounts from existing clients.

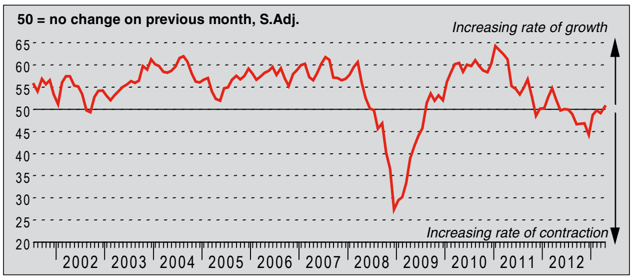
HSBC Czech Republic *Purchasing Managers' Index® (PMI®)*

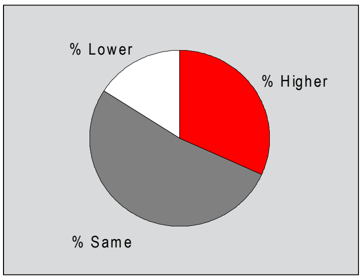


The HSBC Czech Republic *Purchasing Managers' Index*® (*PMI*®) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in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

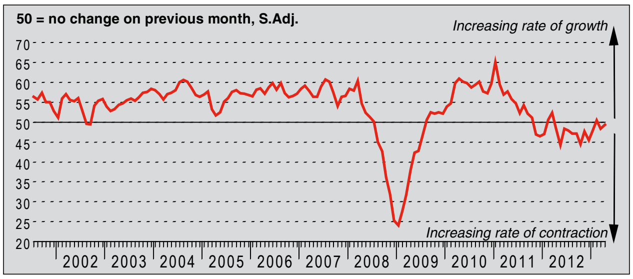


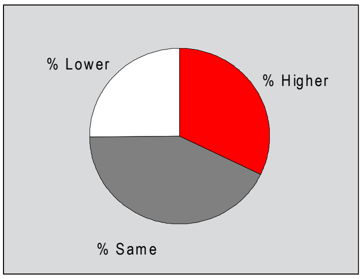


The seasonally adjusted Output Index rose above the no-change mark of 50.0 for the first time in ten months in April, signalling growth of manufacturing production in the Czech Republic. Where output rose, firms reported more positive order book trends and renewed confidence at clients. The rate of expansion was the best registered since April 2012, but still weak in the context of historic survey data.

New Orders Index

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

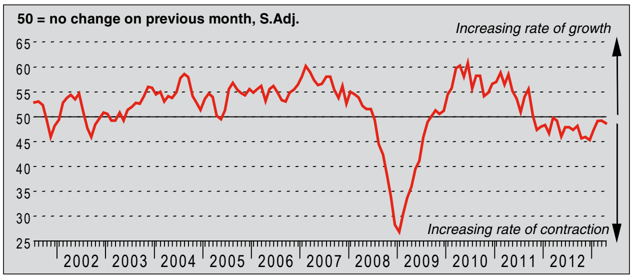


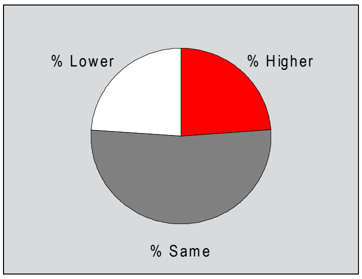


The volume of new orders received by Czech manufacturers declined for the second successive month in April. New business has increased only once in the past 13 months. That said, the rate of contraction slowed to a marginal pace at the start of the second quarter, with the seasonally adjusted Index at the second-highest level in over a year. Anecdotal evidence linked lower new business receipts to subdued market conditions and weak German demand 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.

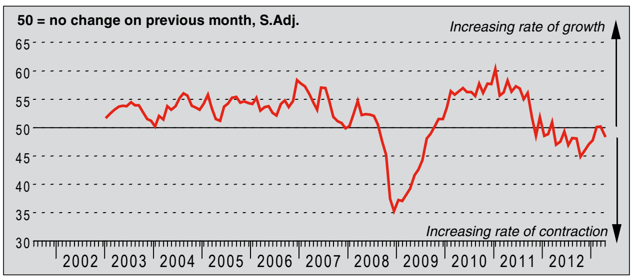


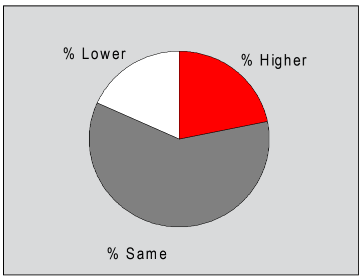


Survey data indicated a decline in Czech manufacturers' new export orders for the eighteenth month in succession in April. The rate of contraction accelerated slightly to the fastest since January, but remained modest overall. Firms mentioned weak demand from German markets in particular.

Backlogs of Work Index

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

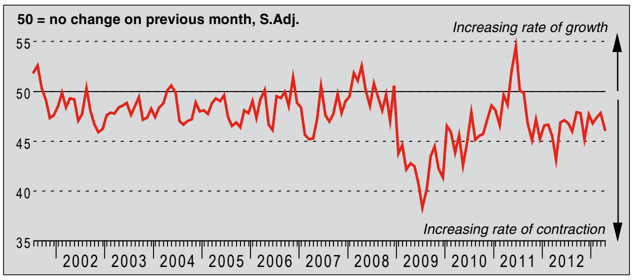


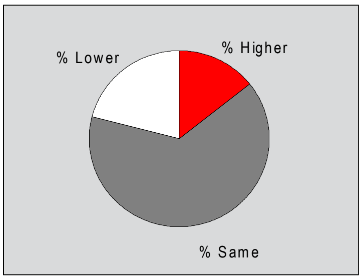


Having registered a broadly flat trend over the prior two months, backlogs of work at Czech goods producers declined in April. The volume of outstanding business in the sector has declined 14 times in the past 18 months, although the latest depletion was only moderate. Firms generally linked declining backlogs to a lack of incoming new work to replace existing contracts.

Stocks of Finished Goods Index

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

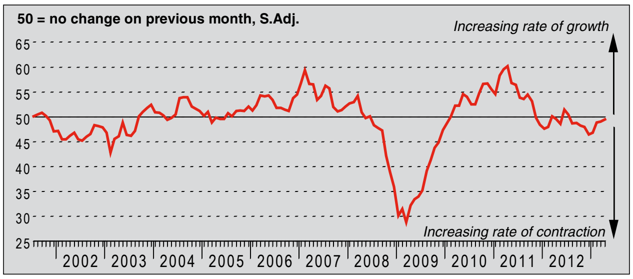


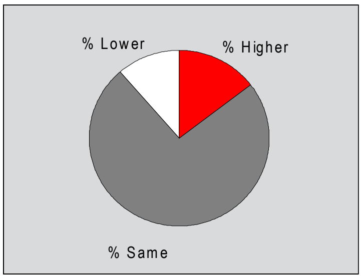


The overall level of final goods held in stock at manufacturers continued to fall in April. Moreover, the seasonally adjusted Stocks of Finished Goods Index declined over the month, to signal the fastest rate of inventory depletion since last November. Post-production stocks have contracted on average every month since August 2011. Firms generally linked falling stock levels to weak demand and low production levels.

Employment Index

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

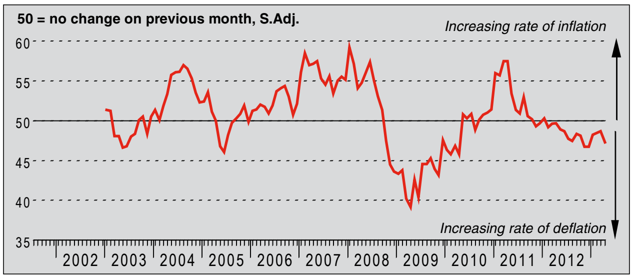


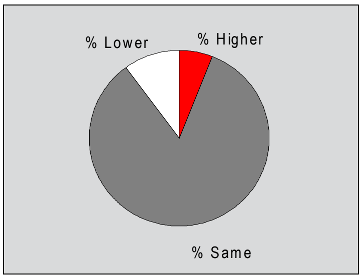


The seasonally adjusted Employment Index remained below the neutral threshold of 50.0 for the ninth consecutive month in April, signalling further job shedding at goods producers in the Czech Republic. Firms reported adjusting capacity down in line with lower demand. That said, the rate of decline in employment eased for the fourth successive survey, to a marginal pace that was the slowest over the current sequence of job cuts.

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.

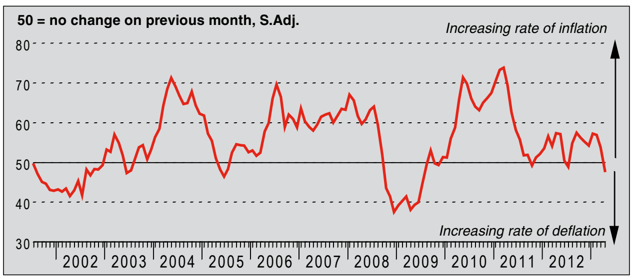


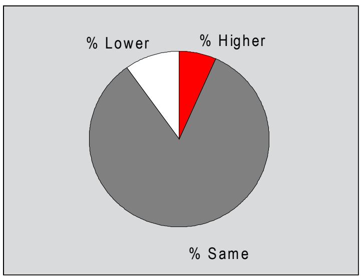


Average prices charged for Czech manufactured goods declined for the fifteenth successive month in April. Firms reported continuing pressure from customers to reduce prices in order to remain competitive. A number of firms also commented that lower input prices had enabled them to offer discounts. The rate of reduction in charges accelerated during the month to the fastest in 2013 so far.

Input Prices Index

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

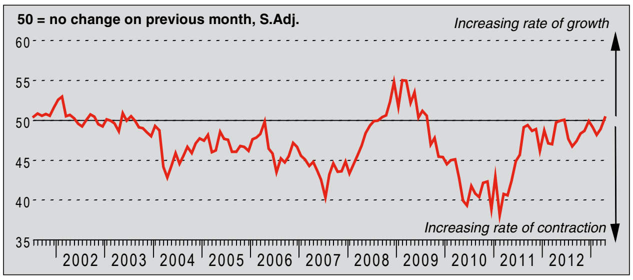


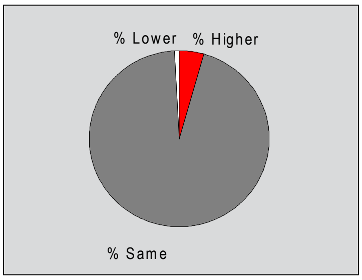


April survey data indicated a fall in prices paid by Czech manufacturers for raw materials and other inputs. The seasonally adjusted Input Prices Index fell below the no-change mark of 50.0 for the first time since July 2012, as 10% of respondents reported lower cost burdens. Anecdotal evidence primarily attributed lower input costs to falling metals prices. The overall rate of reduction in average input prices was the strongest since July 2009.

Suppliers' Delivery Times Index

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

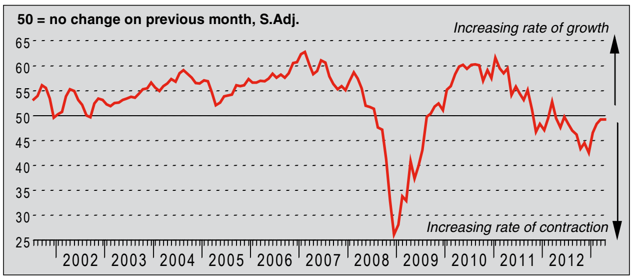


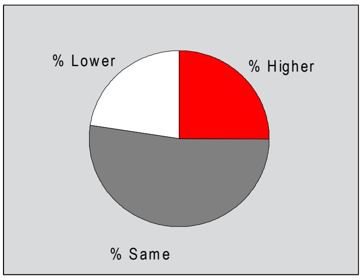


Supplier performance improved marginally in April compared with the previous month. The seasonally adjusted Suppliers' Delivery Times Index rose above the no-change mark of 50.0, signalling slightly shorter average times than in March. That ended a nine-month sequence of deteriorating vendor performance.

Quantity of Purchases Index

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

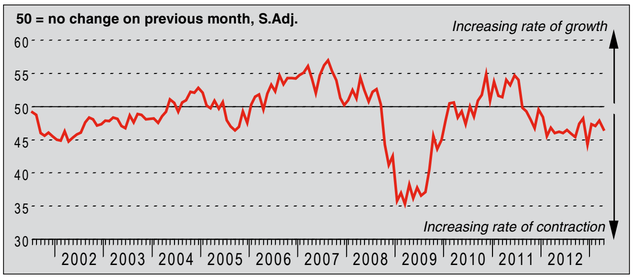


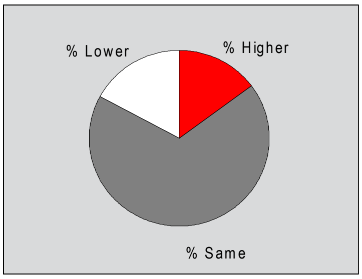


Purchasing activity by manufacturers continued to decline in April, albeit only marginally. The current sequence of falling input volumes now stretches to 13 months, although the latest reduction was the weakest since last June. Where purchasing activity declined since March, this was mainly linked to reduced intakes of 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 continued to fall on average in April. The current 21-month sequence of declining input stocks is the longest registered in nine years. Moreover, the rate of depletion accelerated on the month to the fastest in 2013 so far, and the seasonally adjusted Stocks of Purchases Index remained below its long-run trend level. Firms reported optimising their inventories in line with current order book levels.

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