

HSBC Czech Republic Manufacturing PMI®

Marginal growth in production maintained in May

Key findings:

- Second successive fractional increase in output aids overall stabilisation in business conditions
- Manufacturing employment rises for first time in ten months
- Input prices fall for second month running, albeit marginally

Business conditions in the Czech manufacturing sector stabilised in May despite a further slight fall in new orders, HSBC PMI® data showed. The volume of output rose marginally for the second month running, having previously fallen for eight months in a row. Moreover, firms expanded workforces for the first time since July 2012. Survey data also signalled a further drop in cost pressures, as both average input prices and factory gate prices continued to decline.

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 improved to 50.1 in May, from 49.5 the previous month. By registering just above the neutral threshold of 50.0, the headline figure signalled an end to the 13-month sequence of deteriorating business conditions in the Czech manufacturing sector. That said, the latest figure only indicated a stabilisation, and not an outright improvement in the business climate since April.

The upward movement in the PMI since April reflected four of the five components – output, new orders, employment and suppliers' delivery times. Among these, however, new orders continued to exhibit an overall negative influence, signalling marginal decline.

The volume of new business fell for the third month in succession

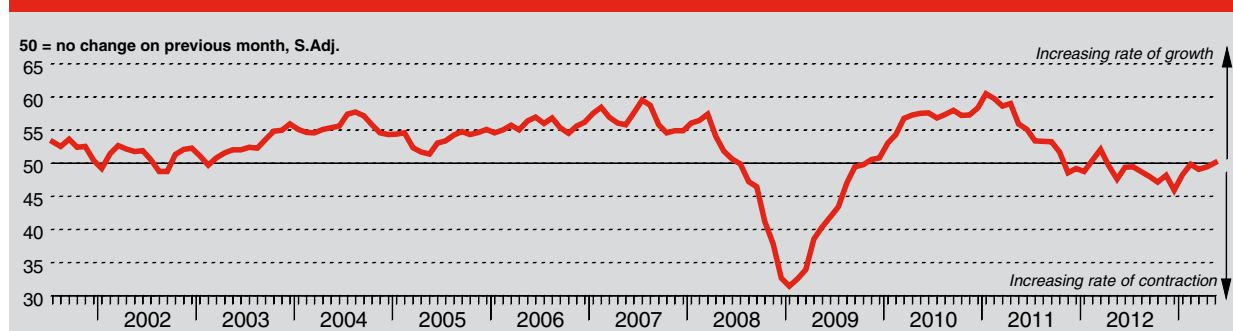
in May, and has now declined 13 times in the past 14 months. That said, the rate of contraction remained only marginal in the latest period. New export business fell for the nineteenth consecutive month, but only slightly as some firms reported improving demand from European markets including Germany and Poland.

Growth of manufacturing output was maintained in May, albeit at a marginal pace. This sequence of expansion followed an eight-month spell of decline. Backlogs of work continued to decrease, however, suggesting ongoing spare capacity. The volume of incomplete business in the sector has fallen continuously since last April except for a brief period of stabilisation in February and March.

The rise in production was accompanied by an increase in employment in May, the first round of job creation since last July. But manufacturers continued to cut purchasing activity and stocks of both inputs and final goods. Input volumes fell at the fastest rate in four months but suppliers' delivery times lengthened slightly, reflecting low stocks at vendors.

Manufacturers' input prices fell for the second month running in May, the first back-to-back decline registered in three-and-a-half years. Lower metals prices were reported, although the overall reduction in input prices was only slight. Meanwhile, goods producers cut their own prices for the sixteenth successive month.

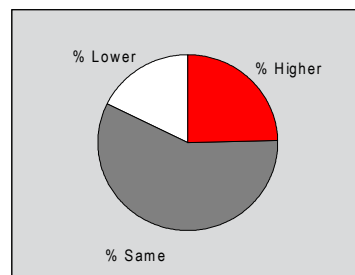
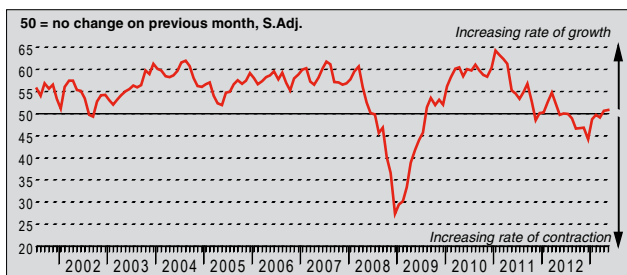
HSBC Czech Republic Purchasing Managers' Index® (PMI®)



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

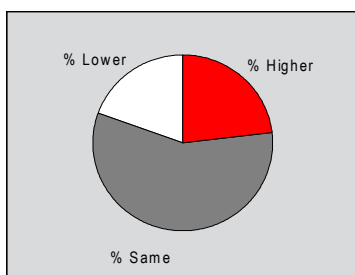
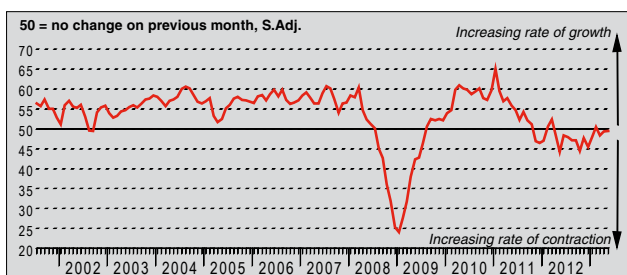
Q. Please compare your production/output this month with the situation one month ago.



Czech manufacturing production rose in May, as was the case at the start of the second quarter. The seasonally adjusted Output Index remained at a level indicative of only a marginal rate of expansion. Prior to April, output had fallen for eight months in succession, the second-longest sequence in 12 years of data collection to date. Where output rose, firms mainly linked growth to some signs of improving new order inflows, in part from export markets.

New Orders Index

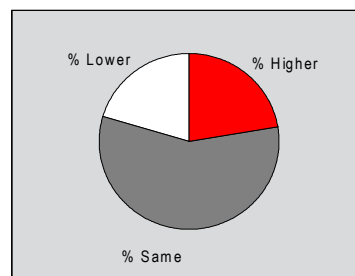
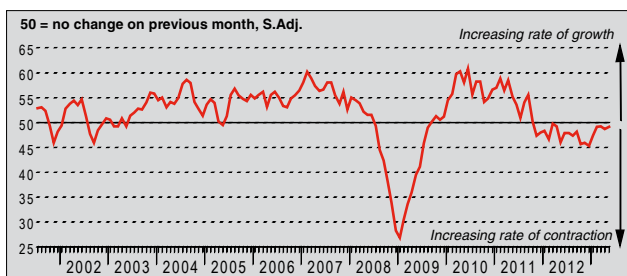
Q. Please compare the level of new orders received this month with the situation one month ago.



The overall volume of new work received by Czech goods producers continued to decline in May. New orders have contracted every month since April 2012, with the sole exception of a marginal increase in February. That said, the rate of decline in the past two periods has been only marginal, with the seasonally adjusted New Orders Index only just below neutrality.

New Export Orders Index

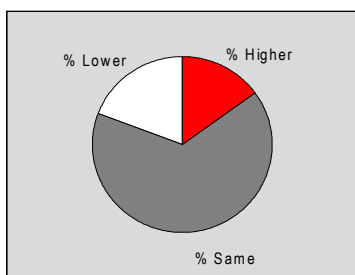
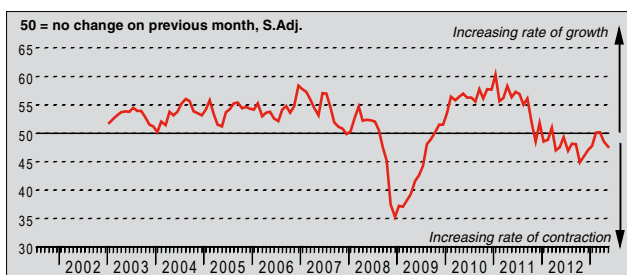
Q. Please compare the level of new export orders received this month with the situation of one month ago.



The seasonally adjusted New Export Orders Index remained below the no-change mark of 50.0 for the nineteenth successive month in May, signalling an ongoing decline in new work received from export markets. The current downturn is the longest observed in the survey history, but of a much weaker severity than that seen in 2008-09. The rate of decline in May was only marginal, and some firms reported a recovery in demand from European markets.

Backlogs of Work Index

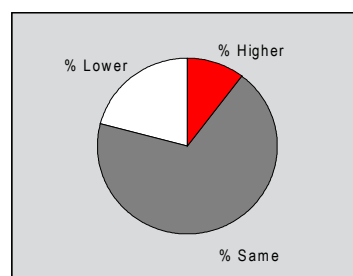
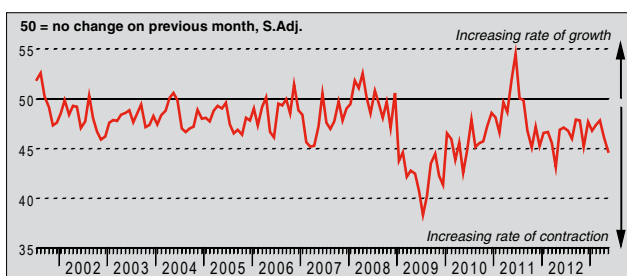
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The volume of outstanding business in the Czech goods-producing sector declined in May, and at a stronger rate than at the start of the second quarter. Backlogs have risen only four times in the past year-and-a-half, reflective of the downturn in demand across the sector. Firms highlighted low demand levels and spare capacity at their units.

Stocks of Finished Goods Index

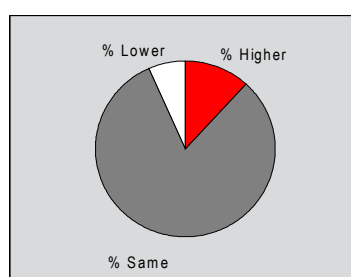
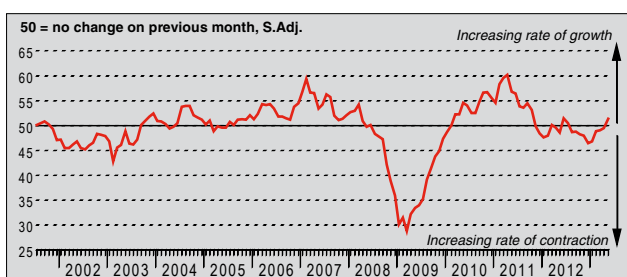
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Survey data indicated a sharp fall in final goods inventories at Czech manufacturers in May. The seasonally adjusted Stocks of Finished Goods Index fell for the second month running, and signalled the steepest rate of contraction since April 2012. More than one-in-five companies reported lower finished goods stocks, linked to cuts to backlogs, optimised production schedules, pressure for faster despatch of orders and selling off old items.

Employment Index

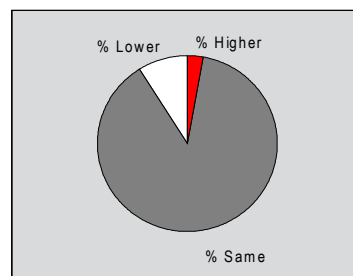
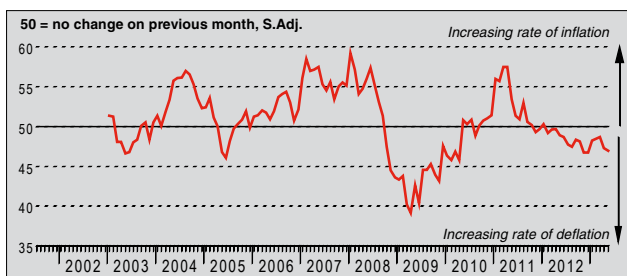
Q. Please compare the level of employment at your unit with the situation one month ago.



Rising above the no-change mark of 50.0, the seasonally adjusted Employment Index signalled growth of the Czech manufacturing workforce mid-way through the second quarter. This followed a nine-month sequence of job shedding across the sector. Moreover, the Index was greater than the long-run trend level of 49.6. Around 12% of firms reported hiring more staff during the month, linked to higher production requirements and new orders, partly from export markets.

Output Prices Index

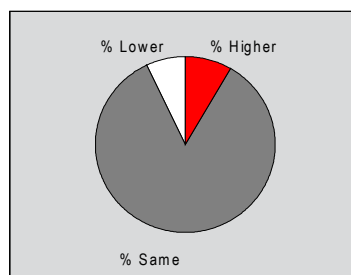
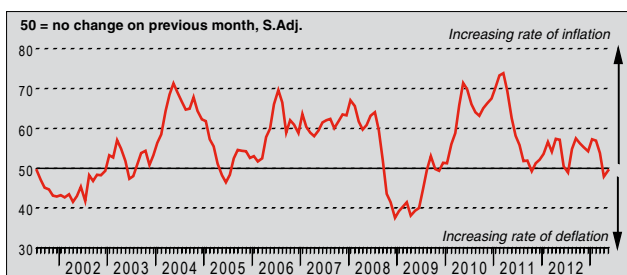
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Survey data indicated downward pressure on factory gate prices in May. Output prices charged for final manufactured goods declined for the sixteenth month in a row, and at the fastest pace since last December. Firms reported pressure from customers to offer discounts, international competition and lower raw material prices.

Input Prices Index

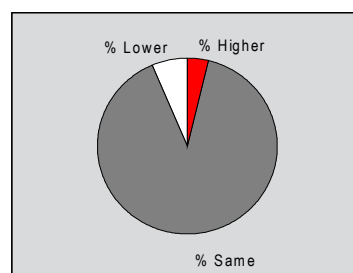
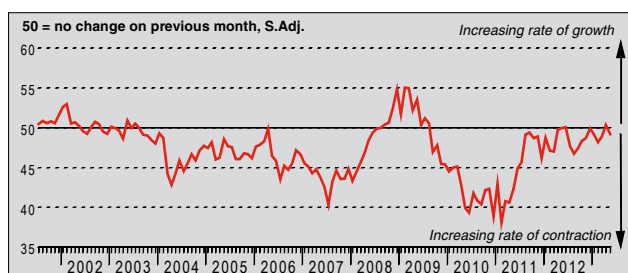
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Average input prices fell for the second month running in May. Anecdotal evidence generally linked lower raw material prices paid by manufacturers to competition among suppliers. Specifically, a range of metals were reported to have fallen in price during the month, including aluminium, steel, copper and brass. That said, the overall reduction in average input prices was weaker than April's 45-month record, and only marginal.

Suppliers' Delivery Times Index

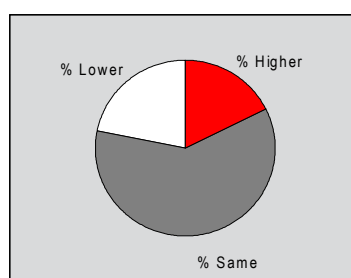
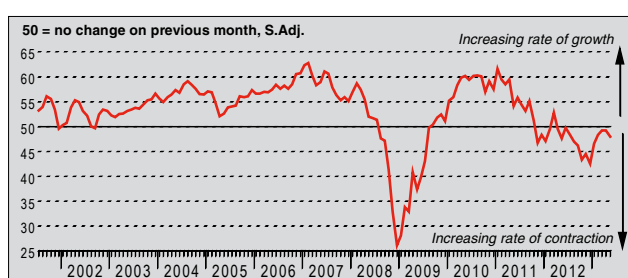
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Suppliers' delivery times lengthened slightly in May, following an overall shortening in lead times the previous month. That said, around 90% of survey respondents reported no change in vendor performance since one month previously, indicative of subdued demand in the sector. Where times lengthened, at around 7% of firms, this was linked to low stock at suppliers.

Quantity of Purchases Index

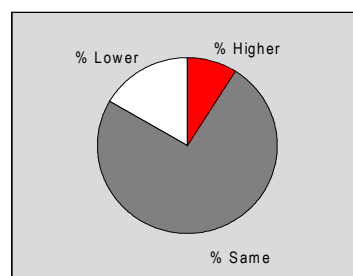
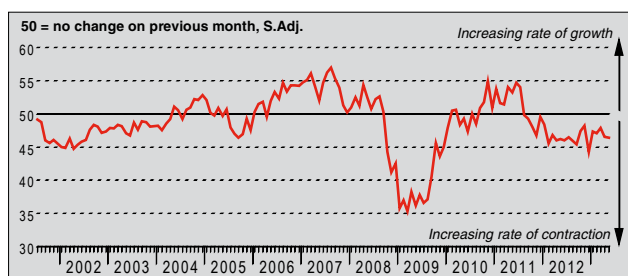
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Although output rose slightly in May, manufacturers continued to cut the volume of new inputs purchased. The seasonally adjusted Quantity of Purchases Index remained below 50.0 for the fourteenth successive month, and the latest figure signalled the fastest rate of contraction since January. Firms reported continuing to adjust stock levels in line with low output requirements.

Stocks of Purchases Index

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



Pre-production inventories declined in May at the fastest rate in 2013 so far. The current sequence of declining stock levels now stretches to 22 months. Around 17% of survey respondents reported lowering their input stocks, linked to efforts to optimise working capital in line with order books.

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

The intellectual property rights to the HSBC Czech Republic Manufacturing PMI provided herein is owned by Markit Economics Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. 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.