Embargoed until: 09:30 (PRAGUE), 1 July 2013

HSBC Czech Republic Manufacturing PMI®

Output growth picks up in June as new orders rise

Key findings:

- Strongest increase in output since March 2012
- New export orders grow for first time since October 2011
- Output prices continue to fall

Business conditions in the Czech manufacturing sector posted the first notable improvement for over a year in June, according to HSBC *PMI*[®] data from Markit. Output rose at a faster rate and new orders increased for the first time in four months, helped by a resumption of export growth. The volume of items purchased by manufacturers and average input prices both rose slightly since May, although stocks continued to decline. Employment growth was fractional and firms continued to cut their output prices, highlighting the ongoing fragility of demand in the manufacturing sector.

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 rose for the third month running to 51.0 in June, from 50.1 in May. That signalled the best overall improvement in operating conditions since March 2012, although the Index remained below its long-run trend level of 52.3.

The three main components of the headline index – new orders, output and employment – all registered positive influences in June, only the second such outcome in the past 20 months. Meanwhile, suppliers' delivery times were broadly neutral and stocks of purchases continued to weigh slightly on the headline figure, albeit to a lesser extent.

Total new orders received by Czech goods producers rose for the first time in four months in June. Moreover, the increase was stronger than that shown in February, and was supported by a rise in new export business for the first time since October 2011.

New business receipts drove output higher in June. Furthermore, the rate of production growth accelerated from the marginal pace shown over the previous two months to the fastest since March 2012. Backlogs were unchanged in June, having declined in May at the fastest rate in five months.

Greater production requirements generated a rise in the volume of inputs purchased by manufacturers, the first increase in 15 months. That said, growth was only marginal and stocks of inputs continued to fall (albeit at the weakest rate since last November). Suppliers' delivery times were broadly unchanged since May.

Manufacturing employment meanwhile rose for the second month running in June. The rate of job creation slowed, however, to a marginal rate.

Price pressures remained muted in June. Average input prices rose for the first time in three months, but at only a marginal rate that was well below the survey's 12-year average. Meanwhile, prices charged for final manufactured goods declined for the seventeenth month in a row as firms continued to report competitive market conditions.



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.

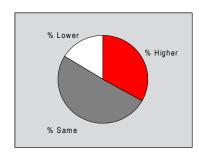




Output Index

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



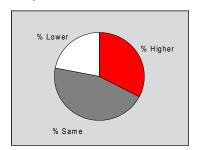


Goods production in the Czech Republic grew for the third month running in June, as signalled by the seasonally adjusted Output Index remaining above 50.0. Moreover, the Index rose since May, and indicated the fastest rate of expansion since March 2012. Output had risen only marginally in the prior two months. Firms generally attributed higher production to improving new order inflows.

New Orders Index

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



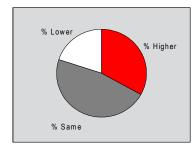


The seasonally adjusted New Orders Index rose above the no-change mark of 50.0 in June, following a three-month period in contraction territory. The rise in new business signalled was only modest, but nonetheless the sharpest since March 2012. June's increase was only the fourth registered over the past 20 months. Firms reported a moderate improvement in demand, and winning new work from both existing and new customers.

New Export Orders Index

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



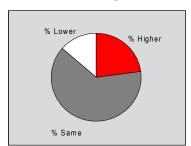


The volume of new work received by Czech manufacturers from export markets increased in June, the first expansion since October 2011. The seasonally adjusted New Export Orders Index rose for the fifth time in six months, and was broadly in line with its historic average. Germany, Asian and Eastern European markets in general were highlighted by anecdotal evidence as being sources of rising demand in June.

Backlogs of Work Index

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

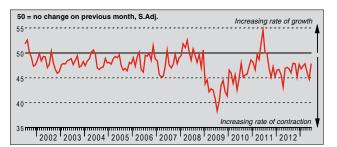


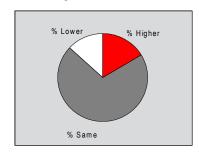


The volume of outstanding business held at Czech manufacturers was broadly unchanged in June compared with one month previously. That followed a solid decline in May. Where backlogs rose, this was linked to incoming new orders and higher production requirements. Lower levels of incomplete work were attributed 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.



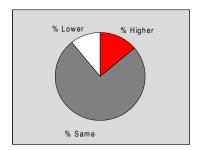


The current cycle of destocking in the Czech manufacturing sector continued in June. The seasonally adjusted Stocks of Finished Goods Index remained below the no-change mark of 50.0 for the twenty-third successive month, although the latest figure signalled a slower rate of decline than May's 13-month record.

Employment Index

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



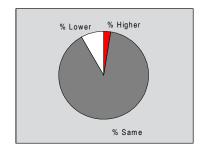


Manufacturing employment in the Czech Republic rose for the second month running in June, following a nine-month sequence of job shedding. Recruitment was linked to new orders, higher production and increased capacity. That said, the rate of growth slowed from May's 11-month high, to a marginal pace. Around three-quarters of firms held workforces constant during the month.

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.



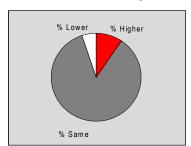


Pricing power among Czech manufacturers remained weak in June, despite the renewed rise in new orders. Average prices charged for final goods fell for the seventeenth consecutive month, and the rate of reduction remained stronger than the trend shown over this sequence despite easing slightly since May. Firms linked lower prices to pressure from customers to offer discounts (notably those in Europe and the US) and exchange rate pressures.

Input Prices Index

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



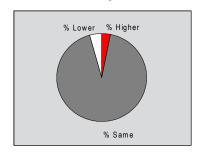


The seasonally adjusted Input Prices Index rose above the no-change mark of 50.0 in June, having signalled falling purchase prices in April and May. Anecdotal evidence linked higher cost pressures to rising prices for foodstuffs and metals. That said, the overall rate of inflation was only marginal. Around 10% of survey respondents reported higher average input prices during the month.

Suppliers' Delivery Times Index

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



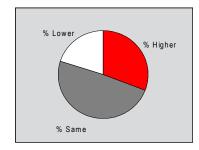


The time taken by suppliers to deliver inputs to manufacturers in the Czech Republic was little-changed in June compared with one month previously. That was in line with the trend shown over the second quarter as a whole. There were some reports that poor weather had hampered suppliers during the month.

Quantity of Purchases Index

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



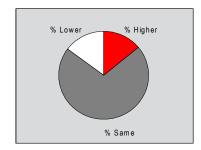


The volume of inputs purchased by Czech manufacturers rose for the first time in 15 months in June. Firms linked higher purchasing activity to intakes of new work and rising production. The seasonally adjusted Quantity of Purchases Index was above 50.0 for only the second time in the past 20 months, although the latest figure signalled only a marginal rate of expansion.

Stocks of Purchases Index

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





Pre-production inventories continued to decline on average in June, despite the overall rise in purchasing activity. This reflected stronger output growth, although the latest fall in input stocks was the weakest observed since November 2012. Around 15% of firms reported lower holdings of raw materials and other purchases.

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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