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HSBC Czech Republic Manufacturing PMI®

Strongest rise in new orders for nearly two years underpins manufacturing recovery

Key findings:

- New business boosted by improving export demand
- Production grows for fourth month running
- Input prices fall for third time in four months

HSBC *PMI®* data for the Czech manufacturing sector indicated a strengthening recovery in business conditions at the start of the second half of 2013. New orders, exports, output and employment all rose in July, in a sign of demand gaining momentum. Inflationary pressures remained weak, with both input and output prices falling during the month. Meanwhile, firms remained cautious with regard to stock levels, cutting new purchases slightly and registering further declines in both pre- and post-production inventories.

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 fourth month running to 52.0 in July, from 51.0 in June. That signalled the best overall improvement in business conditions since March 2012, and was the second-highest reading since September 2011. It was also only slightly weaker than the long-run survey average of 52.3.

Four of the five components of the headline index – new orders, output, employment and suppliers' delivery times – exerted positive influences in July. Of these, new orders exerted the strongest overall contribution, followed by output. Stocks of purchases continued to weigh on the headline figure, but to the weakest extent since December 2011.

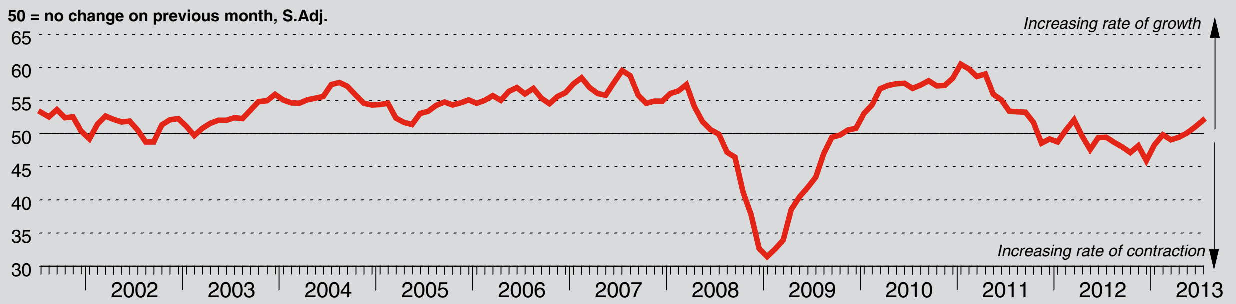
The volume of new orders received by Czech manufacturers rose for the second successive month in July, the first sustained increase in new work in the sector in 16 months. Moreover, the rate of growth accelerated to the fastest since August 2011. Survey data signalled that new export business rose at the fastest rate since September 2011, and firms reported improving demand from a range of markets including the US, UK, Germany, Russia, Poland and the Far East.

Manufacturing output expanded for the fourth month in a row in July, at a rate little-changed from June's 15-month high. Prior to April, production had declined continuously for eight months, the second-longest sequence in the 12-year survey history. Output growth in the latest period was weaker than the rise in new business, however, generating a further increase in backlogs of work.

Czech manufacturing employment rose for the third month running in July, in support of rising workloads. The rate of workforce growth was the fastest since October 2011. Firms cut input purchases slightly, however, as they extended the current phase of destocking to 24 months. Meanwhile, average input prices fell for the third time in four months, and at a similar rate to April's 45-month record.

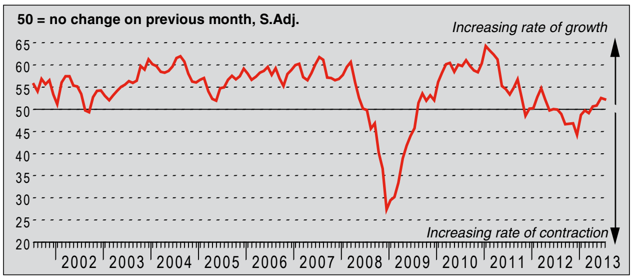
Czech manufacturers continued to cut their output prices in July. This extended the current sequence of discounting to 18 months, although the rate of reduction eased.

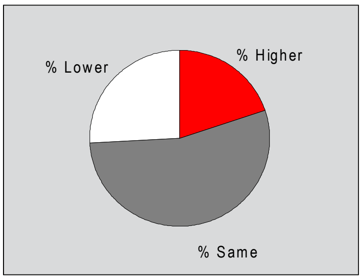
HSBC Czech Republic *Purchasing Managers' Index® (PMI®)*



Output Index

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

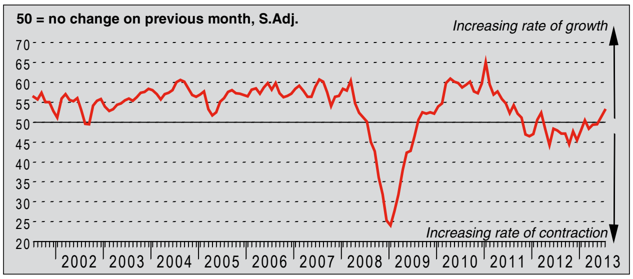


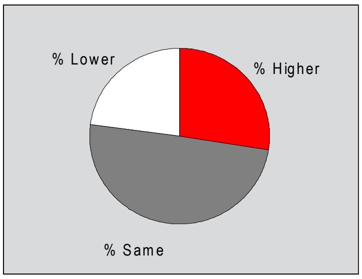


Growth of manufacturing production in the Czech Republic was maintained for the fourth month running in July. Anecdotal evidence mainly linked rising output to improving order book trends. The rate of expansion was moderate overall, and broadly similar to June's 15-month high. The seasonally adjusted Output Index was below its long-run trend level of 54.3.

New Orders Index

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

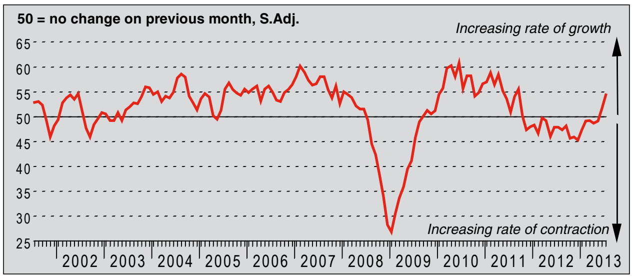


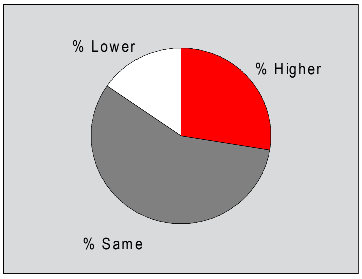


The volume of new business received by Czech goods producers increased for the second month in a row in July. This marked the first back-to-back growth in 16 months. Moreover, the seasonally adjusted New Orders Index rose on the month and signalled the fastest rate of expansion since August 2011. The Index was only slightly below its long-run average during the latest period. Firms reported improving demand from both domestic and export markets.

New Export Orders Index

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

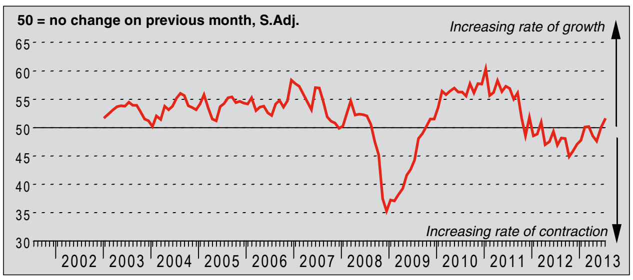


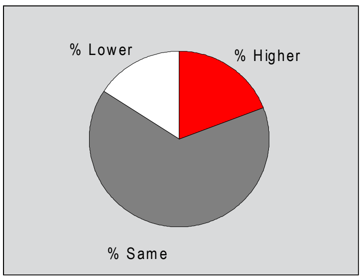


July data indicated a solid increase in new export orders received by Czech manufacturers. The seasonally adjusted New Export Orders Index remained above the no-change mark of 50.0 for the second month running, and signalled the fastest rate of expansion since September 2011. It was also well above its long-run average of 51.7. Firms reported export growth from a range of markets, including the US, UK, Germany, Russia, Poland and other European markets as well as the Far East.

Backlogs of Work Index

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

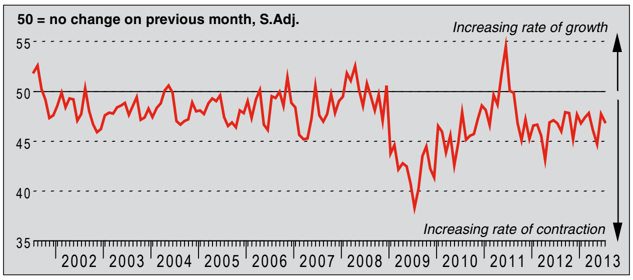


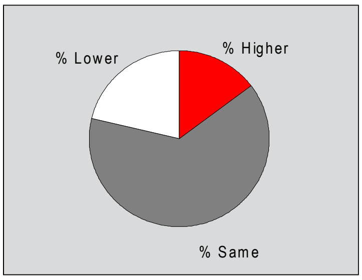


Reflecting the strengthening in new order inflows, the volume of outstanding business in the Czech manufacturing sector rose in July. A number of firms linked higher levels of incomplete work to new projects and rising demand. Moreover, the rate of backlog growth was the fastest signalled since December 2011. July's increase followed broadly no change in outstanding business in the previous month.

Stocks of Finished Goods Index

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

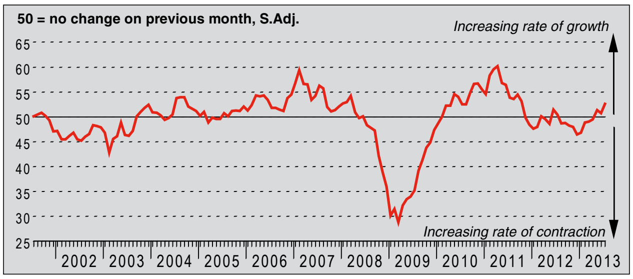


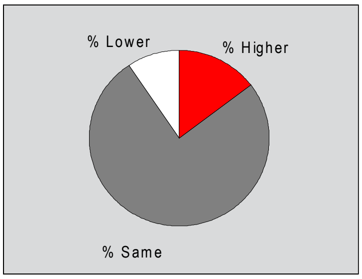


The current sequence of destocking of final goods among Czech manufacturers was extended to two years in July. The seasonally adjusted Stocks of Finished Goods Index was broadly in line with the average over the past 24 months of sub-50.0 readings, and indicated a solid rate of depletion. Firms linked lower inventory levels to both rising sales and efforts to clear out excess stock.

Employment Index

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

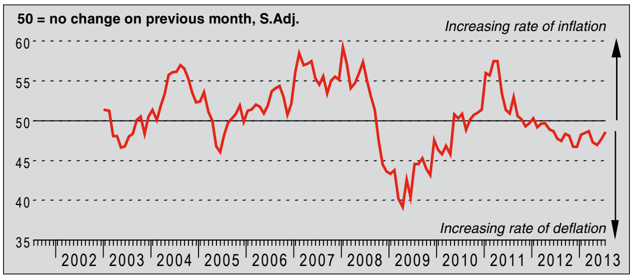


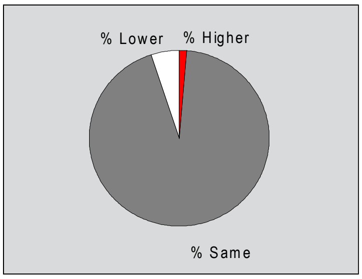


Czech manufacturers raised employment for the third month running in July. That marked the longest sequence of job creation in 21 months. Moreover, the seasonally adjusted Employment Index rose on the month, signalling the fastest rate of expansion since October 2011. Anecdotal evidence linked recruitment to higher production requirements, improving demand and the planned expansion of capacity.

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.

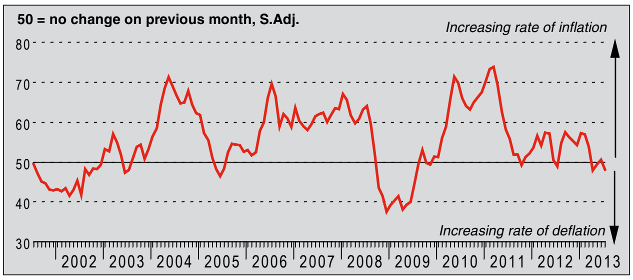


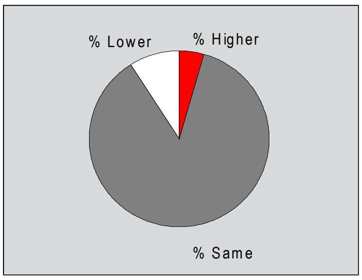


Prices charged for finished Czech manufactured goods fell for the eighteenth consecutive month in July, the second-longest sequence of discounting in the series history. The rate of reduction moderated slightly, however, to the weakest in four months. Firms reported cutting prices as part of sales drives and also in response to 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.

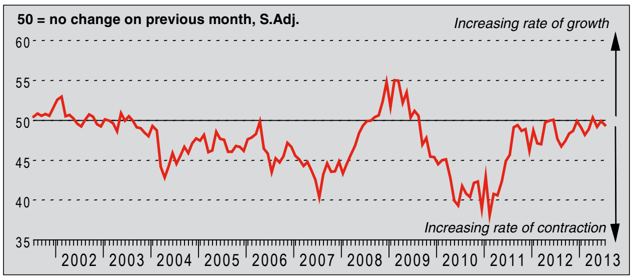


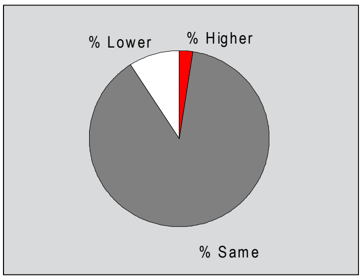


Average input prices paid by Czech manufacturers declined for the third time in four months in July, with the seasonally adjusted Input Prices Index falling to the second-lowest level in four years. Anecdotal evidence reported metals as having fallen in price, including copper and steel, which offset higher prices for oil-based products.

Suppliers' Delivery Times Index

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

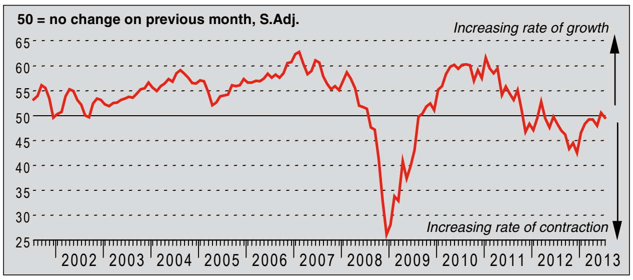


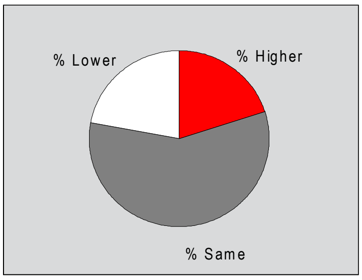


Suppliers' delivery times in the Czech manufacturing sector were slightly longer on average in July, having been broadly unchanged the previous month. Vendor performance in the sector has improved only once in the past 13 months, when times quickened slightly in April. The lengthening in the latest period partly reflected renewed growth in manufacturers' input volumes in June.

Quantity of Purchases Index

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

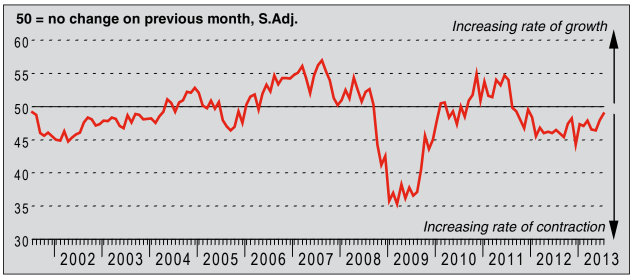


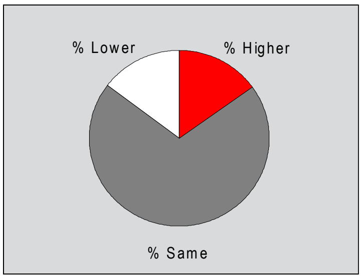


The seasonally adjusted Quantity of Purchases Index registered below the no-change mark of 50.0 in July, indicating a fall in purchasing activity at Czech goods producers. That followed growth in the previous month, the first expansion since March 2012. That said, the rate of depletion in new input purchases in the latest period was only marginal.

Stocks of Purchases Index

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





The level of inputs held in stock at Czech manufacturers declined further in July, extending the current sequence of contraction to two years. The seasonally adjusted Stocks of Purchases Index rose for the second month running, however, to a level indicative of only a marginal rate of decline.

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