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HSBC Czech Republic Manufacturing PMI®

New orders rise at strongest rate in over two years

Key findings:

- New business boosted by sharp increase in new export orders
- Production growth accelerates
- Manufacturing employment rises for fourth consecutive month

The Czech Republic's manufacturing recovery gained momentum in August, according to HSBC *PMI*° data compiled by Markit. The latest survey revealed a sharp rise in new orders, boosted by new export business. This led to a faster increase in production and sustained workforce growth. Moreover, solid purchasing growth led to the first rise in input stocks in over two years. Inflationary pressures remained muted, with input and output prices both falling marginally.

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 remained above the no-change mark of 50.0 for the fourth month running in August and rose to 53.9, from 52.0. The latest figure signalled the strongest overall improvement in business conditions since June 2011.

All five components of the headline index exerted positive contributions in August, the first broad-based improvement since July 2011. Moreover, the upward movement in the PMI was reflected in all components except employment.

Manufacturing new orders rose for the third month running in August, the longest growth sequence in nearly two years. Moreover, the rate of expansion accelerated to the fastest since

May 2011. Data signalled solid growth in domestic markets and the fastest rise in new export orders since April 2011.

Improving new business inflows led to a strengthening in output growth in August. The volume of manufacturing production rose for the fifth month running, and at the fastest rate since September 2011. Meanwhile, the volume of outstanding work increased for the third consecutive month. The rate of backlog growth was also the strongest since September 2011.

Higher workloads and sharper increases in new orders led to rising demand for inputs at manufacturers. The volume of purchasing activity grew at the fastest rate in nearly two years, having declined marginally in July. As a result, stocks of purchases rose for the first time since July 2011.

Manufacturers in the Czech Republic increased employment for the fourth successive month in August. That marked the longest sequence of job creation in 22 months. The rate of workforce growth eased since July to a modest pace.

Inflationary pressures in the Czech manufacturing sector remained soft mid-way through the third quarter. Input prices fell for the fourth time in five months, albeit at a marginal rate. Meanwhile, prices charged for finished manufactured goods declined for the nineteenth month running. That was the joint-longest sequence of discounting in the survey history, although the rate of reduction in the latest period was also marginal.



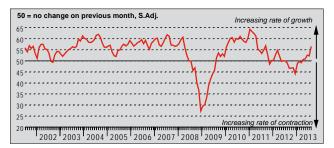
The HSBC Czech Republic *Purchasing Managers' Index* (*PMP*) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in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

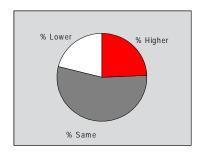




Output Index

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



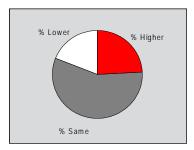


Goods production in the Czech Republic grew for the fifth successive month in August. Moreover, the rate of expansion accelerated to the sharpest in nearly two years. The Index rose for the fourth time in five months, and the latest figure was higher than the long-run survey average. Anecdotal evidence mainly linked higher production to rising intakes of new orders.

New Orders Index

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



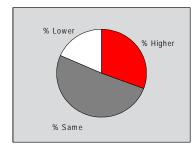


Survey data indicated a third consecutive monthly rise in new orders received by Czech manufacturers in August. That marked the longest growth sequence in 22 months. Moreover, the seasonally adjusted New Orders Index improved to a 27-month high, and was above its long-run average, indicating a strong rate of expansion. Firms linked higher intakes of new work to improving demand.

New Export Orders Index

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



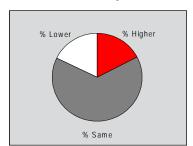


The seasonally adjusted New Export Orders Index rose for the seventh time in eight months in August, to its highest since April 2011. That signalled a sharp increase in new work from international markets. The overall volume of new export business grew for the third month running, following a survey-record 19-month sequence of decline. Anecdotal evidence mentioned the US, UK and mainland Europe as sources of growth.

Backlogs of Work Index

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

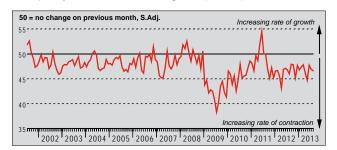


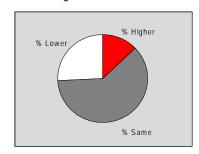


In a sign of growing pressure on capacity, backlogs of work at Czech manufacturers rose for the third month running in August. Moreover, the rate of expansion in outstanding business accelerated further, to the fastest since September 2011. Firms mainly linked higher levels of outstanding business to increased demand.

Stocks of Finished Goods Index

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



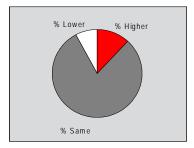


The overall volume of finished goods held in stock at Czech manufacturers continued to decline in August. The rate of depletion was solid, and the fastest since May. Moreover, the seasonally adjusted Stocks of Finished Goods Index remained below its long-run average (47.5). Firms continued to report attempts to clear out old stock.

Employment Index

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



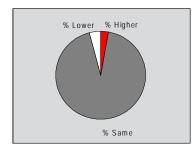


Manufacturing employment in the Czech Republic rose for the fourth month running in August. The rate of job creation eased slightly from July's 21-month high, however, and was modest overall. Firms linked recruitment during the month to higher current and expected workloads. Prior to May, employment in the sector had declined for nine months running.

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.



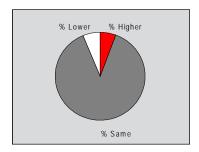


Output prices charged by Czech manufacturers declined for the nineteenth month in a row in August, the joint-longest sequence since charges data were first collected in January 2003. That said, the rate of reduction slowed for the third successive month to the weakest since April 2012.

Input Prices Index

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



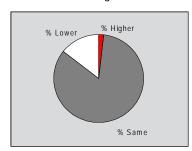


The seasonally adjusted Input Prices Index posted below the no-change mark of 50.0 for the fourth time in five months in August, signalling falling average input costs paid by Czech manufacturers. Anecdotal evidence linked lower cost pressures to falling prices for metals and rubber products such as tyres. That said, the overall rate of reduction in the latest period was only marginal.

Suppliers' Delivery Times Index

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



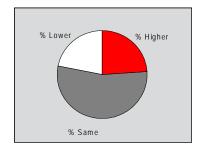


Supplier performance deteriorated further in August. The seasonally adjusted Suppliers' Delivery Times Index remained below the no-change mark of 50.0 for the fourth consecutive month, and fell to the lowest since February. That said, the latest figure signalled only a modest lengthening in average delivery times. Longer delivery times reflected rising demand for inputs.

Quantity of Purchases Index

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



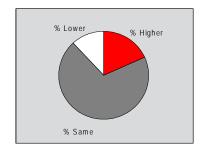


Purchasing activity by Czech manufacturers rebounded in August, having declined marginally the previous month. August's expansion was only the third registered in 22 months. Moreover, the rate of growth was the fastest since September 2011. Firms linked higher purchasing activity to increased production and improving new order inflows.

Stocks of Purchases Index

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





The seasonally adjusted Stocks of Purchases Index rose above the no-change threshold in August, following a two-year sequence of sub-50.0 readings. This signalled an overall increase in the volume of inputs held in stock at Czech goods producers. Firms linked higher stock levels to rising production volumes, the commencement of new projects and building safety stocks.

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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