

HSBC Czech Republic Manufacturing PMI®

Strong output growth maintained in September

Key findings:

- Production expands for sixth month running
- New order growth eases
- Fifth successive month of job creation

The manufacturing recovery in the Czech Republic continued in September, according to HSBC PMI® data compiled by Markit. Output growth was maintained at a strong pace, supported by rising new orders from both domestic and export markets. Purchasing growth meanwhile strengthened to the highest in more than two years, generating another increase in input inventories. Manufacturers continued to add staff, but backlogs rose at a stronger rate. Inflationary pressures remained historically weak, despite a renewed increase in average input prices.

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.

Remaining firmly in expansion territory in September, the PMI signalled another improvement in operating conditions at Czech manufacturers. The headline figure fell from August's 53.9, but the latest figure of 53.4 remained above the long-run average of 52.4. For the second month running, all five components contributed positively. The average PMI reading for Q3 (53.1) was the highest since Q3 2011.

The volume of new orders received by manufacturers increased for the fourth month running in September, the longest growth sequence in nearly two years. The rate of growth was solid

despite easing since August, and supported by another sharp rise in new export contracts. This in turn was partly attributed by survey respondents to improving European and US demand.

Production grew for the sixth month in succession in September. The rate of expansion remained historically high despite easing since August. Backlogs of work increased for the fourth month running, however, and at the fastest rate in two years.

Manufacturers invested in new staff to support growing demand. Employment in the goods-producing sector rose for the fifth month running in September, at a rate broadly unchanged from August.

September data also indicated increased purchasing activity among Czech manufacturers. Moreover, the rate of growth in input volumes was the strongest since June 2011. This generated another rise in input stocks in the sector, and the greatest lengthening in suppliers' delivery times for over a year.

Average input prices rose for the first time in three months in September, influenced by higher oil prices. Firms also reported higher prices for steel, food and wood. That said, the overall rate of input price inflation was weak in the context of historic survey data.

Czech manufacturers continued to offer discounts to customers to win or maintain business in September. Factory gate prices fell for the twentieth consecutive month, albeit at a modest rate.

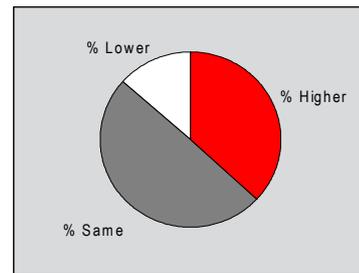
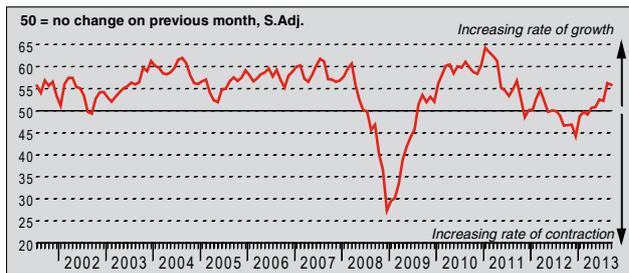
HSBC Czech Republic Purchasing Managers' Index® (PMI®)



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

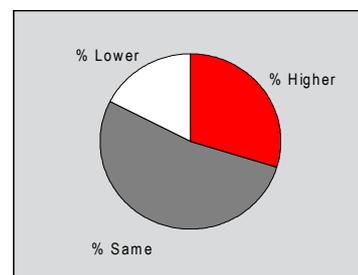
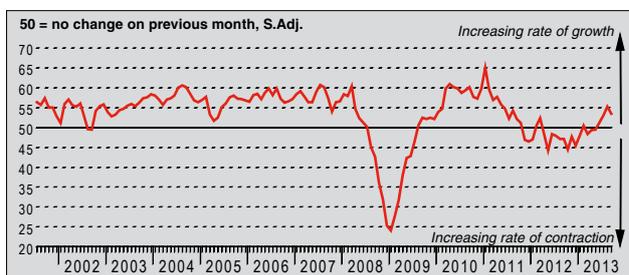
Q. Please compare your production/output this month with the situation one month ago.



Manufacturing output in the Czech Republic rose for the sixth consecutive month in September. This marked the longest run of growth in nearly two years. The rate of expansion eased from August's 23-month high, but remained stronger than the long-run survey average. Anecdotal evidence linked higher output to improving new order inflows.

New Orders Index

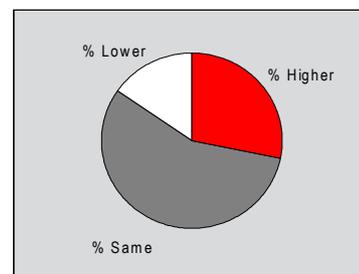
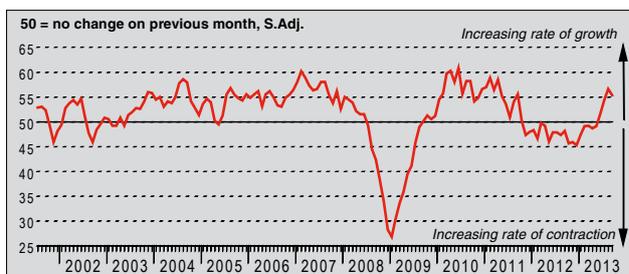
Q. Please compare the level of new orders received this month with the situation one month ago.



The seasonally adjusted New Orders Index signalled a fourth successive monthly increase in the volume of new business received from Czech goods producers in September. The rate of growth was solid overall, but weaker than August's 27-month record. The downward movement in the index was the first registered since March. Firms linked growth to new clients, export business and improving demand from the auto and construction sectors.

New Export Orders Index

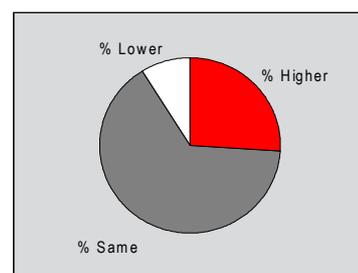
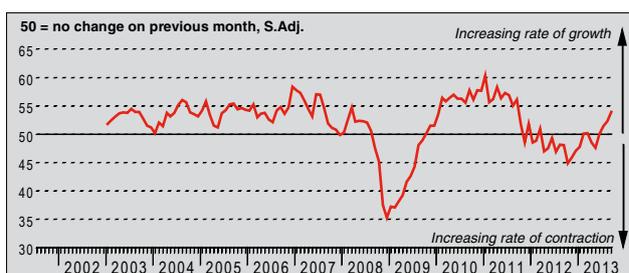
Q. Please compare the level of new export orders received this month with the situation of one month ago.



The volume of new export orders also rose for the fourth month running in the latest period. The seasonally adjusted New Export Orders Index fell from August's 28-month high, but nevertheless signalled an historically strong rate of expansion. Growth was linked to the start-up of new projects at clients, and there was mention of strengthening US and European demand.

Backlogs of Work Index

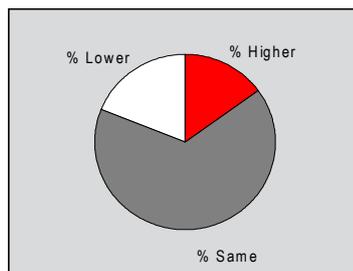
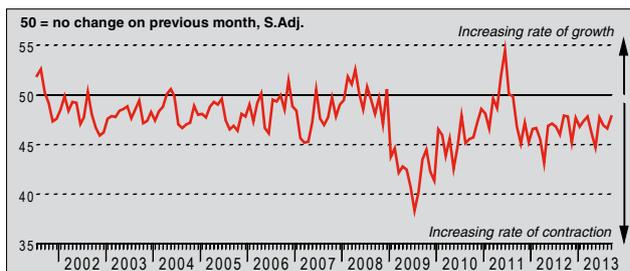
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The rate at which manufacturing backlogs accumulated accelerated in September, as signalled by the seasonally adjusted Backlogs of Work Index reaching a two-year high. The latest figure was also greater than the long-run average of 52.0. Outstanding business has risen continuously since June. Backlog growth was mainly attributed to pressure on capacity from strengthening demand.

Stocks of Finished Goods Index

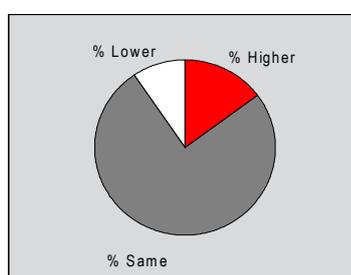
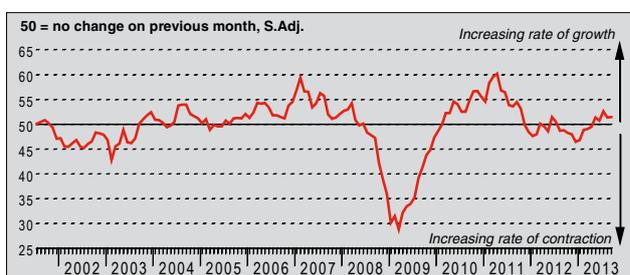
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Czech manufacturers continued to run down their holdings of finished goods in September. The seasonally adjusted Stocks of Finished Goods Index remained below the no-change mark of 50.0 for the twenty-sixth consecutive month, although it rose since August to signal a weaker rate of contraction.

Employment Index

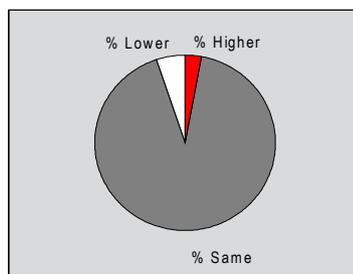
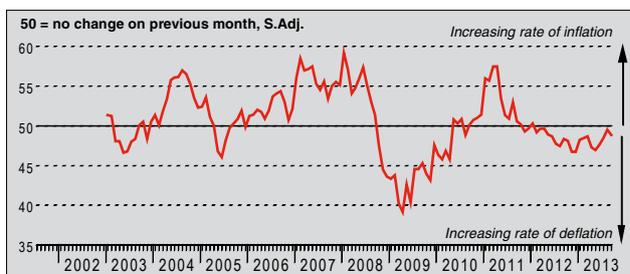
Q. Please compare the level of employment at your unit with the situation one month ago.



The level of employment in the Czech manufacturing economy rose for the fifth month in a row in September. The rate of job creation was little-changed from August's modest pace. Firms linked recruitment to higher production, new projects and improving new orders. Prior to May, the manufacturing workforce had shrunk for nine consecutive months.

Output Prices Index

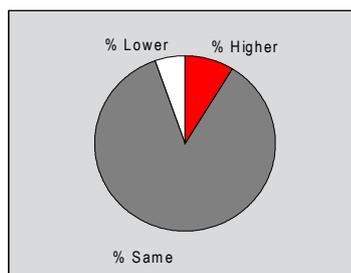
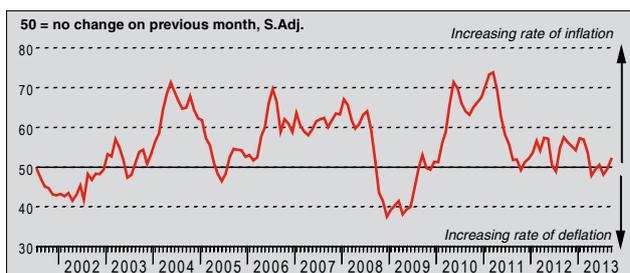
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Factory gate prices continued to fall on average during September. The current sequence of decline in output prices now stretches to 20 months. The rate of reduction accelerated slightly from August, but remained weaker than the average over the current period of discounting. Firms linked lower prices for their goods to competitive pressures.

Input Prices Index

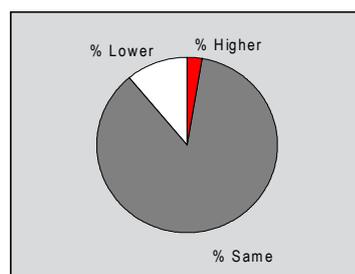
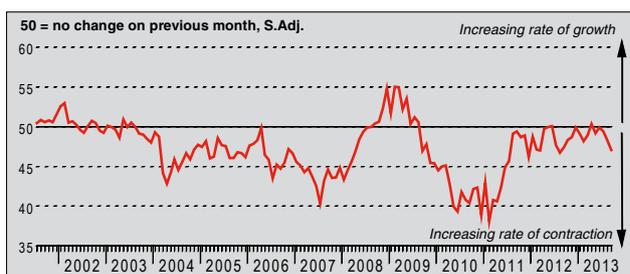
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Survey data indicated increased average input prices at Czech manufacturers in September. That followed a two-month spell of falling prices. The rate of inflation was the fastest since March, but weaker than the long-run survey average. Firms linked cost pressures to higher oil prices, and specific inputs including food, wood and steel.

Suppliers' Delivery Times Index

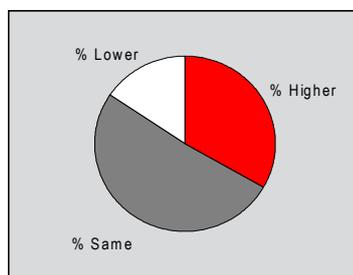
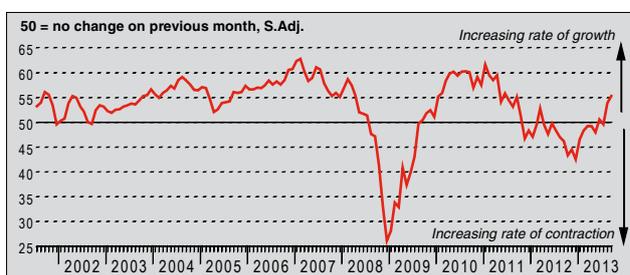
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Suppliers' delivery times in the Czech manufacturing sector lengthened for the fifth month running in September. Moreover, the rate at which times increased accelerated further, and was the greatest since August 2012. Anecdotal evidence linked longer lead times to strengthening demand in the sector.

Quantity of Purchases Index

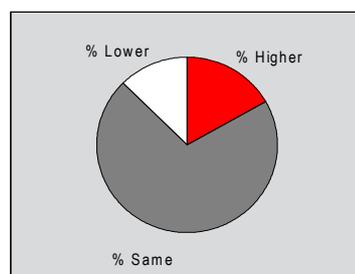
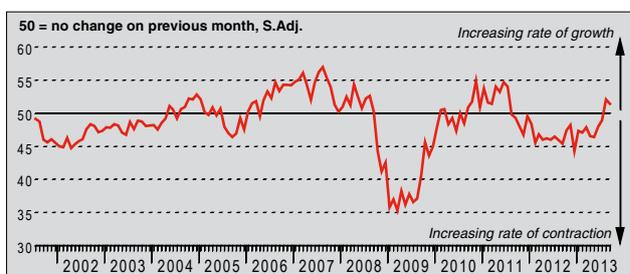
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Czech goods producers increased the volume of inputs ordered in September. Purchasing activity has increased three times in the past four months, following a 14-month spell of contraction. Moreover, the rate of expansion strengthened in the latest period, to a 27-month record. Firms linked higher inputs to rising production requirements.

Stocks of Purchases Index

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



Stocks of pre-production materials rose for the second month running in September, in a further sign of improving market conditions. Prior to August, input stocks had fallen for 24 consecutive months. Firms reported investing in new stock to support rising new orders. The rate of inventory growth eased from one month previously, however.

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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