HSBC *Purchasing Managers' Index®* 2013

compiled by markit

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HSBC Czech Republic Manufacturing PMI®

Fastest rise in output for two-and-a-half years

Key findings:

- Production expands for seventh month running
- Strongest rate of job creation in over two years
- Manufacturing backlogs continue to rise

Manufacturing business conditions in the Czech Republic continued to improve in October, according to HSBC *PMI®* data compiled by Markit. Production rose at the strongest rate in two-and-a-half years, driven by a further robust increase in new orders. Growth of purchasing activity accelerated further and backlogs continued to increase. Moreover, firms increased headcounts at the fastest rate since September 2011. Inflationary pressures remained muted, with input and output prices both increasing at only marginal rates.

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 neutrality in October, extending the current sequence of improving business conditions to six months. Moreover, having fallen to 53.4 in September and indicating a slight loss of momentum, the headline index rebounded to 54.5 in the latest period, signalling the strongest expansion since June 2011. For the third month running, all five components of the PMI provided positive contributions.

The volume of new orders received by Czech manufacturers rose for the fifth month running in October. The rate of expansion was robust, and the second-fastest since August 2011. Growth of new export business eased to a four-month low, but was solid nevertheless and strong in the context of historic survey data. Firms reported a broad base of sources of export demand, including Europe, the US, Russia, Asia and Latin America.

Rising intakes of new work generated another increase in output in October. Production grew for the seventh month in a row, and at the fastest pace since April 2011. Despite this acceleration, backlogs of work increased for the fifth consecutive month in a sign of pressure on capacity.

Linked to rising workloads and positive demand expectations, Czech goods producers took on staff at an accelerated pace in October. Manufacturing employment rose for the sixth month running, and at the sharpest rate since September 2011.

Sustained solid growth of new orders also led firms to raise their purchasing volumes at a faster rate in October. Input buying increased at the fastest rate since April 2011, and inventories of inputs rose for the third month running. Firms reported stock shortages at suppliers and linked this to longer input delivery times, which lengthened to the greatest extent since June 2011.

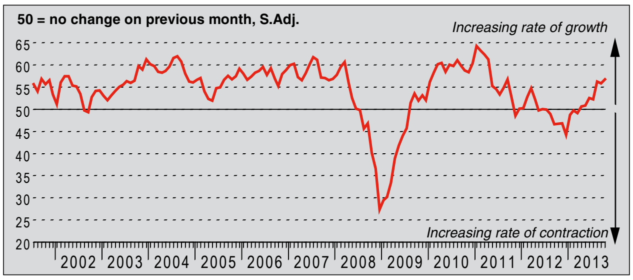
Inflationary pressures remained subdued in October. Input prices rose only marginally, with firms mentioning higher prices for steel, foodstuffs, plastics, wood and technical gases. Meanwhile, prices charged for final manufactured goods rose for the first time since January 2012, but at a fractional rate.

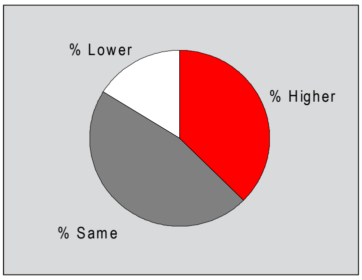
HSBC Czech Republic *Purchasing Managers' Index® (PMI®)*

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.

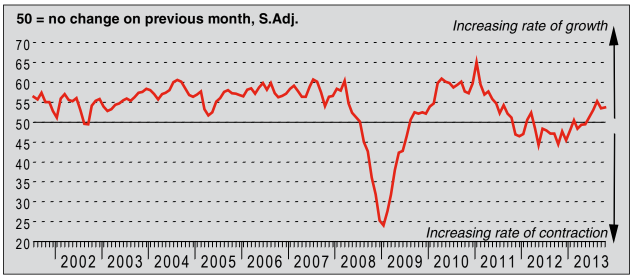


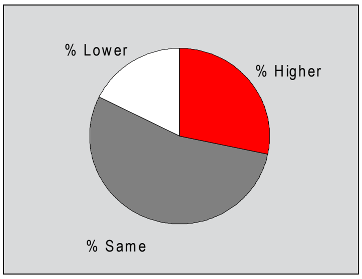


Production in the Czech manufacturing sector rose for the seventh successive month in October. Moreover, the rate of growth accelerated to the fastest since April 2011. As was the case in August and September, the seasonally adjusted Output Index remained above its long-run average during the latest period. Firms linked higher output levels to rising inflows of new orders from both current and new clients, and reported signs of a broader economic recovery taking hold.

New Orders Index

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

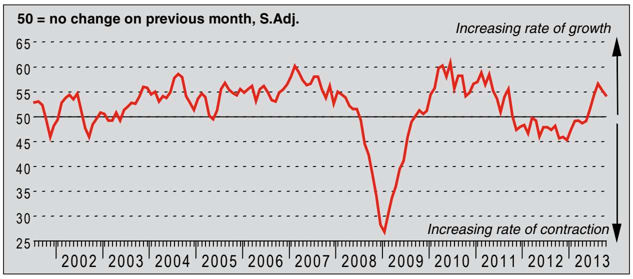


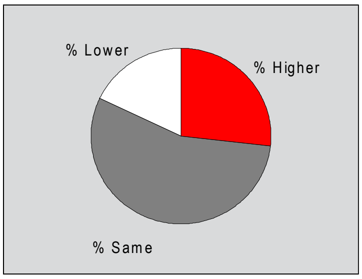


The volume of manufacturing new orders rose for the fifth month in a row in October. The rate of expansion was little-changed from September's robust pace, and broadly in line with the survey's historic trend. Respondents linked new order growth to improving demand, new customers, new business opportunities and improving order inflows from the EU and eastern markets.

New Export Orders Index

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

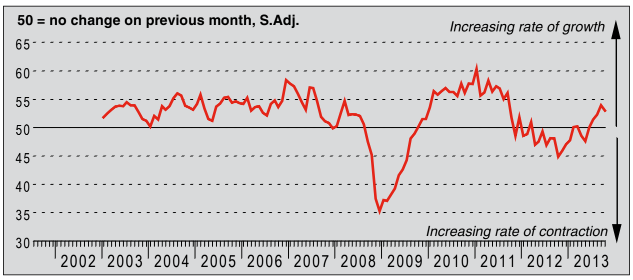


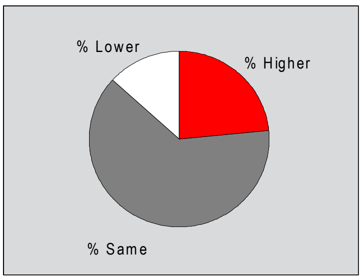


The seasonally adjusted New Export Orders Index posted above the no-change mark of 50.0 for the fifth consecutive month in October, indicating ongoing growth of new work placed with external clients. The rate of expansion eased further from August's 28-month record, but was solid nonetheless. Manufacturers reported a wide range of sources of improving export demand, including the EU, US, Russia, Switzerland, Asia and Latin America.

Backlogs of Work Index

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

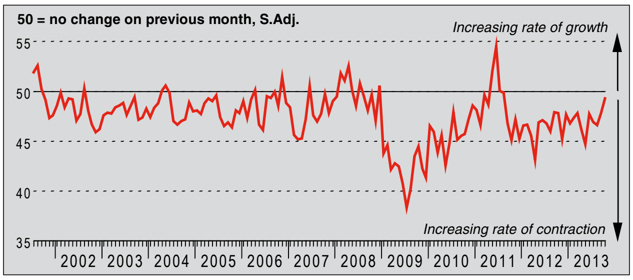


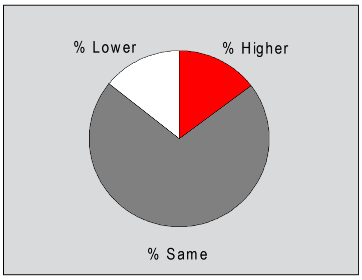


October data indicated a further increase in manufacturers' backlogs of work. The current sequence of rising levels of outstanding business in the Czech goods-producing sector now stretches to five months. The rate of expansion eased since September, but was still the second-fastest registered in just over two years. Anecdotal evidence attributed rising backlogs to inflows of new orders.

Stocks of Finished Goods Index

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

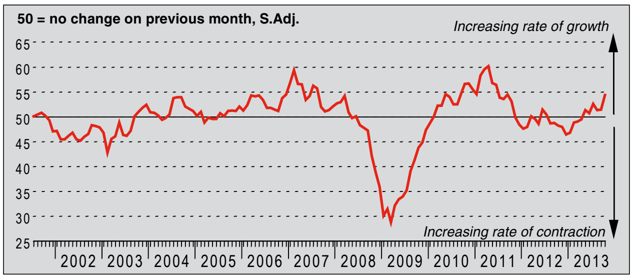


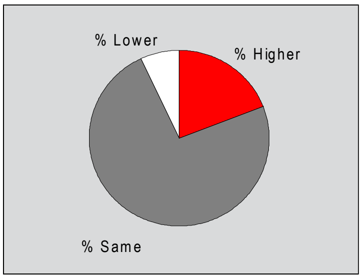


Stocks of finished goods held at Czech manufacturers were depleted, on average, for the twenty-seventh consecutive month in October. A number of firms reported ongoing stock clearances. That said, the overall rate of decline eased to a marginal pace and was the slowest since August 2011.

Employment Index

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

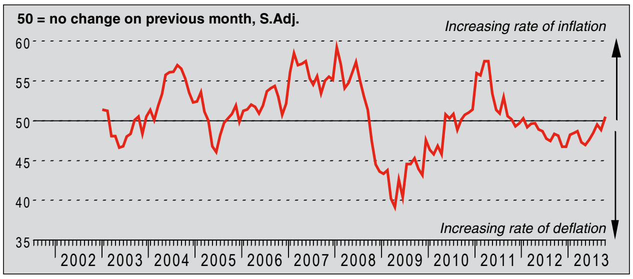


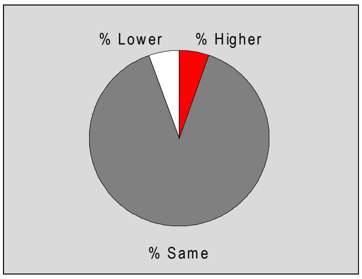


Czech manufacturing employment rose for the sixth successive month in October. Moreover, the rate of job creation accelerated sharply to the fastest since September 2011. Around 19% of survey respondents reported increasing workforces during the month, linked to rising output requirements and new orders.

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.

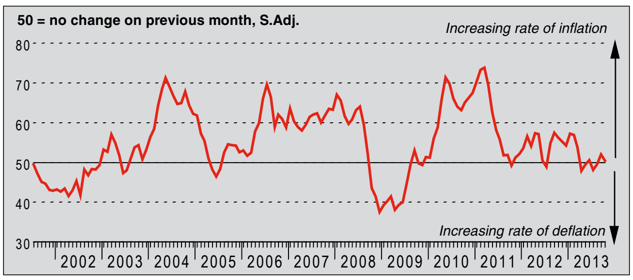


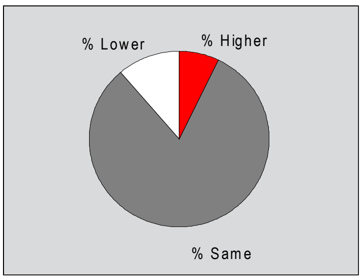


Prices charged for final goods by Czech manufacturers rose in October. Although the rate of output price inflation was marginal, it was the first increase since January 2012. The seasonally adjusted Output Prices Index was broadly in line with its long-run average during the latest period. Anecdotal evidence from survey respondents linked higher factory gate prices to rising cost pressures.

Input Prices Index

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





Manufacturers in the Czech Republic paid higher prices for their inputs, on average, in October. Although the rate of inflation eased since September to a marginal pace, it was the first back-to-back increase in input prices since March. Reported sources of inflationary pressure included wood, steel, foodstuffs, plastics and technical gases. The seasonally adjusted Input Prices Index remained well below its long-run average of 55.3.

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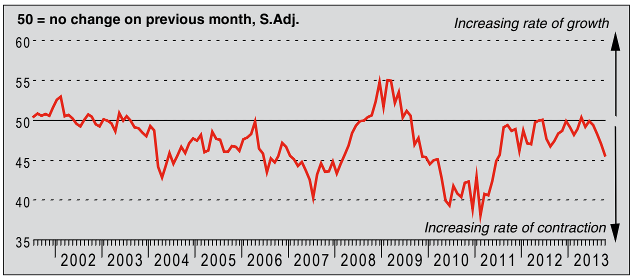
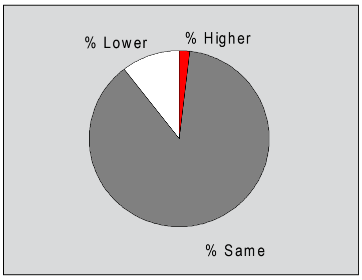
Suppliers' Delivery Times Index

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

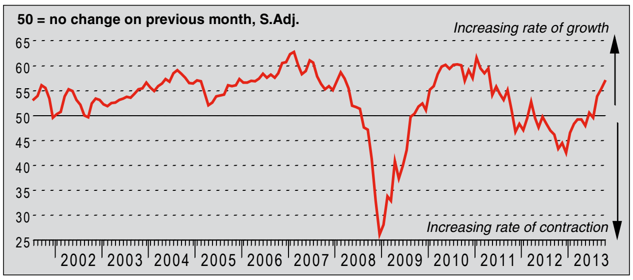


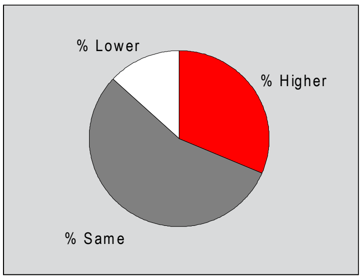


Czech goods producers reported deteriorating vendor performance in October. Suppliers' delivery times lengthened for the sixth successive month, and to the greatest extent since June 2011. The seasonally adjusted Suppliers' Delivery Times Index was also below its long-run average during the month. Anecdotal evidence linked delays from suppliers to stock shortages.

Quantity of Purchases Index

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

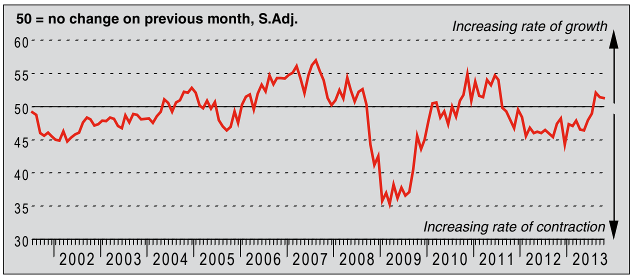


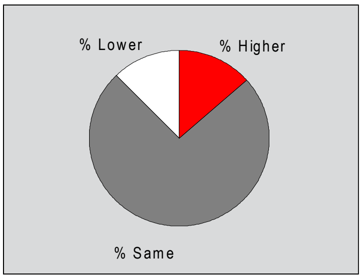


Manufacturers in the Czech Republic expanded their purchasing activity at a stronger rate in October. Growth of input volumes was recorded for the third successive month, and the rate of expansion accelerated to the fastest in two-and-a-half years. Prior to August, purchasing activity had risen only twice over a 21-month period. Higher orders of inputs were linked to new business and expected increases in production over the coming months.

Stocks of Purchases Index

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





Manufacturers' inventories of pre-production materials increased for the third month in succession in October. That followed a two-year sequence of contraction. Anecdotal survey evidence attributed stockbuilding to positive expectations regarding workflows, and pre-emptive purchasing in advance of expected price rises. The rate of expansion was, however, the slowest over the current growth sequence.

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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