

# HSBC Czech Republic Manufacturing PMI®

## Czech manufacturing business conditions continue to improve markedly

### Summary

The Czech manufacturing sector continued to expand at a marked rate in December, despite a slight easing in growth in the final month of 2013. HSBC PMI® data compiled by Markit signalled further sharp increases in output and new orders, with growth of new export business remaining particularly strong. Backlogs of work continued to rise solidly, despite another robust increase in employment in the sector. Meanwhile, input price inflation accelerated sharply again to a 32-month high, and output prices rose at the fastest rate since April 2011.

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 for the eighth month in succession in December. The headline figure fell for the first time since September to 54.7, from November's two-and-a-half year high of 55.4, but the latest figure remained well above the long-run survey average of 52.4. For the fifth month running, all five components of the PMI provided positive contributions.

The volume of new business continued to rise sharply in December. The rate of growth slowed from November's 31-month record, but remained strong in the context of historic survey data. Export demand remained a key source of strength, with the rate of growth the second-fastest since April 2011.

Czech manufacturing production rose for the ninth month running in December. The rate of expansion eased from November's peak, but was still the second-fastest since April 2011. Although output continued to rise sharply, the volume of backlogs in the sector rose for the seventh month in a row.

Goods producers supported workloads by raising employment. The current sequence of job creation now stretches to eight months, and the rate of increase remained robust. Manufacturers also expanded their purchasing and stocks of new inputs.

December survey data showed another sharp acceleration in input price inflation, with the overall rate of increase hitting a 32-month high. Firms linked higher import prices to the weaker koruna. Moreover, higher input prices were fed through to prices charged for final manufactured goods, which also increased at the fastest rate since April 2011.

### Comment

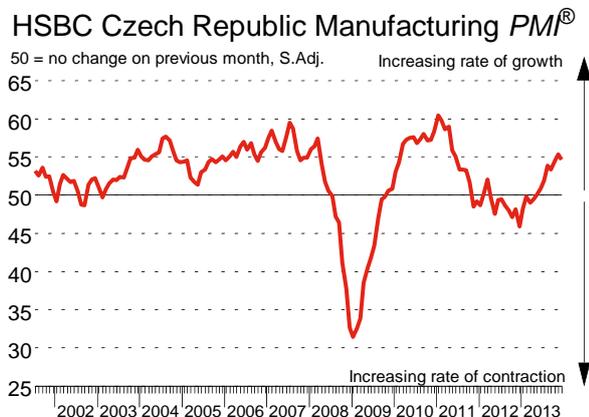
Commenting on the Czech Republic Manufacturing PMI® survey, Agata Urbanska-Giner, Economist, Central & Eastern Europe at HSBC, said:

*"The manufacturing PMI index continued to show improving business conditions for the eighth month running in December. The pace of improvement moderated marginally in comparison to November but remains the second strongest reading in 2013. Looking at quarterly averages, the manufacturing PMI was the strongest in Q4 2013 since Q2 2011. The input prices index surged to 62.8 in December. Both input and output prices recorded the highest monthly pace of increase since April 2011. The recovery in the manufacturing PMI index in H2 2013 supports our expectations for a positive q-o-q GDP growth in Q4 2013 and a strong recovery of GDP growth this year from over 1% contraction in 2013 to 1.9% y-o-y growth in 2014. FX depreciation, driven by CB interventions launched in early November, has had a visible impact on manufacturing input and output prices. The focus will now be on this feeding through to consumer prices in the first months of 2014 as well as boosting exports, exporters' profits and wages. This is how the central bank expects the FX interventions to feed into the Czech economy."*

### Key points

- Manufacturing PMI eases from 55.4 to 54.7
- New order growth remains export-led
- Inflationary pressures build

### Historical Overview



Sources: Markit, HSBC.

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### Notes to Editors:

The HSBC Czech Republic Manufacturing PMI 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 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*<sup>®</sup> (*PMI*<sup>®</sup>) is a composite index based on five of the individual indexes with the following weights: 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. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact [economics@markit.com](mailto:economics@markit.com).

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### About PMI:

Purchasing Managers' Index<sup>®</sup> (*PMI*<sup>®</sup>) surveys are now available for 32 countries and also for key regions including the Eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to [www.markit.com/economics](http://www.markit.com/economics)

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