

HSBC Czech Republic Manufacturing PMI®

Strongest rise in new orders since January 2011

Summary

HSBC PMI® data compiled by Markit showed that the Czech manufacturing sector continued to gain momentum mid-way through the second quarter. The overall improvement in business conditions in the goods-producing sector was the strongest since April 2011, aided by the fastest rise in new business since January 2011.

The headline HSBC Czech Republic Manufacturing PMI is a composite single-figure indicator of manufacturing performance. The PMI rose for the second month running in May, from 56.5 to 57.3, the highest reading in over three years. The PMI has signalled improving operating conditions every month since May 2013, and remained above its long-run average (52.5) in the latest period.

New business received by Czech manufacturers increased for the twelfth consecutive month in May, and at the strongest rate since January 2011. Firms reported buoyant demand from both domestic and export markets, with the construction sector reported as a key source of domestic new orders. Western European and non-EU markets were highlighted by the survey panel as sources of export growth. New export orders rose at a faster pace than in April, but at a weaker rate than February's 44-month record.

Stronger growth of new orders led to a further substantial increase in production. The rate of growth eased to a four-month low, but remained sharp in the context of historic survey data. The underlying strength of demand in the sector was further highlighted by a twelfth consecutive monthly increase in backlogs of work.

Rising backlogs and inflows of new business led manufacturers to expand workforces further in May. The rate of employment growth was solid, and matched last October's recent peak. The current sequence of job creation now stretches to over a year.

Manufacturers increased purchasing activity at the fastest rate since April 2011, which contributed to the strongest growth of input stocks since July 2011. Stockbuilding in part reflected concerns among firms around lengthening supplier delivery times.

Average input prices increased for the ninth month running in May, but at the slowest pace since last October. Metals were reported as being up in price. Meanwhile, prices charged by manufacturers for final goods increased for the first time in four months, albeit marginally.

Comment

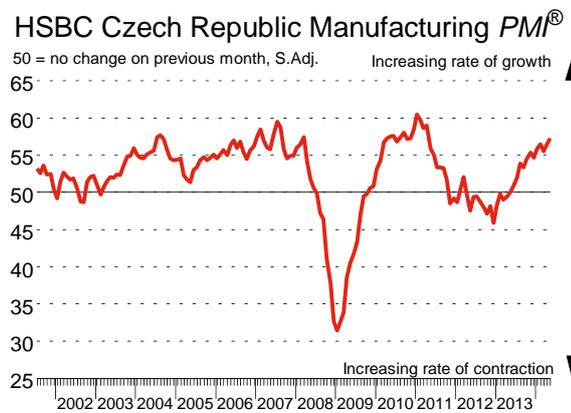
Commenting on the Czech Republic Manufacturing PMI® survey, Agata Urbanska-Giner, Economist, Central & Eastern Europe at HSBC, said:

"The manufacturing PMI index surprised to the upside rising to 57.3 in May, the highest levels since April 2011. The pace of output growth remained strong, even if marginally weaker than in April. As in the previous month rising new export orders, employment and stock of purchases provided the boost to the headline PMI reading. These forward looking components point to further output strength ahead especially as the PMI survey showed continued fall of stock of finished goods in May. We expect GDP growth to be picking up in the coming quarters in y-o-y terms and to be accompanied by a gradual increase of inflation. The pace of input prices growth continued to slow in May. But the output prices increased for the first time in four months. We do not forecast any policy change and expect the central bank to sustain the current FX intervention framework and unchanged intervention level until the end of this year."

Key points

- Acceleration in export growth aids overall expansion in new business
- Further sharp rise in output
- Input price inflation eases for fifth successive month

Historical Overview



Sources: Markit, HSBC.

For further information, please contact:

HSBC

Agata Urbanska-Giner
Economist, Central & Eastern Europe
Telephone +44-207-992-2774
Email agata.urbanska@hsbcib.com

Petra Vanickova
Executive Assistant to CEO & Head of Corporate Banking
Telephone +420 225 024 512
Email petra.vanickova@hsbc.com

Filip Koutný
Director Treasury
Telephone +420-225-024-701
Email filip.koutny@hsbc.com

Markit

Trevor Balchin, Senior Economist
Telephone +44-1491-461-065
Email trevor.balchin@markit.com

Joanna Vickers, Corporate Communications
Telephone +44 207 260 2234
Email joanna.vickers@markit.com

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*[®] (*PMI*[®]) 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.

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