

HSBC Czech Republic Manufacturing PMI®

Czech manufacturing growth picks up in September

Summary

The Czech manufacturing sector continued to experience strongly improving business conditions at the end of the third quarter, according to PMI data from HSBC. Having moderated in August, the overall strength of growth picked up in the latest period, driven by sharper increases in new orders, output and employment.

The headline HSBC Czech Republic Manufacturing PMI® is a composite single-figure indicator of manufacturing performance. The PMI rose from August's 11-month low of 54.3 to 55.6 in September, indicating a strong overall improvement in manufacturing business conditions. The latest figure was slightly below the average for 2014 to date (55.9), but well above the long-run survey trend level of 52.6. All five components of the PMI contributed to the upward movement in the headline figure in September, a reverse from August when all five had deteriorated since July.

Czech manufacturers extended the current run of output growth to 18 months in September. The rate of growth strengthened since August, but was still down on the average pace shown throughout the first nine months of 2014.

New business rose for the sixteenth successive month in September, and at a marked pace. Growth over the third quarter as a whole was slightly weaker than during the first two quarters of the year, but nonetheless stronger than in any previous quarter since the first three months of 2011.

New export order growth followed a similar trend to total new business inflows, though at a weaker overall pace. Firms reported improving overall demand from Europe, America, China and Latin America, but weaker business from Russia in particular. Slower German demand was also reported.

Stronger growth in new business led to a further rise in backlogs of work in September. The rate of growth in outstanding business eased to a three-month low, but remained solid overall. Backlog growth in the latest period was limited by the second-fastest rate of job creation in over three years.

Cost pressures remained historically weak at the end of the third quarter, despite the weak exchange rate. Input prices rose at a pace that was only slightly faster than August's ten-month low. Meanwhile, output prices continued to rise only marginally, with firms citing competitive pressures.

Comment

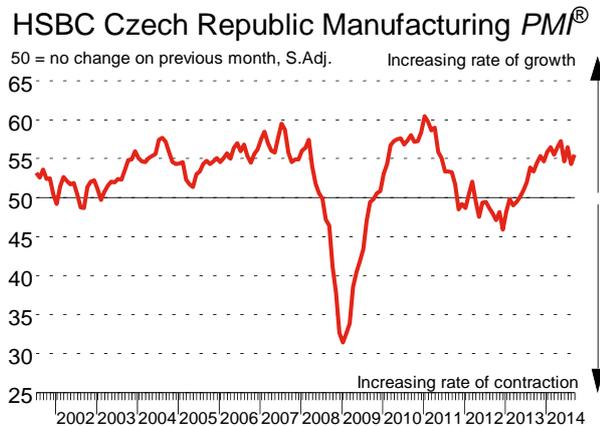
Commenting on the Czech Republic Manufacturing PMI® survey, Agata Urbanska-Giner, Economist, Central & Eastern Europe at HSBC, said:

"The Czech manufacturing sector is proving rather resilient in the face of concerns about the growth outlook in the Eurozone and weakening data in Germany. In September the manufacturing PMI index rose to 55.6, a four-month high. The Q3 average (55.5) was only modestly lower than the one for the first half of the year (56.1). All components of the PMI index improved in September. This supports the reasoning that a flat q-o-q GDP growth in Q2 2014 was just a short-term correction of a strong performance in the previous two quarters and not a sign of an underlying weakness. Notwithstanding the positive results of the PMI survey to date this year, a declining trend for the manufacturing PMI survey in Germany since January is a downside risk. For now exports growth remains good, averaging 8.7% y-o-y in January-July, up from 0.2% y-o-y in 2013. Looser fiscal policy is another support factor for the GDP growth. Inflation pressure remains weak but relatively stable according to the PMI survey. This should support the current policy stance of the CNB - zero bound interest rates and a cap on FX appreciation."

Key points

- PMI rises from August's 11-month low to 55.6
- Faster growth in output, new orders, exports, employment and purchasing
- Inflationary pressures remain weak

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*[®] (*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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