

HSBC Czech Republic Manufacturing PMI®

Strongest growth of Czech manufacturing sector since mid-2011

Summary

The Czech manufacturing sector enjoyed a positive start to 2014, with a strong improvement in overall business conditions. HSBC PMI® data compiled by Markit signalled the fastest increases in output, new orders and purchasing since April 2011. Moreover, the increase in new export business was one of the strongest on record. Meanwhile, cost inflationary pressures remained sharp, reflecting the weaker koruna exchange rate.

The headline HSBC Czech Republic Manufacturing PMI is a composite single-figure indicator of manufacturing performance. The PMI remained above neutrality at the start of 2014, and rose for the eighth time in ten months. The latest figure of 55.9 indicated the strongest overall improvement in operating conditions since May 2011, and was well above the long-run average of 52.4 (over twelve-and-a-half years of data collection). The upward movement in the PMI reflected the output, new orders and suppliers' delivery times components, while employment and stocks of purchases also contributed to the headline figure posting above 50.0.

New order growth regained momentum in January, having eased slightly in December. The latest increase in new business was the fastest since April 2011, and extended the current growth sequence to eight months. Firms highlighted improving demand from EU, and notably German, markets during the month. Reflecting this, new export orders rose at the strongest rate since June 2010, and the fifth-fastest pace since the survey began in July 2001.

Manufacturing output also increased at the strongest rate since April 2011. The current spell of expansion now stretches to ten months, and was supported by a further robust increase in employment. Despite this growth in capacity, backlogs of work increased solidly, and for the eighth month in a row.

Goods producers stepped up their purchasing in January. The volume of inputs ordered rose for the sixth month running, and at the fastest pace since April 2011. Subsequently, stocks of purchases also grew for the sixth consecutive period. Suppliers' delivery times continued to lengthen.

Cost pressures remained strong in January, influenced by the weaker koruna exchange rate. The rate of input price inflation was the second-highest since May 2011, and stronger than the long-run survey average. Higher prices were partly passed on to customers with output prices increasing for the fourth successive month, albeit at a slower pace than in December.

Comment

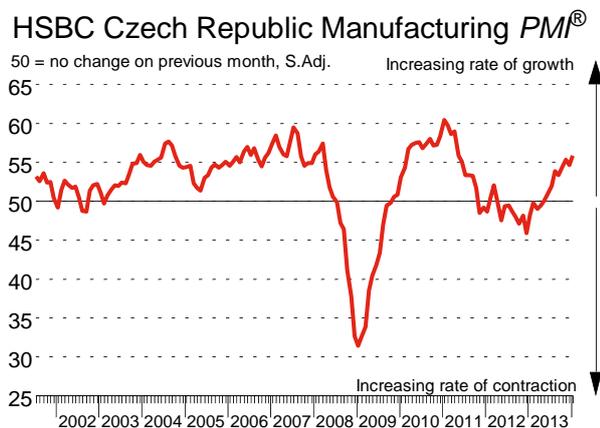
Commenting on the Czech Republic Manufacturing PMI® survey, Agata Urbanska-Giner, Economist, Central & Eastern Europe at HSBC, said:

"The PMI manufacturing index climbed to a 32-month high on rising output and new orders in January. We expect that, having contracted by an estimated 1.4% y-o-y in 2013, the Czech economy will grow by 1.9% this year – a stark turnaround heralded, among others, by the PMI index that has been growing since mid-13. The January survey showed backlog of works and quantity of input purchases growing at a rising pace while inventories continued to fall. The new orders were boosted by rising new export orders. On the downside, employment was growing in the January survey but at a relatively low pace, slower than in Q4 2013. The input prices sustained the high pace of growth after the post-FX intervention spike last month. But the rate of output prices growth is not catching up. This is a risk for corporate profits."

Key points

- Headline Manufacturing PMI resumes upward trajectory, rising to 55.9
- New export order growth at 43-month record
- Strongest rise in output since April 2011

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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