

HSBC Czech Republic Manufacturing PMI®

Czech manufacturing expansion regains momentum in July

Summary

The Czech manufacturing sector registered a strong performance at the start of the second half of the year. Having seen a moderation in growth of many key indicators in June, the latest data signalled a rebound in momentum. Output, new orders, exports, employment, backlogs and purchasing all rose at faster rates. Meanwhile, the strongest increase in stocks of inputs in nearly seven years reflected firms' positive expectations regarding the demand outlook. Cost pressures remained weak.

The headline HSBC Czech Republic Manufacturing PMI® is a composite single-figure indicator of manufacturing performance. The PMI registered above 50.0 for the fifteenth successive month in July, indicating an overall improvement in business conditions in the goods-producing sector. Having fallen to a six-month low of 54.7 in June, the PMI recovered to 56.5 in July, the joint-second highest figure since April 2011. The boost to the headline figure was reflected in four of its five components, the exception being suppliers' delivery times.

New orders rose for the fourteenth month running in July. The rate of expansion accelerated and was broadly in line with the average for 2014 so far. Data suggested that both domestic and export markets had registered sharper inflows of new work. The US, UK and Germany were all reported as sources of new export business.

Output grew at a sharper rate in July, though it was nonetheless the second-weakest in 2014 so far. Meanwhile, the volume of outstanding work grew at a faster pace, having slowed to a marginal rate in June.

Employment growth hit a 37-month record in July. The current sequence of job creation now stretches to 15 months. A number of respondents linked recruitment to a positive demand outlook.

Firms stepped up purchasing operations in July, reflecting expectations of higher output in the coming months. The rate of growth was stronger than the average over the current 12-month sequence, and generated the fastest increase in stocks of purchases in nearly seven years.

Average input prices rose for the eleventh consecutive month in July, but the rate of inflation remained moderate. Firms partly linked higher costs to rising chemicals and plastics prices, in turn linked to oil prices and geopolitical tensions. Meanwhile, prices charged for Czech manufactured goods rose only marginally.

Comment

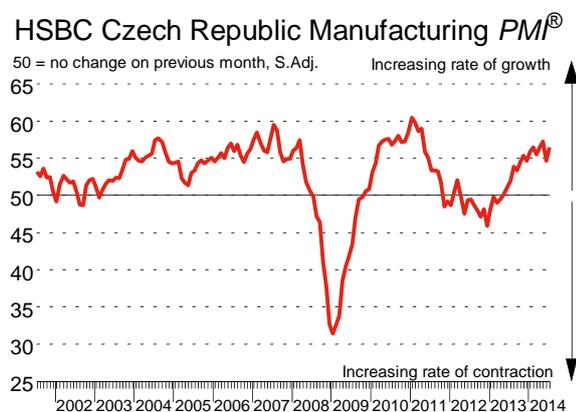
Commenting on the Czech Republic Manufacturing PMI® survey, Agata Urbanska-Giner, Economist, Central & Eastern Europe at HSBC, said:

"The July Czech PMI survey is very positive, in contrast to the downturn signalled in Poland. The data showed that after a decline in June the manufacturing PMI rebounded in July to the joint-second highest reading this year. In contrast, the output index corrected higher compared to June but remained the second-weakest this year. The headline index was boosted by employment component with its reading climbing in July to the highest level in 37 months. Input prices kept growing in July at a marginally faster pace than in June. Similarly output prices continued to record marginal positive growth. On balance the key takeaway from this survey is the rebound in all key survey components following downward corrections in June. The particularly strong reading for employment is supportive for our expectations that the growth recovery, kicked off by exports, will increasingly rely on domestic demand."

Key points

- Growth of output, new orders, exports and employment all rebound from June
- Inflationary pressures remain weak
- Stocks of purchases increase at fastest rate in nearly seven years

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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