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HSBC Poland Manufacturing PMI™

Output continued to surge as early winter disrupted supply chains.

Key findings:

- PMI rose further to 56.3, third-highest in survey history.
- Survey-record lengthening of suppliers' delivery times reflected harsh weather.
- New export orders rose at second-fastest rate in survey history.

Poland's manufacturing economy remained on an impressive growth path at the end of 2010, according to the latest HSBC survey data compiled by Markit. Output continued to expand at a rapid rate, while new export orders increased at the second-fastest pace in the survey history. Manufacturing employment increased for the fifth month running, while the latest data also highlighted the impact of severe winter weather on supply chains. Upward pressure on input prices remained substantial, while manufacturers' output charges were increased at one of the fastest rates of the past three years.

The headline HSBC Poland Manufacturing PMI™ is a composite single-figure indicator of manufacturing performance, tracking changes in new orders, output, employment, suppliers' delivery times and stocks of purchases. Any figure greater than 50.0 represents an overall improvement in business conditions. The PMI rose to 56.3 in December, from 55.9 in November. The latest figure pointed to the best overall performance of the sector since May 2004, and was the third-highest reading since the series started in June 1998.

The overall rise in the headline PMI masked a slower gain in new orders. The latest rate of new business expansion was the softest in three months. However, data for the fourth quarter as a whole pointed to the steepest trend growth since Q2 2004. New export business rose at the second-fastest rate in the survey history in December, with companies reporting demand

from German and Eastern European markets in particular.

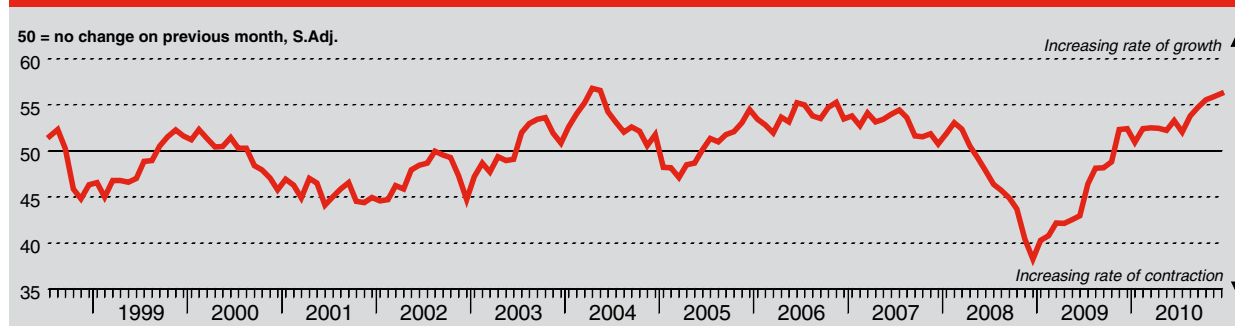
Despite slower overall growth of new orders in December, Polish manufacturing production rose at one of the fastest rates in the survey history. The current strength of market conditions was also highlighted by a third successive monthly increase in backlogs of work.

Manufacturers in Poland took on additional staff at a faster rate in December. Employment growth in the sector was the second-strongest since March 2008, and extended the current sequence of rising headcounts to five months.

The early onset of severe winter weather was highlighted in the latest survey as having contributed to longer supplier delivery times. The rate at which times increased was the greatest signalled by the series to date. Compounding pressure on suppliers was the steepest increase in purchasing activity by manufacturers since May 2004. Firms reported positive expectations for 2011, and the overall stock of inputs in the sector increased for the first time since November 2007.

Input price inflation remained sharp in the context of historic survey data in December. The latest increase in average input prices was also steeper than the trend seen over 2010. Metals, plastics, glass and paper were all reported to have become more expensive. Manufacturers' charges rose sharply as a result, with the rate of output price inflation the second-strongest since February 2008.

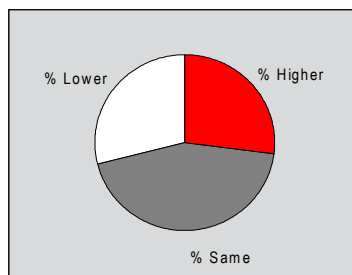
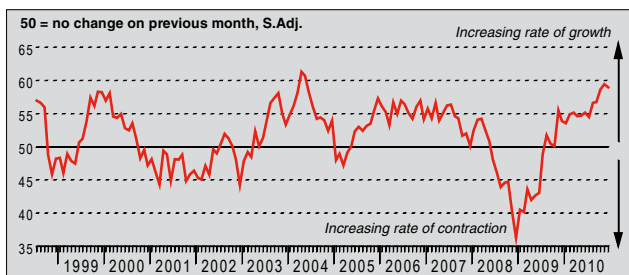
HSBC Poland Purchasing Managers' Index (PMI™)



The HSBC Poland Purchasing Managers' Index™ (PMI™) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times and stocks of goods purchased. A reading of the PMI below 50.0 indicates that the manufacturing economy is generally declining; above 50.0, that it is generally expanding. A reading of 50.0 signals no change. The greater the divergence from 50.0, the greater the rate of change signalled by the index.

Output Index

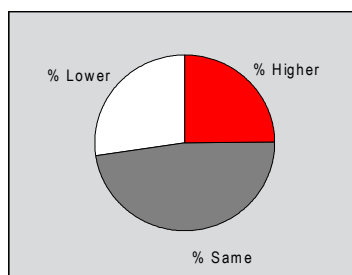
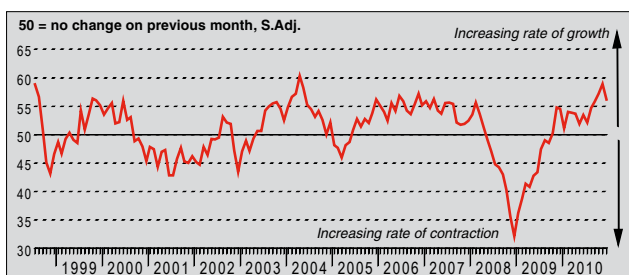
Q. Please compare your production/output this month with the situation one month ago.



Manufacturing output in Poland continued to rise at a substantial rate in December. The seasonally adjusted Output Index eased from November's seventy-eight month high, but was still at its fifth-highest level in twelve-and-a-half years of data collection. Anecdotal evidence continued to link higher production to rising volumes of new orders, while some firms also mentioned expanded product ranges. The current sequence of output growth now stretches to seventeen months.

New Orders Index

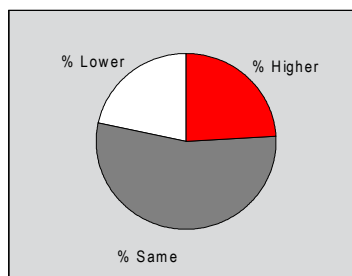
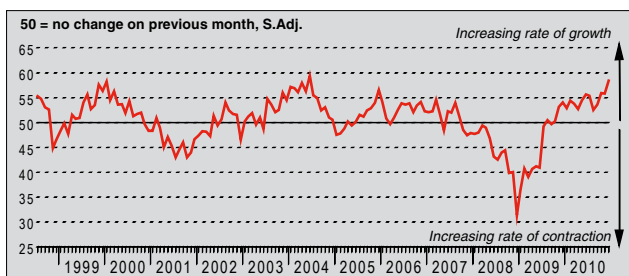
Q. Please compare the level of new orders received this month with the situation one month ago.



New order growth at Polish manufacturers eased to a three-month low in December, but remained sharp overall. Over the fourth quarter as a whole, the seasonally adjusted New Orders Index has signalled the fastest expansion since the second quarter of 2004, and the second-strongest of any quarter in the survey history. Continuous growth of new work has been recorded for fifteen successive months. A number of firms reported securing new clients during the month, notably in export markets.

New Export Orders Index

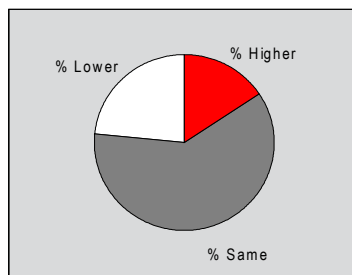
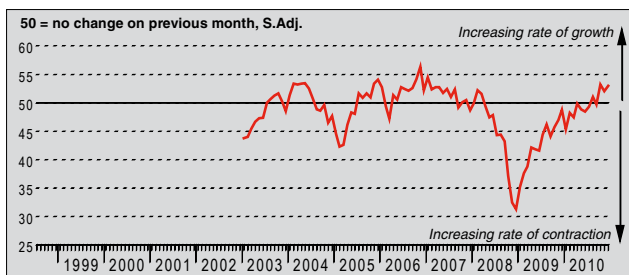
Q. Please compare the level of new export orders received this month with the situation of one month ago.



New export orders in the Polish manufacturing sector rose at the second-fastest rate in the survey history in December. The seasonally adjusted New Export Orders Index posted its largest one-month gain of 2010 and was at its highest level since June 2004. New export business has risen continuously since October 2009. Improved demand from German and Eastern European markets was mentioned in the latest anecdotal evidence.

Backlogs of Work Index

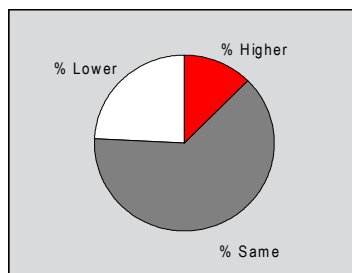
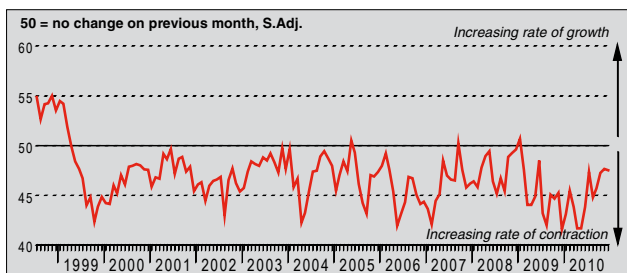
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The current sequence of rising backlogs at Polish manufacturers was extended to three months in December. The seasonally adjusted Backlogs of Work Index rose on the month, and pointed to the second-fastest rate of expansion since January 2007. Survey respondents mainly linked rising volumes of incomplete business to the current strength of demand, and also disruptions to delivery schedules from their suppliers. Backlogs have increased four times in the past five months.

Stocks of Finished Goods Index

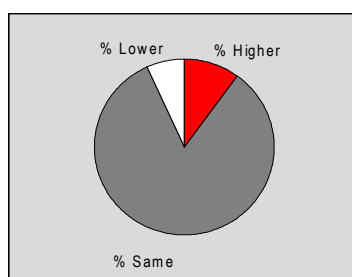
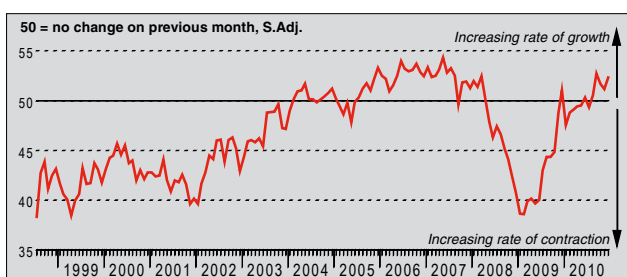
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



The seasonally adjusted Stocks of Finished Goods Index remained below the no-change mark of 50.0 in December, indicating a further overall fall in post-production inventories at Polish manufacturers. The current sequence of decline now stretches to twenty-three months. Firms mainly linked lower warehouse levels to bigger sales volumes. The rate of contraction remained moderate, however, reflecting increases at some firms as they introduced new product ranges.

Employment Index

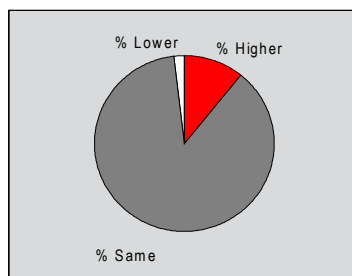
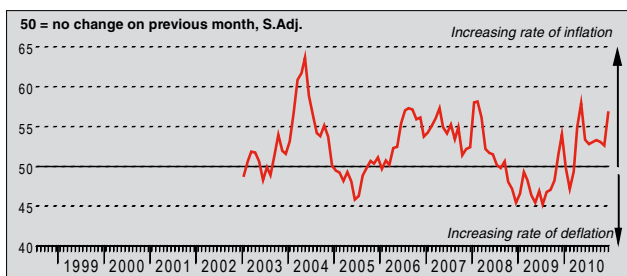
Q. Please compare the level of employment at your unit with the situation one month ago.



Polish manufacturing employment expanded for the fifth month running in December. Moreover, the seasonally adjusted Employment Index rose on the month, and signalled the fastest rate of job creation since September. It was also the second-fastest since March 2008. Firms linked recruitment to new orders and positive expectations for demand in 2011.

Output Prices Index

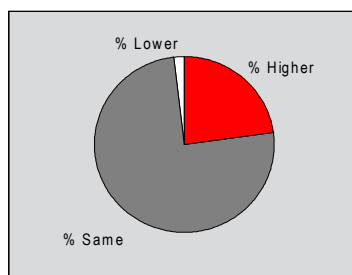
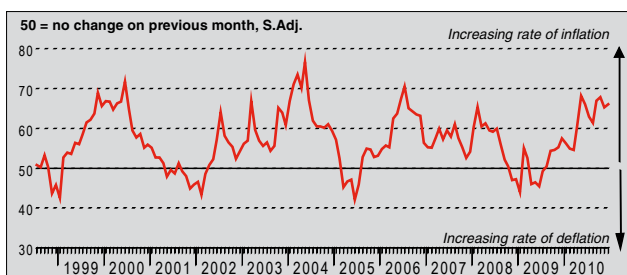
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Polish manufacturers raised their output prices on average for the ninth month running in December. Moreover, the rate of charge inflation accelerated to its highest since May, and was sharp in the context of historic survey data. The seasonally adjusted Output Prices Index was at its second-highest level since February 2008. Firms linked higher output charges to rising raw material and energy prices.

Input Prices Index

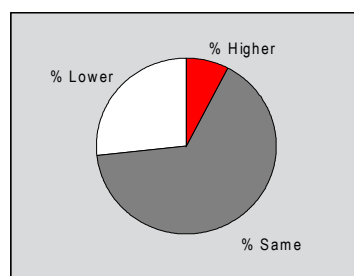
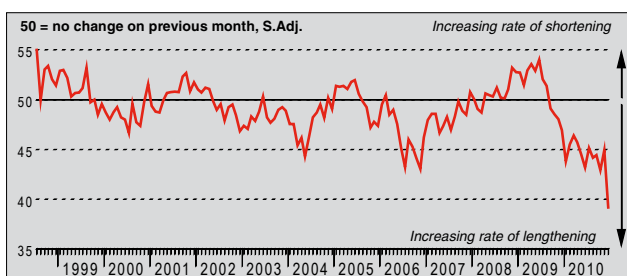
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input price inflation in the Polish manufacturing sector remained at an elevated level in December. The seasonally adjusted Input Prices Index remained well above its long-run trend level of 57.0, and was greater than the average for 2010 (62.7). The latest anecdotal evidence highlighted rising raw material prices, including metals, plastics, glass and paper. The weaker zloty was also a factor driving up import costs. Average input prices have increased every month since August 2009.

Suppliers' Delivery Times Index

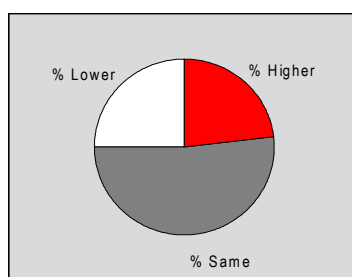
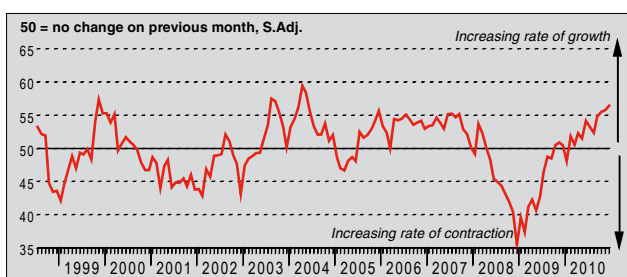
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



December data signalled the greatest lengthening of suppliers' delivery times in the survey history. The latest anecdotal evidence highlighted severe winter weather conditions as having hampered suppliers' schedules during the month. More than one-quarter of survey respondents reported that the average time taken to deliver inputs by suppliers had risen compared to November. Vendor performance has deteriorated every month since September 2009.

Quantity of Purchases Index

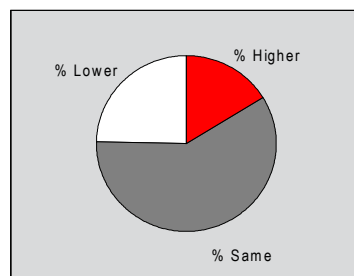
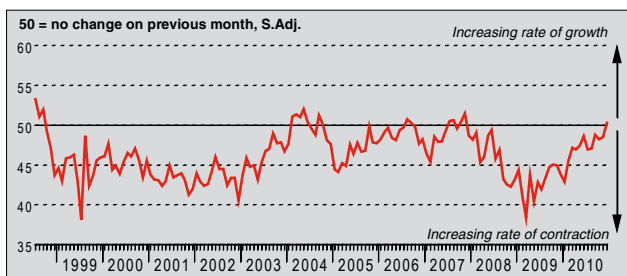
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



The rate of growth of inputs ordered by Polish manufacturers accelerated for the fourth successive month in December. Moreover, the seasonally adjusted Quantity of Purchases Index signalled the fastest rate of expansion since May 2004. A variety of reasons were put forward by survey respondents for purchasing growth, including positive demand expectations, the replenishment of stocks, advanced purchases prior to price increases and expanded product ranges. Purchasing has increased continuously since February.

Stocks of Purchases Index

Q. Please compare your stocks of purchases (in units) with the situation one month ago.



The overall volume of inputs held in stock in the Polish manufacturing sector rose marginally in December. The seasonally adjusted Stocks of Purchases Index rose above the no-change mark of 50.0 for the first time since November 2007. Where firms reported higher stocks, this was linked to expected growth of output, new supplier contracts and expanded product ranges.

Notes on the Data and Method of Presentation

The Purchasing Managers' Index™ is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 200 manufacturing companies. The panel is stratified geographically and by Standard Industrial Classification (SIC) group, based on regional and industry contribution to Polish Industrial Production. 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 derived from the Chartered Institute of Purchasing & Supply's survey of the UK economy: 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.

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