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## HSBC Poland Manufacturing PMI™

Growth of Polish manufacturing production eased in February.

### Key findings:

- PMI remained comfortably above neutrality, but fell further to six-month low of 53.8.
- New order growth slowed sharply.
- Output price inflation highest since May 2004.

Poland's manufacturing economy continued to expand mid-way through the first quarter, according to the latest HSBC survey data compiled by Markit. The rates of growth for output and new orders both slowed on the month, however, notably in the latter. Inflationary pressures remained substantial, as manufacturers' output prices rose at the fastest rate since May 2004 and input price inflation remained close to record levels.

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. At 53.8 in February, the PMI remained indicative of a robust overall improvement in business conditions. The reading was the sixteenth positive figure in successive survey periods, and slightly above the average over this sequence (53.5). That said, the latest figure was the lowest in six months.

The fall in the headline figure in February primarily reflected a slower rise in incoming new orders. The latest data marked the steepest slowdown in new business growth since November 2008, and the overall rise was the weakest since last July. That said, new orders have risen every month since October 2009. Data signalled that new export business rose at a stronger pace than domestic new work.

Production in the Polish manufacturing sector rose for the

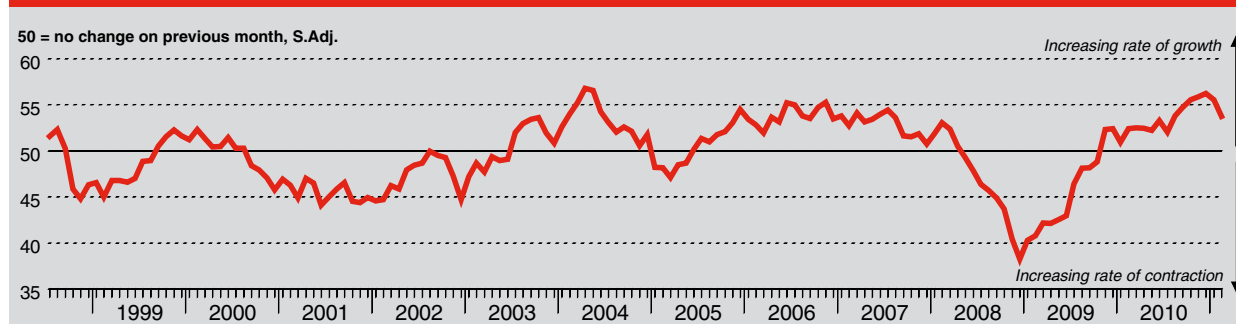
nineteenth successive month in February. In line with the trend seen for new orders, the rate of expansion moderated. That said, it remained sharper than the average seen over the current sequence of growth.

Backlogs of work grew for the fifth month running in February, but at a reduced rate. This reflected slower gains in new business at goods producers, and a faster rate of workforce growth. Employment in manufacturing increased for the seventh successive month, and the pace of job creation accelerated to the joint-fastest in over three-and-a-half years.

Cost pressures faced by Polish manufacturers remained intense in February. The rate of input price inflation eased from January's survey record, but was nevertheless the third-fastest in the series history. Metals were widely reported as being up in price, while energy and transport costs also increased. In response, firms increased their prices charged at the fastest rate since May 2004. Output prices in the sector have risen every month since last April.

Suppliers to Polish manufacturers remained under pressure in February, as average input delivery times lengthened further. That said, the deterioration in vendor performance in the latest period was the least marked since last April. This partly reflected slower growth of purchasing activity by manufacturers. Input volumes rose for the thirteenth consecutive month, but at the weakest pace since last August.

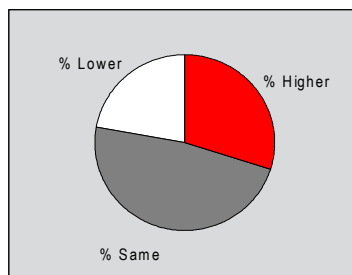
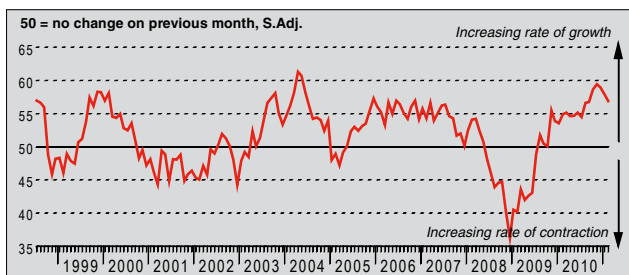
HSBC Poland Purchasing Managers' Index (PMI™)



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

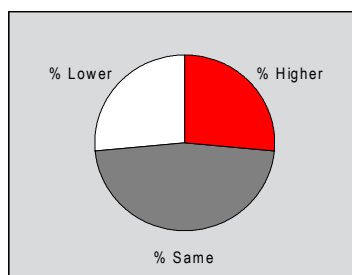
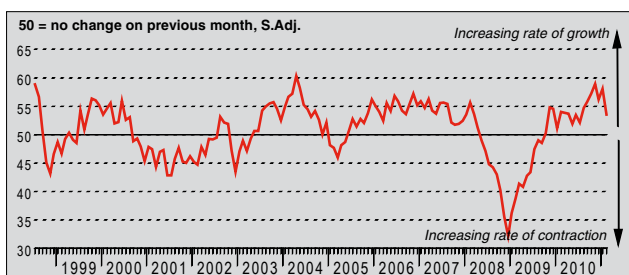
Q. Please compare your production/output this month with the situation one month ago.



Polish manufacturing production rose sharply in February, linked by survey respondents to higher intakes of new work. The seasonally adjusted Output Index fell for the third month running, however, to signal the slowest rate of growth since last September. That said, the pace of expansion remained greater than the trend seen over the current nineteen-month sequence of growth (where the Output Index has averaged 55.3).

### New Orders Index

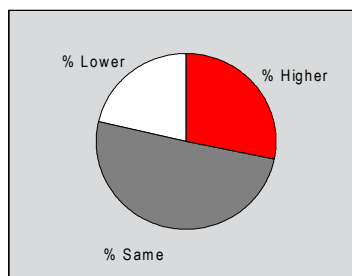
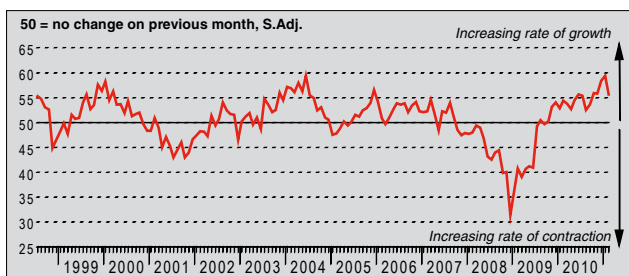
Q. Please compare the level of new orders received this month with the situation one month ago.



The rate of growth in new workloads at Polish manufacturers slowed sharply in February. The seasonally adjusted New Orders Index posted its steepest one-month decline since November 2008, to signal the weakest increase in new business since last July. Moreover, the Index fell below its trend level for the current seventeen-month sequence of growth (54.4). Panellists indicated that the domestic market was the primary source of slowing demand.

### New Export Orders Index

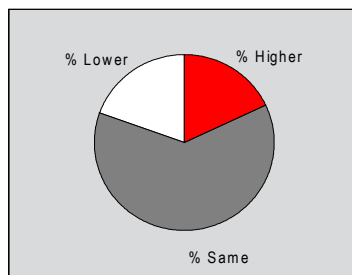
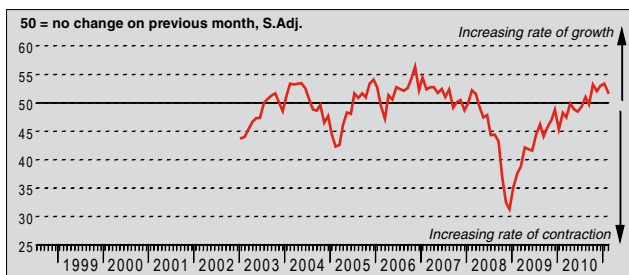
Q. Please compare the level of new export orders received this month with the situation of one month ago.



New export orders rose strongly in February, extending the current sequence to seventeen months. Some firms reported growth from new markets, while Germany was again highlighted as a source of demand. The seasonally adjusted New Export Orders Index fell sharply from January's all-time high, however, and signalled the slowest rate of expansion since last September.

### Backlogs of Work Index

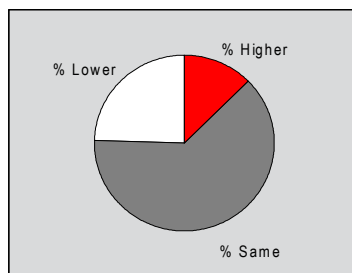
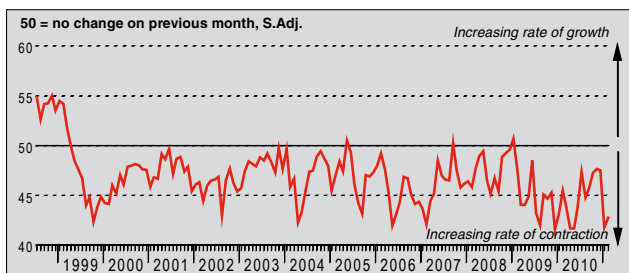
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Although incoming new work rose more slowly in February, the volume of incomplete business held at Polish manufacturers continued to increase – reflecting rapid overall new order growth over the past few months. The seasonally adjusted Backlogs of Work Index remained above the no-change mark of 50.0 for the fifth successive month, but fell since January to signal the softest rate of accumulation in this sequence.

### Stocks of Finished Goods Index

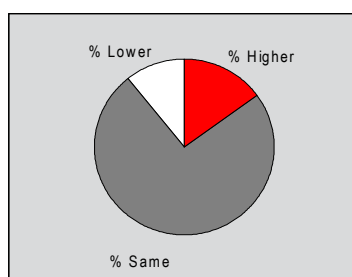
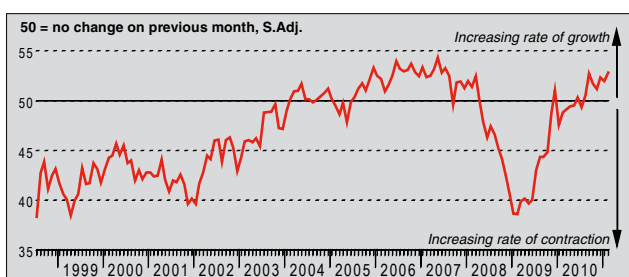
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Polish manufacturers' inventories of final goods continued to contract on average in February. Survey respondents linked lower warehouse stocks to rising sales or destocking aimed at clearing space for new products. The rate of decline eased slightly since January, but remained sharp in the context of historic survey data.

### Employment Index

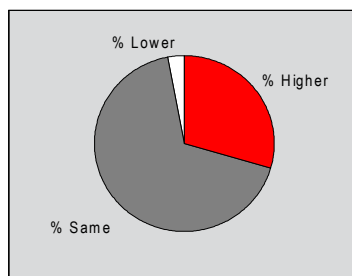
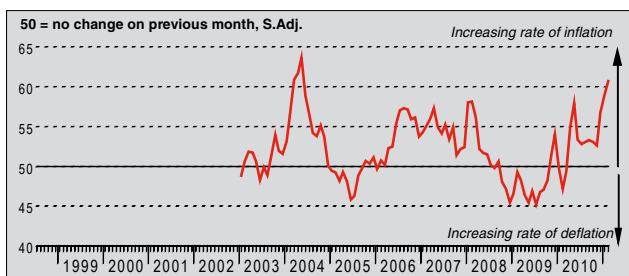
Q. Please compare the level of employment at your unit with the situation one month ago.



Manufacturers in Poland continued to expand their workforces in February. The current sequence of job creation now stretches to seven months. Moreover, the seasonally adjusted Employment Index rose on the month, to signal the joint-fastest rate of growth in over three-and-a-half years. Recruitment was linked by panellists to rising output requirements.

### Output Prices Index

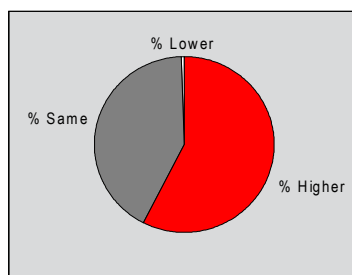
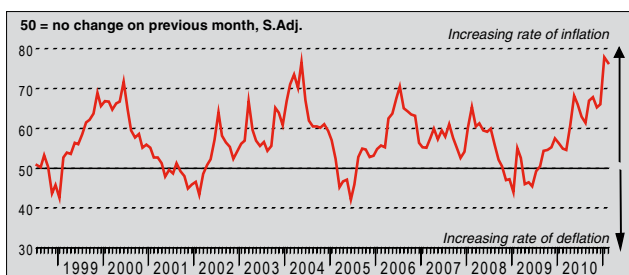
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Prices charged for Polish manufactured goods rose at a rapid pace in February. The seasonally adjusted Output Prices Index moved up for the third month in a row, and signalled the fastest rate of inflation since May 2004. Around 30% of companies reported hiking their output prices in the latest period, mainly attributing this to greater cost pressures in the sector.

### Input Prices Index

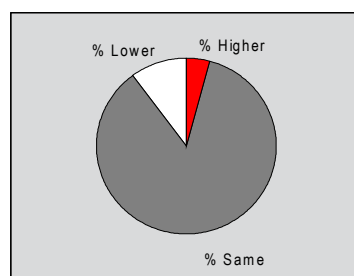
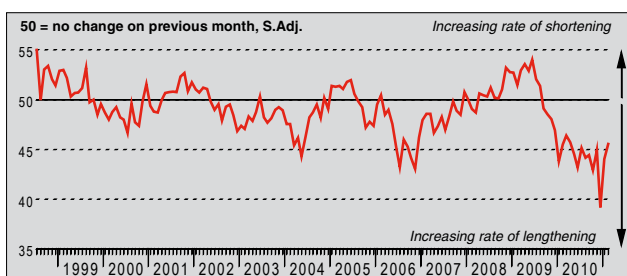
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



February data signalled further sharp inflation of Polish manufacturers' input costs. Average input prices rose at a rate close to January's record, with around 58% of firms reporting increases compared to one month previously. The seasonally adjusted Input Prices Index was at its third-highest level since the series started in June 1998. Key inputs reported as being more expensive during the month included metals, energy and fuel. A recent increase in VAT was also reported as having contributed to cost pressures.

## Suppliers' Delivery Times Index

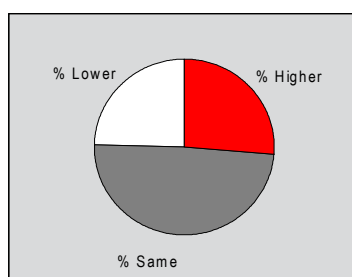
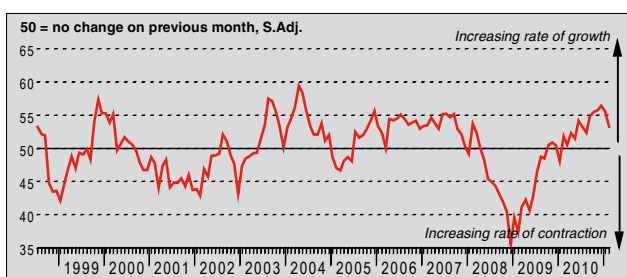
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Supplier performance in the Polish manufacturing sector deteriorated further in February, as underlying market demand remained firm despite the slowing of new order growth. The average time taken for vendors to deliver inputs to manufacturers has lengthened on average every month since September 2009. The seasonally adjusted Suppliers' Delivery Times Index rose to a ten-month high, however, signalling a slight easing of pressure on suppliers during the month compared to the recent trend.

## Quantity of Purchases Index

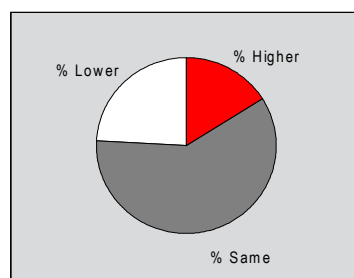
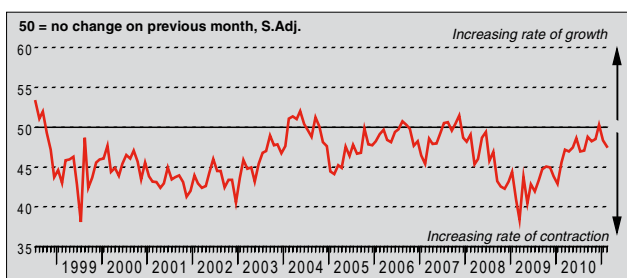
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Purchasing activity in the Polish manufacturing sector rose for the thirteenth successive month in February. The rate of expansion slowed for the second month running to the weakest since last August, but remained sharp in the context of historic survey data. The majority of survey respondents reporting higher input purchases compared to one month earlier linked the increases either to current or planned output requirements.

## Stocks of Purchases Index

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



Pre-production inventories at Polish manufacturers declined on average in February. The seasonally adjusted Stocks of Purchases Index fell on the month, to signal a faster rate of reduction. That said, the pace of contraction remained weaker than the long-run trend for the series. Some firms linked cuts in stocks of inputs to slower intakes of new work, while others cited efforts to streamline warehouses and improve productivity.

## 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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