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HSBC Poland Manufacturing PMI®

Polish manufacturing production rose at slower pace in May.

Key findings:

- Output and new orders grew at weakest rates for ten months.
- Input price inflation slowed sharply.
- Manufacturers continued to expand workforces.

HSBC survey data for May, compiled by Markit, signalled a further overall improvement in manufacturing business conditions in Poland. But the pace of growth slowed markedly, with output, new orders and input buying all rising at weaker rates compared to April. The loss of momentum was accompanied by an unprecedented easing in the rate of input cost inflation in the sector, although companies continued to take on staff at a solid pace.

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 fell from 54.4 in April to 52.6 in May, the lowest since last July. The decline primarily reflected weaker contributions from the output and new orders components and, to a lesser extent, stocks of purchases. That said, the PMI has been above 50.0 for nineteen months in a row, and remained above its long-run average in the latest period.

New order inflows at Polish manufacturers continued to rise in May. This extended the current sequence to twenty months. That said, the rate of expansion slowed to the weakest since July 2010. Moreover, new export orders barely rose at all compared to April.

The slower rise in new orders resulted in a moderation of output growth in May. The pace of expansion has slowed three times so far in 2011, and the latest data signalled the weakest growth since last July. Nevertheless, the rise remained sharp in comparison to the long-run survey average.

May data signalled a substantial easing of cost inflationary pressure in the manufacturing economy. The rate of input price inflation slowed for the fourth month running – and to a greater extent than in any previous survey period – to the weakest since last August. That said, it remained steeper than the long-run survey average, reflecting supply shortages.

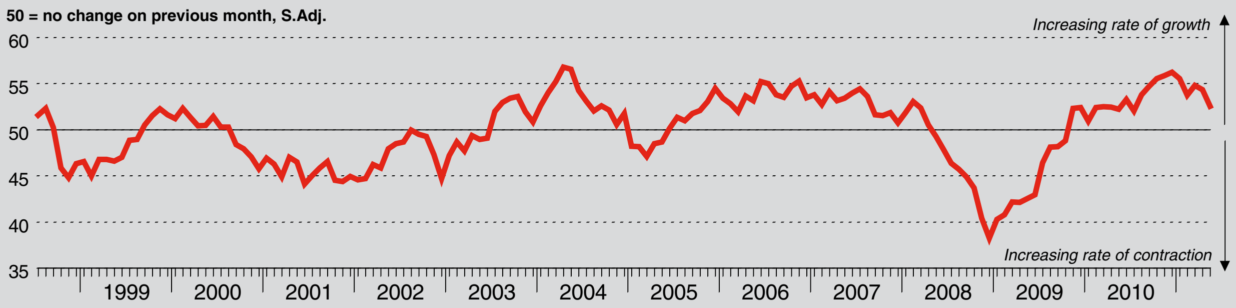
The rate at which manufacturers raised their prices also slowed sharply in May. Output price inflation eased for the second month running, to the weakest since last November.

Manufacturing employment in Poland rose at the fastest rate in three months in May, despite the weaker rise in production. Workforces have expanded on average for the past ten months.

Although pressure on manufacturing capacity eased somewhat in May, the volume of outstanding business in the sector rose. This was the seventh time in the past eight months that backlogs had increased. Firms linked rising levels of outstanding work to insufficient production capacity and delays from suppliers.

In line with the trends seen for output and new orders, the rate of purchasing growth slowed in May. The latest expansion was the weakest since last August. Even so, suppliers' delivery times continued to lengthen during the month.

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. *Purchasing Managers' Index*® and *PMI*® are registered trade marks of Markit Economics Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.

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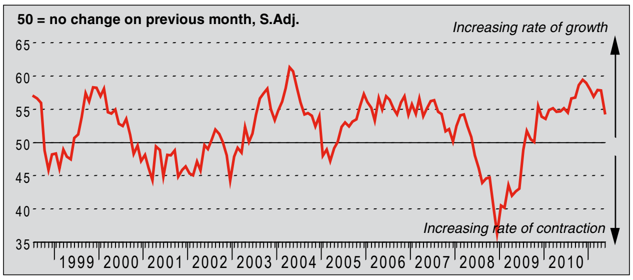
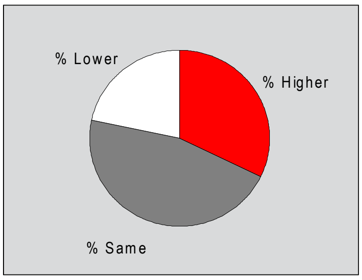
Output Index

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

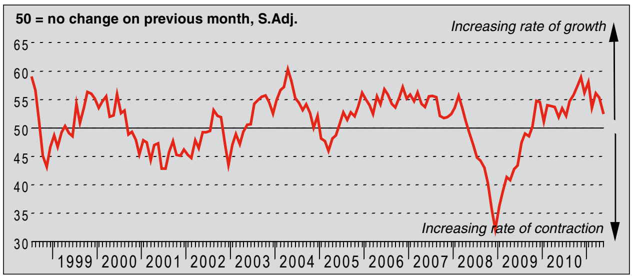


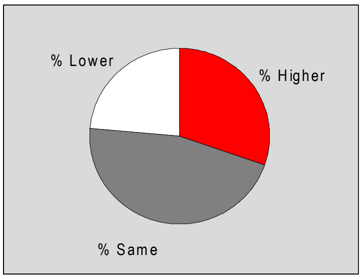


Polish manufacturing output rose for the twenty-second successive month in May. The seasonally adjusted Output Index remained above its long-run average, indicating a relatively sharp pace of expansion. That said, the rate of growth slowed for the fourth time in the past six months, to the weakest since July 2010.

New Orders Index

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

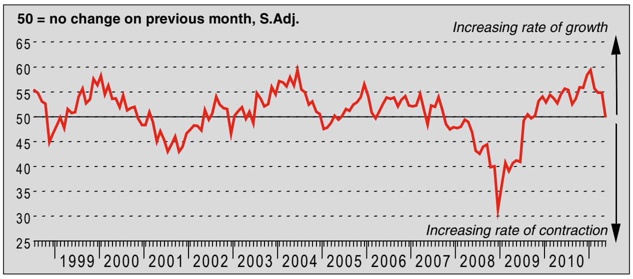


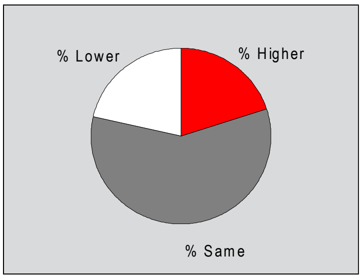


Remaining above the no-change mark of 50.0 in May, the seasonally adjusted New Orders Index signalled a further expansion of new work received by Polish manufacturers. The current sequence of growth now stretches to twenty months. The Index fell since April, however, and signalled the weakest rate of expansion since July 2010. Nevertheless, it was still greater than its long-run trend level of 51.0 during the latest period.

New Export Orders Index

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

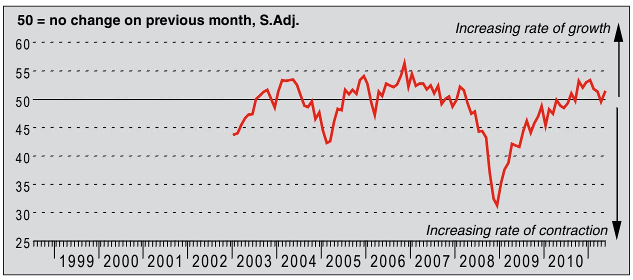


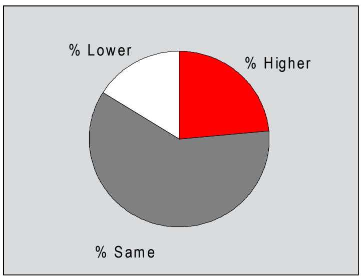


Growth of new export business stagnated in May. The seasonally adjusted New Export Orders Index fell sharply, and was only marginally above the no-change mark of 50.0 that divides expansion from contraction. The month-on-month fall in the Index was the fourth-largest in the thirteen-year history of the survey. Firms that reported lower new export work cited the loss of business to rival low-cost suppliers, falling orders from the Middle East and softening demand generally.

Backlogs of Work Index

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

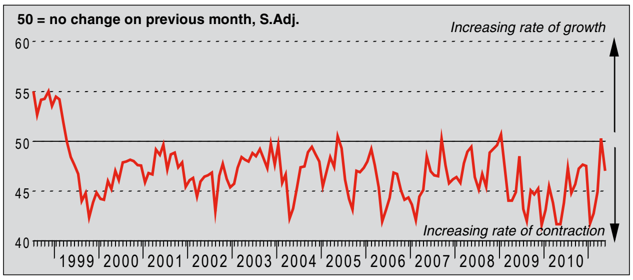


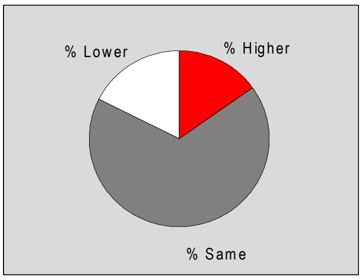


The volume of work-in-progress in the Polish manufacturing sector rose in May, following a contraction in the previous month. The seasonally adjusted Backlogs of Work Index was at a level indicative of a modest rate of growth, remaining above its long-run average of 48.7. A number of firms reported capacity issues and delays to production during the month.

Stocks of Finished Goods Index

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

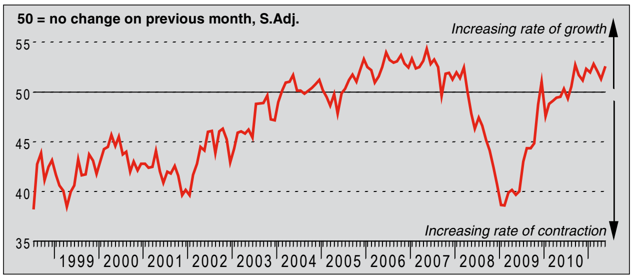


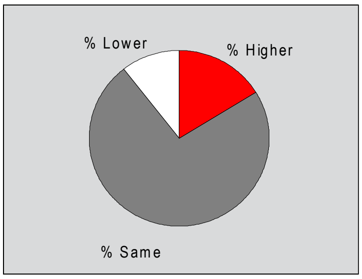


Polish manufacturers' inventories of post-production goods declined on average in May. The seasonally adjusted Stocks of Finished Goods Index fell below neutrality, having signalled a slight accumulation in the previous month. However, the rate of contraction signalled by the latest figure was weaker than that indicated during the first quarter of 2011. Some firms reported selling from existing stock during the month.

Employment Index

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

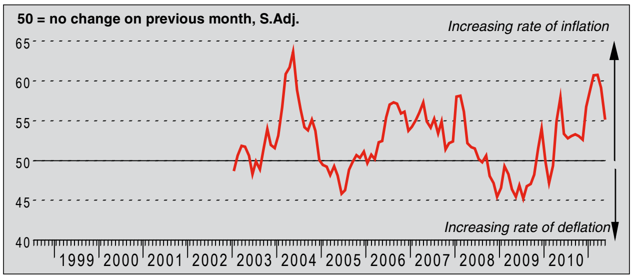


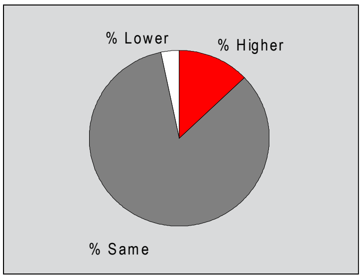


Manufacturing employment in Poland rose for the tenth month running in May. Firms attributed recruitment to rising output requirements. Posting a higher reading than in the previous month, the seasonally adjusted Employment Index signalled the fastest rate of job creation for three months. Moreover, the Index was greater than its long-run trend level during the month.

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.

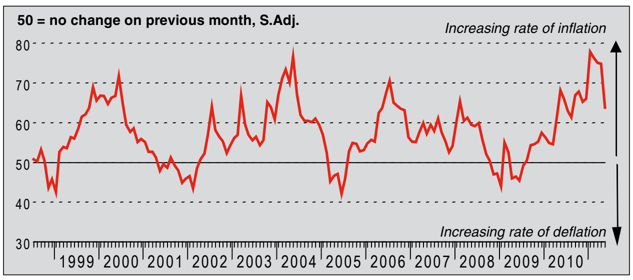


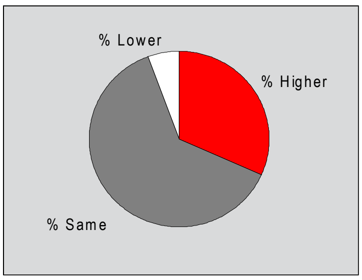


The rate at which manufacturers raised their output prices slowed sharply in May. The seasonally adjusted Output Prices Index posted its fifth-largest one-month fall since data were first collected in January 2003, and the latest figure indicated the weakest rate of charge inflation since November 2010. That said, the overall increase in prices for Polish manufactured goods remained sharp in the context of historic data, and charges have risen every month since April 2010.

Input Prices Index

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

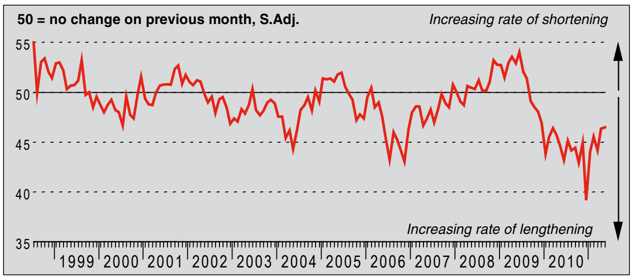


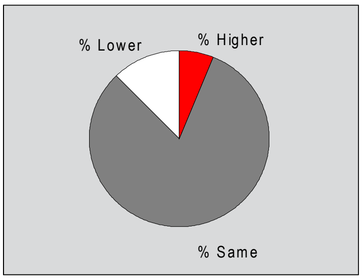


May data signalled an easing in cost inflationary pressures for the fourth successive month. Having reached a record high in January, the seasonally adjusted Input Prices Index fell to a nine-month low in the latest period. Moreover, the month-on-month fall in the Index was the steepest in the history of the series. Input price inflation remained stronger than the long-run trend, however, with a number of firms reporting higher supplier prices for a range of raw materials and fuel.

Suppliers' Delivery Times Index

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

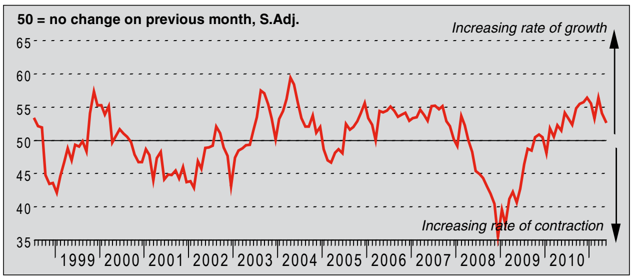


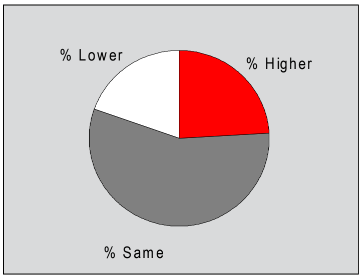


Polish manufacturers continued to report worsening supplier performance in May. The average time taken to deliver inputs has lengthened in every month since September 2009. Firms linked delays to shortages of raw materials, transport problems and insufficient capacity at suppliers. That said, the overall extent of the latest deterioration in vendor performance was the least marked in seventeen months.

Quantity of Purchases Index

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

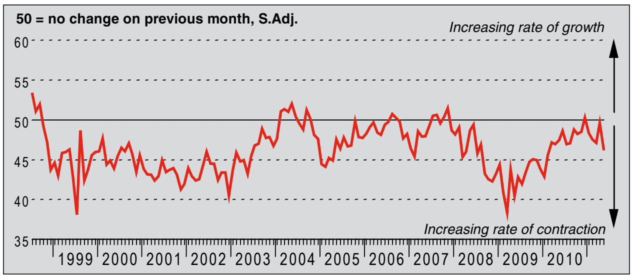


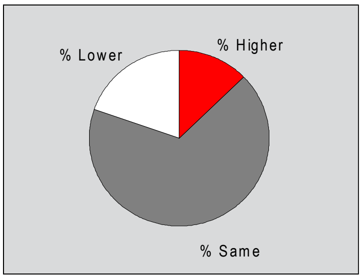


May data signalled a further increase in purchasing activity by Polish manufacturers. The seasonally adjusted Quantity of Purchases Index remained above the no-change mark of 50.0 for the sixteenth successive month, remaining favourable in the context of historic survey data. Firms linked rising input volumes to higher output requirements. In line with the trends seen for output and new orders, however, the rate of growth slowed in the latest period to the weakest since August 2010.

Stocks of Purchases Index

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





The level of inputs held in stock at Polish goods producers declined in May, as it has done in every month of 2011 so far. Moreover, a fall in the seasonally adjusted Stocks of Purchases Index signalled a faster rate of contraction. The pace at which inventories declined was the sharpest since February 2010. Some firms reported that rising input prices had limited their ability to increase purchasing volumes, and delayed deliveries.

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.

Warning