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HSBC Poland Manufacturing PMI®

Polish manufacturing output rises at faster rate

Key findings:

- Current sequence of production growth extended to two years
- Rise in new orders
- Input price inflation eases to 16-month low

HSBC PMI® survey data for July, compiled by Markit, signalled a strengthening business climate in Poland's manufacturing sector at the start of the third quarter. Output rose at a faster rate as new orders recovered, while employment growth remained relatively solid and inflationary pressures eased. That said, purchasing activity was broadly flat over the month and firms' pricing power weakened due to competitive pressures.

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.

Having fallen five times in the first six months of 2011, The PMI moved higher in July, signalling a stronger overall improvement in business conditions for Polish manufacturers. The latest figure of 52.9 was the highest since April, and above the pre-downturn average of 50.3 (June 1998 to April 2008). The PMI has now remained above the neutral threshold for 21 months. The rise in the Index in July mainly reflected a stronger expansion in output and a recovery in new orders.

July data signalled a resumption in growth of new business following June's marginal decline. New orders have risen 21 times in the past 22 months. That said, the latest expansion was slightly weaker than the trend over this period. The volume of new export orders fell for the second month running, albeit at

only a marginal pace.

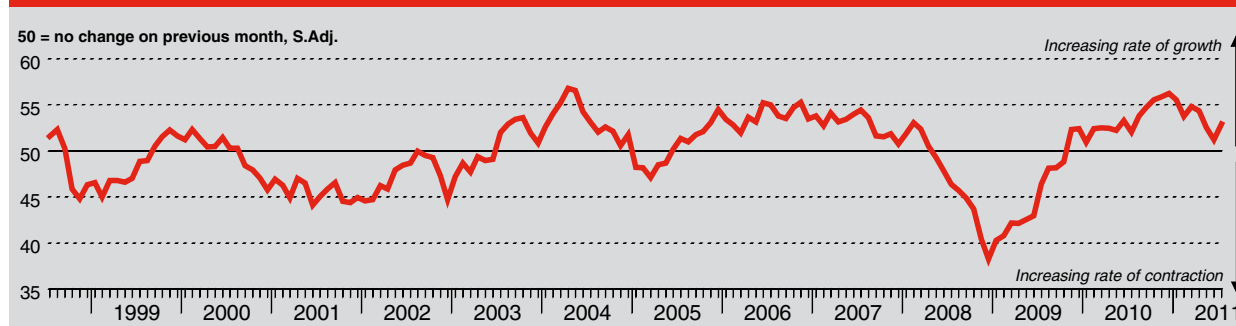
Rising levels of new work supported an overall increase in production in July. Output has expanded every month for the past two years, and the latest rate was the fastest since April. Manufacturers also recorded a second successive monthly decline in backlogs – the first back-to-back fall in a year.

Manufacturing employment in Poland rose for the twelfth month in a row in July. The rate of job creation was marginally weaker than in June, but still strong in the context of historic survey data. The current sequence of workforce growth is the longest recorded in almost four years.

Average input prices continued to rise strongly in July. Survey respondents reported higher costs for certain raw materials, including cardboard and copper, and also linked cost pressures to the zloty exchange rate. The rate of input cost inflation eased for the sixth month running, however, to the weakest since March 2010. Firms' output prices also increased at a slower pace, reflecting competitive pressures.

Purchasing activity in the Polish manufacturing sector was broadly flat in July, registering almost no growth compared with June. Reflecting this, the volume of inputs held in stock declined during the month. Suppliers' delivery times continued to lengthen, however, and at a faster rate. Meanwhile, inventories of finished goods declined for the third month running.

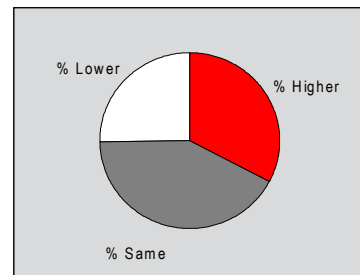
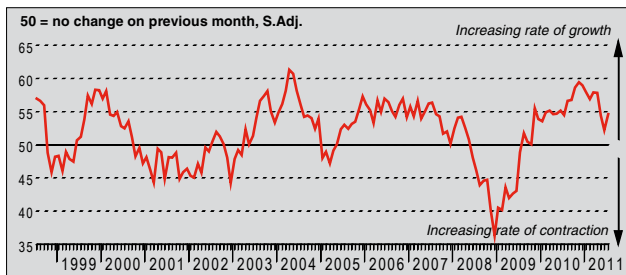
HSBC Poland Purchasing Managers' Index® (PMI®)



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.

Output Index

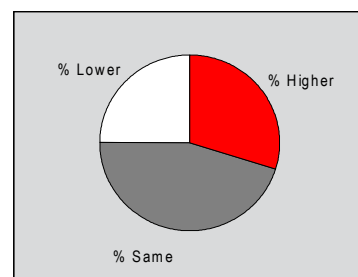
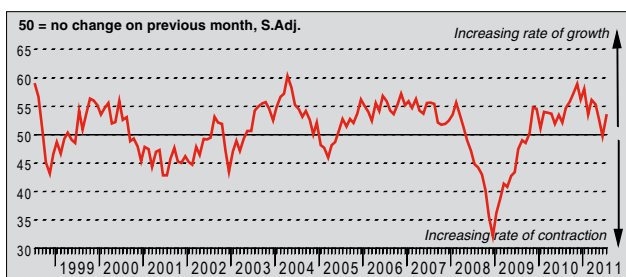
Q. Please compare your production/output this month with the situation one month ago.



Polish manufacturing production growth accelerated in July. The seasonally adjusted Output Index rose for the first time since March, to signal the fastest rate of expansion in three months. Panellists primarily attributed higher output to rising levels of new orders. That said, the rate of expansion remained below the trend seen over the current two-year sequence of growth.

New Orders Index

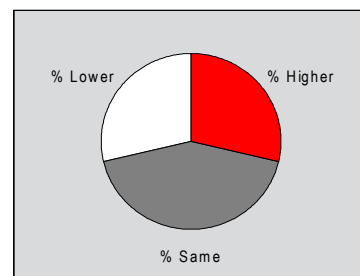
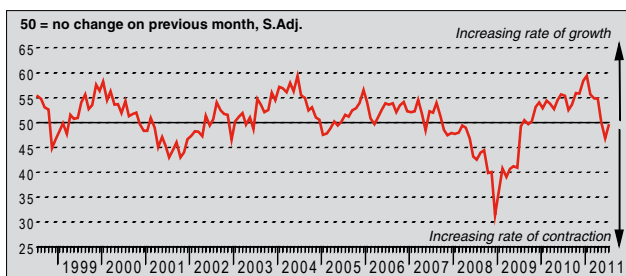
Q. Please compare the level of new orders received this month with the situation one month ago.



Having fallen slightly in June, the volume of incoming new business at Polish manufacturers rose in July. The seasonally adjusted New Orders Index was above its long-run average of 51.0, but weaker than the trend shown for the first half of 2011. The latest figure signalled a robust overall rate of growth. A number of firms reported expansion into new markets during the month.

New Export Orders Index

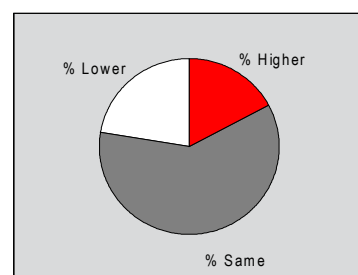
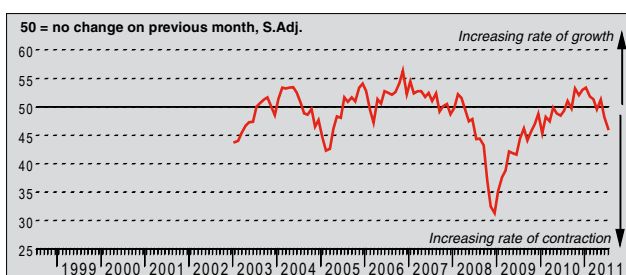
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Polish manufacturers saw the volume of new export business fall for the second month running in July, as signalled by the seasonally adjusted New Export Orders Index remaining below the no-change mark of 50.0. Anecdotal evidence from survey respondents partly linked declines in new export orders to competitive pressures. That said, the rate of decline eased since June to only a marginal pace. The Index rose for the first time since January.

Backlogs of Work Index

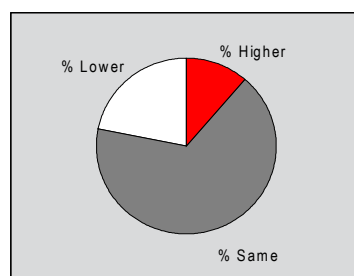
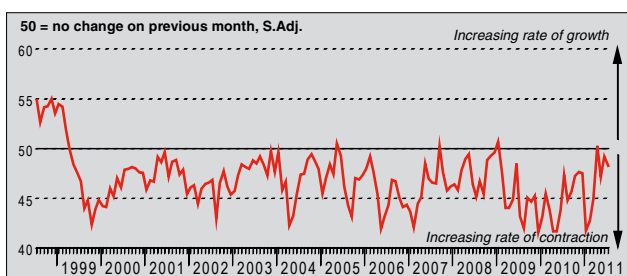
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work declined at a robust pace in July. The seasonally adjusted Backlogs of Work Index remained below 50.0 for the second successive month, and indicated the fastest rate of contraction since January 2010. It was also the first back-to-back decline in outstanding business for a year. Some firms linked lower backlogs to softer demand pressure than earlier in the year.

Stocks of Finished Goods Index

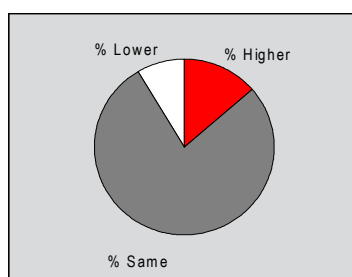
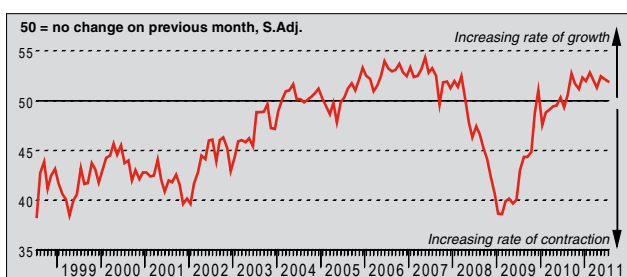
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



The seasonally adjusted Stocks of Finished Goods Index remained below the no-change mark of 50.0 for the third month in a row in July, indicating a further decline in post-production inventories at Polish goods producers. That said, the rate of contraction indicated was moderate. Firms mainly attributed lower warehouse stocks to sales outstripping output during the month.

Employment Index

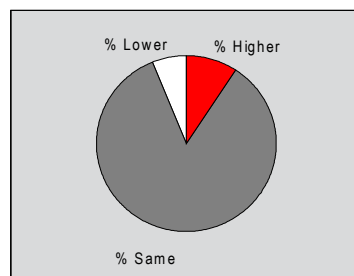
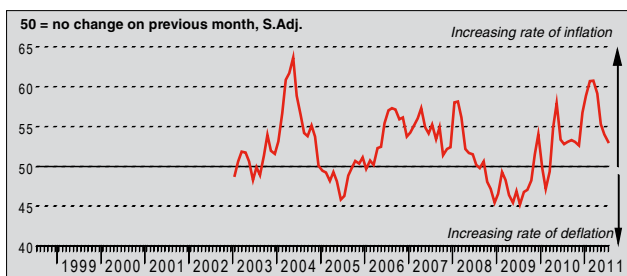
Q. Please compare the level of employment at your unit with the situation one month ago.



Manufacturing employment in Poland rose for the twelfth month running in July. The seasonally adjusted Employment Index remained well above its long-run average, and the latest figure signalled a rate of job creation broadly in line with the trend for the first half of 2011. The current sequence of workforce growth is the longest in around four years. Firms directly attributed extra recruitment to rising output and new orders.

Output Prices Index

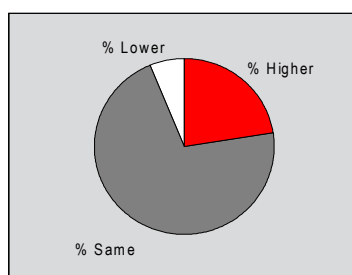
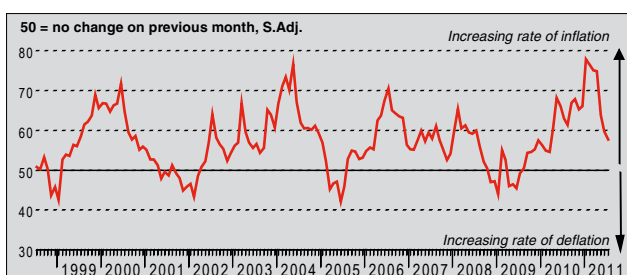
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Output prices charged by Polish manufacturers rose for the sixteenth successive month in July. Firms partly attributed higher charges to higher raw material prices. The seasonally adjusted Output Prices Index fell for the fourth month running, however, with the latest figure indicating the slowest rate of inflation since November 2010. Panellists indicated that this reflected growing competitive pressures.

Input Prices Index

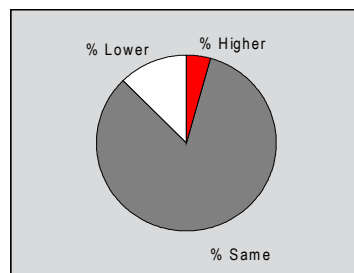
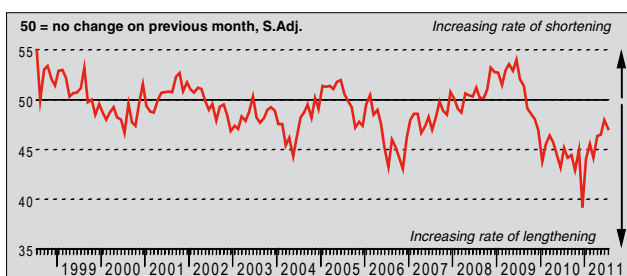
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Polish manufacturers continued to report higher average input prices in July. The seasonally adjusted Input Prices Index was slightly above its long-run average of 57.5. Cost pressures were linked to raw materials such as cardboard and copper, and a weaker zloty exchange rate. The rate of input cost inflation eased for the sixth successive month from January's survey record, however, to the slowest since March 2010.

Suppliers' Delivery Times Index

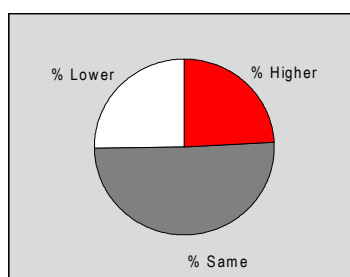
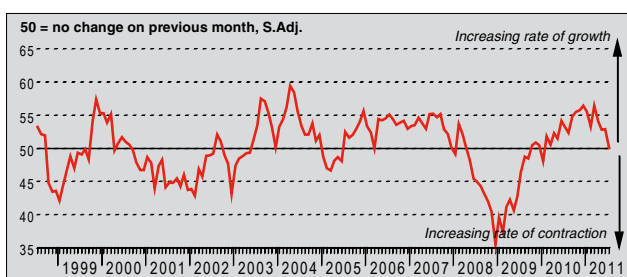
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



The average time taken for suppliers to deliver inputs to Polish manufacturers lengthened further in July. Moreover, the seasonally adjusted Suppliers' Delivery Times Index moved lower for the first time since March, indicating a greater deterioration in vendor performance than in the previous month. The main reason given for longer lead times was a lack of transport infrastructure and delays for imports. Times have lengthened for 23 months running.

Quantity of Purchases Index

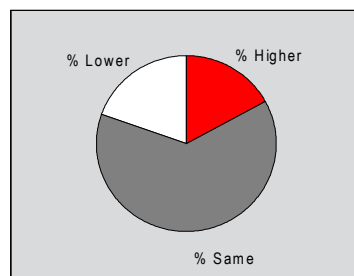
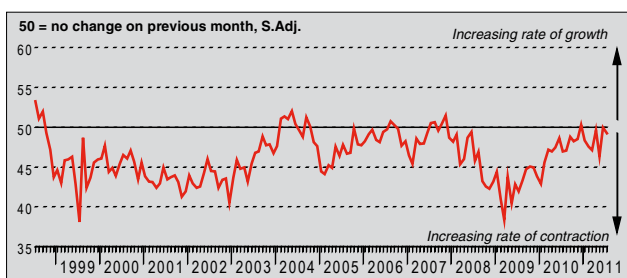
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



The volume of inputs purchased by Polish manufacturers in July was broadly unchanged from the previous month. This was signalled by the seasonally adjusted Quantity of Purchases Index falling to just above the no-change mark of 50.0. Growth of purchasing activity, at 24% of companies, was linked to higher new orders, output and stockbuilding.

Stocks of Purchases Index

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



The seasonally adjusted Stocks of Purchases Index dipped below the no-change mark of 50.0 in July, to signal a marginal overall reduction in the volume of inputs held in stock at Polish manufacturers. Where stocks declined, this was often attributed to weakening market conditions. Increases were mainly linked to larger output requirements. The Index remained comfortably above its long-run average during the month.

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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