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## HSBC Poland Manufacturing PMI®

### Polish manufacturing sector stagnates in September

#### Key findings:

- Output growth slows further as new orders register flat trend
- New export orders fall solidly
- Employment growth remains marginal

HSBC PMI® survey data for September, compiled by Markit, provided new evidence of faltering growth in Poland's manufacturing sector. Production rose at the slowest rate in nearly two years, reflecting a stagnation in new business inflows. Data indicated that export markets were a key source of weakness, despite the recent depreciation in the zloty. The survey also suggested that employment in manufacturing barely rose, while output prices increased only marginally.

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 signalled a negligible overall improvement in the business climate in September, falling to 50.2. That was the seventh decline in the first nine months of 2011, a marked retreat from the strong improvement seen in December 2010. The five component sub-indices of the headline figure were all at or close to neutrality during the latest period.

The current period of rising Polish manufacturing production was extended to 26 months in September. The rate of growth weakened, however, to the slowest since October 2009. Moreover, new orders, a forward-looking indicator, suggested that growth of output would weaken further in the final quarter of 2011. Data indicated a broadly flat trend since August, following

two months of solid expansion. New orders from export markets declined at the fastest rate since June 2009, despite the weakening of the zloty during September.

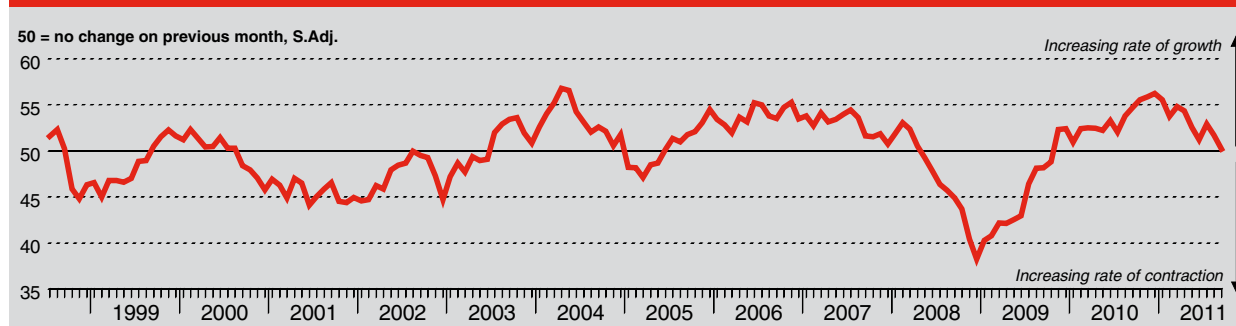
The fragile business climate in the manufacturing sector was further highlighted by a solid fall in outstanding work in September. Backlogs have declined for four successive months, and the latest drop was the second-steepest since January 2010.

Growth of manufacturing employment slowed again at the end of the third quarter. Those firms who held positive expectations and expanded workforces were mostly offset by those who faced pressure to cut costs and trimmed headcounts accordingly.

Inflationary pressure on firms' costs remained sharp in September, mainly reflecting upward pressure on import prices from the weaker zloty. The rate of input price inflation accelerated slightly, having retreated during the previous seven months from January's record high. But competitive pressures restricted firms' ability to pass on greater cost burdens, as prices charged for Polish manufactured goods rose only marginally.

Growth of purchasing activity resumed in September, following a marginal decline the previous month. But the rate of expansion was modest and suppliers' delivery times improved further, suggesting a general lack of pressure on supply chains.

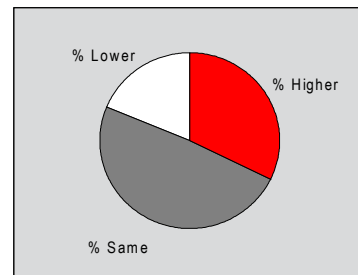
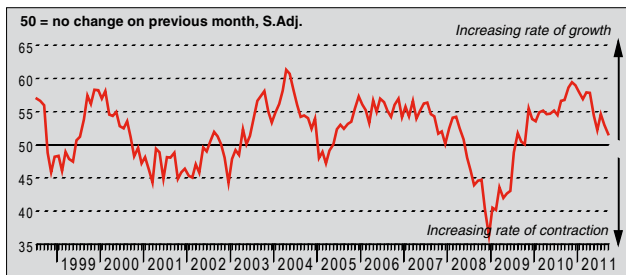
HSBC Poland Purchasing Managers' Index® (PMI®)



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

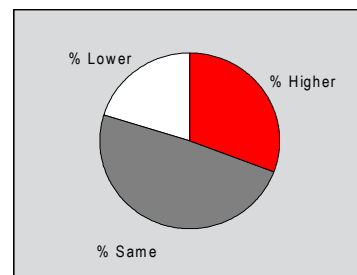
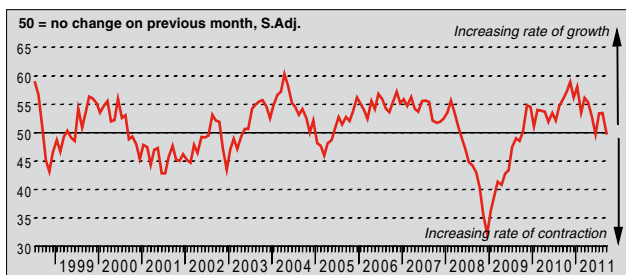
Q. Please compare your production/output this month with the situation one month ago.



Manufacturing output in Poland rose for the twenty-sixth month running in September. That said, the seasonally adjusted Output Index fell further, signalling a weaker rate of expansion. Growth has slowed four times in the past five months. The latest rise was the weakest since October 2009. The Index was also below its long-run average during the month.

### New Orders Index

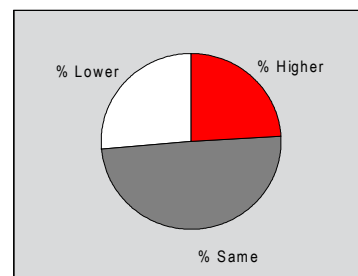
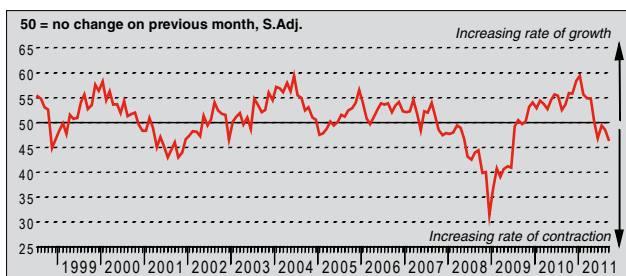
Q. Please compare the level of new orders received this month with the situation one month ago.



New orders taken by Polish manufacturers failed to rise in September, following two months of solid growth. The seasonally adjusted New Orders Index dipped just below the no-change mark of 50.0, signalling a fractional decline since August. It was also the second sub-50 reading in four months. Where new business fell, this was generally linked to weakening market conditions.

### New Export Orders Index

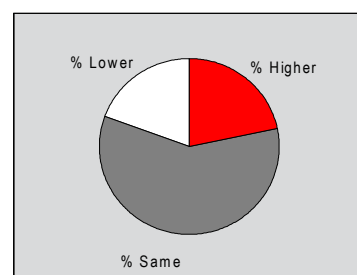
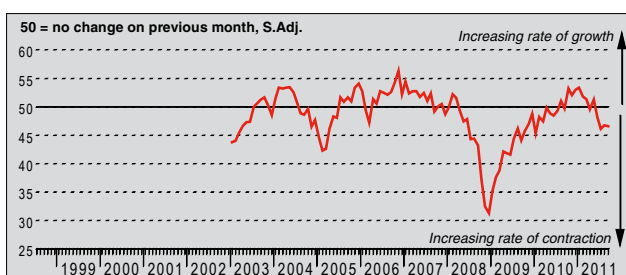
Q. Please compare the level of new export orders received this month with the situation of one month ago.



The seasonally adjusted New Export Orders Index remained below the no-change mark of 50.0 in September, signalling a fourth successive monthly decline in new work received by Polish manufacturers from export markets. Moreover, the rate of contraction was the fastest since June 2009. Panellists linked lower new export business to worsening international demand for their goods.

### Backlogs of Work Index

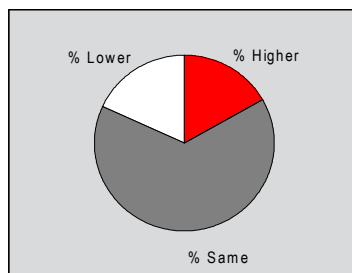
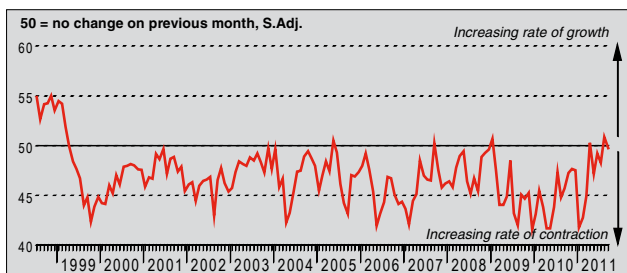
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Polish manufacturers continued to report declining volumes of outstanding business in September. The seasonally adjusted Backlogs of Work Index remained in contraction territory for the fourth month running, and edged closer to July's 18-month low. Falling backlogs have been registered five times in the past six months. Anecdotal evidence linked declining outstanding work to a lack of new orders. The Index remained below its historic average of 48.6 during the month.

### Stocks of Finished Goods Index

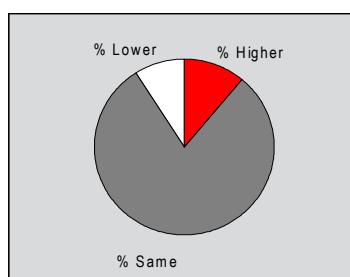
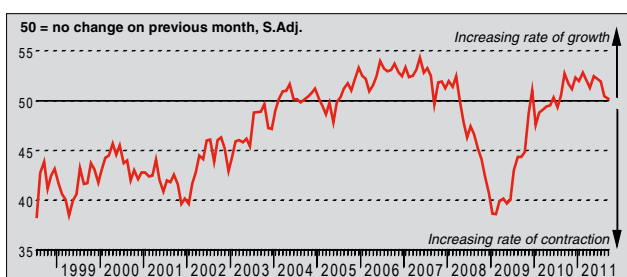
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Post-production inventories decreased fractionally in September, following August's marginal growth. The seasonally adjusted Stocks of Finished Goods Index dipped back below the no-change mark of 50.0, but remained higher than its long-run trend level of 47.0. Declining inventories, recorded at 18% of firms, were linked to sales outstripping production and deliberate streamlining.

### Employment Index

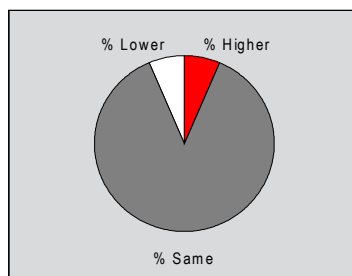
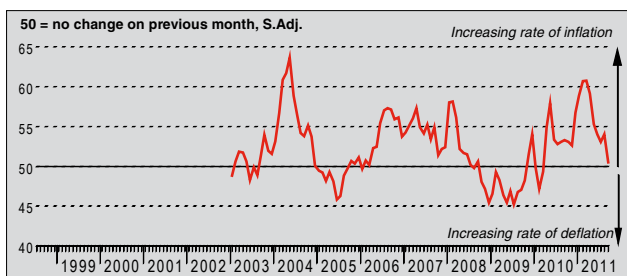
Q. Please compare the level of employment at your unit with the situation one month ago.



Polish manufacturing employment continued to rise in September. The current period of continuous job creation now stretches to 14 months. That said, the seasonally adjusted Employment Index edged closer to neutrality, signalling only a marginal rate of growth that was the weakest in the current sequence. Some firms linked recruitment to planned increases in capacity and forthcoming new projects. But around 9% cut workforces since August, citing cost pressures.

### Output Prices Index

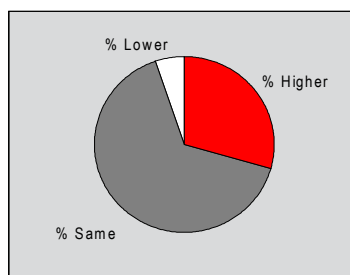
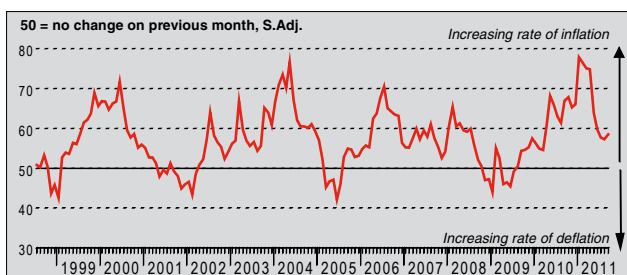
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



September data signalled only a marginal increase in output prices in the Polish manufacturing sector. The seasonally adjusted Output Prices Index remained above the no-change mark of 50.0 for the eighteenth successive month, but fell sharply since August to the lowest level in this sequence. Only 6.5% of firms reported raising their charges during the month, linked mainly to the passing on of higher raw material prices.

### Input Prices Index

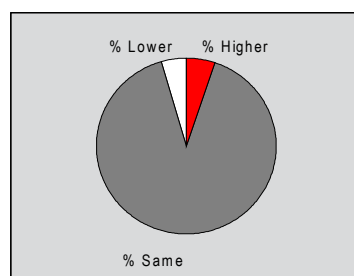
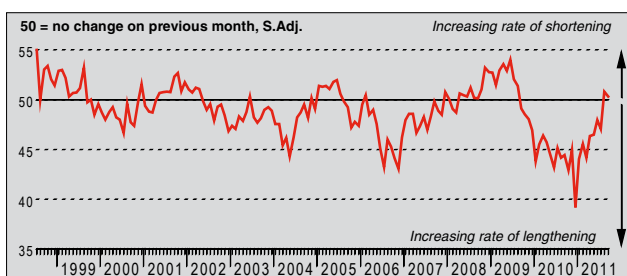
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



September data indicated a sharp rise in Polish manufacturers' input prices. Having fallen for seven months running from January's series-record high, the seasonally adjusted Input Prices Index rose slightly, to signal an acceleration in the rate of inflation. Higher input costs were mainly driven by currency pressures, according to the latest anecdotal evidence, as the weaker zloty raised import prices. The Index was slightly higher than its long-run average during the latest period.

## Suppliers' Delivery Times Index

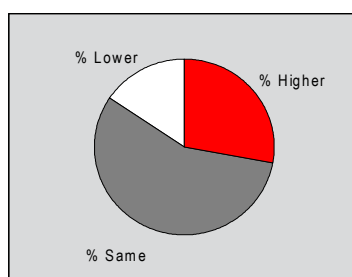
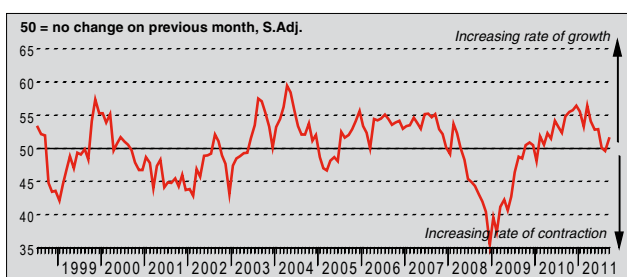
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



The performance of vendors supplying inputs to Polish manufacturers continued to improve marginally in September. The seasonally adjusted Suppliers' Delivery Times Index remained just above the no-change mark of 50.0, signalling a slight shortening in average delivery times. The latest survey data was indicative of a general lack of pressure on supply chains in the manufacturing sector.

## Quantity of Purchases Index

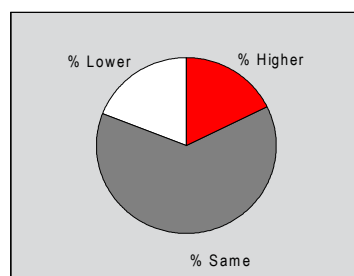
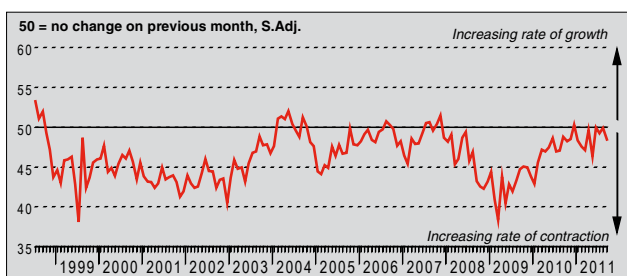
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Growth of purchasing activity resumed in September, following August's marginal decline. Having registered below the no-change mark of 50.0 the previous month for the first time since January 2010, the seasonally adjusted Quantity of Purchases Index signalled a modest rate of expansion in the latest period. Growth of purchasing was linked to higher output requirements, expanded product ranges and new orders.

## Stocks of Purchases Index

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



Polish manufacturers' stocks of inputs declined modestly in September. The seasonally adjusted Stocks of Purchases Index fell on the month, signalling a faster rate of reduction. The rate of contraction signalled by the latest figure was in line with the average shown over 2011-to-date. Stock reduction was partly linked to cost-control efforts.

## Notes on the Data and Method of Presentation

The *Purchasing Managers' Index*<sup>®</sup> 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 industry contribution to Polish 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)*<sup>®</sup> 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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