

HSBC Poland Manufacturing PMI®

Manufacturing downturn deepens as new orders fall further

Summary

HSBC PMI® survey data for December, compiled by Markit, signalled that Poland's manufacturing sector experienced a further worsening in business conditions. The headline HSBC Poland Manufacturing PMI, a composite single-figure indicator tracking changes in new orders, output, employment, suppliers' delivery times and stocks of purchases, remained below the neutral threshold of 50.0 for the second straight month. The latest figure of 48.8 was the lowest since October 2009, and the average over the quarter (50.0) was the lowest since Q3 2009 (47.6).

New orders fell for the second month in a row in December, in the first back-to-back contraction in the sector since 2009. Moreover, the rate of decline in the latest period was the fastest since June 2009. The volume of new business taken from export markets fell for the seventh month running, albeit at a softer rate than in November.

Despite the latest fall in new orders, production growth was maintained and even picked up slightly having slowed in November. But the pace of expansion remained weak overall, both in the context of 2011 as a whole and the survey history. The volume of outstanding business fell for the seventh month running, albeit only marginally.

Another key finding from the latest survey was a drop in manufacturing employment. This was the first cut to staff levels in the sector since July 2010. Moreover, the rate of contraction was the fastest since October 2009. Firms linked the reduction in headcounts insufficient workloads and subsequent pressure to cut costs.

Input price inflation remained substantial in December, and accelerated sharply since the previous month. Data signalled the fastest increase in average input costs since April, and inflation remained greater than the historic survey trend. Firms linked cost pressures to energy, fuel, metals and the effect of the weakening zloty on import prices.

Prices charged by Polish manufacturers for their goods rose on average in December, extending the current sequence to 21 months. That said, the rate of output price inflation remained modest, reflecting competitive pressures.

Comment

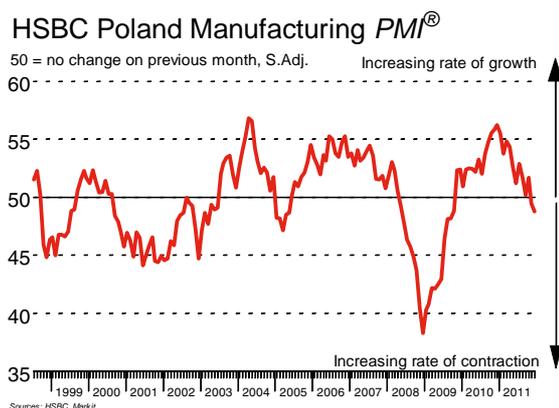
Commenting on the Poland Manufacturing PMI survey, Agata Urbanska, Economist, Central & Eastern Europe at HSBC, said:

"The PMI index deteriorated further in December. The Output index improved, but this was more than offset by worsening New Orders and Employment components. In fact, the monthly drop in the Employment index was the largest on record. This follows a benign trend of slowing official employment growth so far this year. In November corporate employment grew 2.5% y-o-y, the same rate as in October and down from 3.1% in Q3 and 4% in Q1. The PMI data point to an acceleration of this downward trend. New Orders declined for the second consecutive month, and at an accelerated pace. This was despite a slower decline in New Export Orders in December vs November. The Input Prices index rose sharply, but this was not true of the Output Prices index. That, together with the falling Employment index, points to a benign medium-term inflation picture and constitutes an argument against central bank interest rate hikes despite a high CPI inflation reading. On balance the data point to slowing economic activity, both domestic and external."

Key points

- Fastest drop in new business since June 2009
- Employment declines for first time since July 2010
- Input price inflation accelerates to eight-month high

Historical Overview



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Notes to Editors:

The HSBC Poland Manufacturing *PMI* 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)* is a composite index based on five of the individual indexes with the following weights: 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. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

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