HSBC Purchasing Managers' Index® Press Release Embargoed until: 09:00 (Warsaw), 31 October 2012

HSBC Poland Manufacturing PMI®

Polish manufacturing downturn extends to seventh month

Summary

HSBC survey data compiled by Markit indicated that Polish goods producers continued to experience deteriorating business conditions at the start of the fourth quarter. Output, new orders and purchasing activity all continued to fall in October, albeit at slower rates than in September. Manufacturers continued to erode their backlogs, and cut workforces at the fastest rate in three years. Meanwhile, inflationary pressures in the sector remained weak as both output and input prices declined over the month.

The headline HSBC Poland Manufacturing PMI®, a composite single-figure indicator of manufacturing performance, remained below neutrality for the seventh consecutive month in October. The PMI improved fractionally to 47.3, from September's 38-month low of 47.0, but the latest figure was still the second-lowest in the current sequence of sub-50.0 readings.

Central to the overall deterioration in the business climate was a ninth consecutive month-on-month contraction in the volume of new business received. The rate of decline slowed from September's 39-month record, but was still solid. Data signalled that export markets remained a key source of weakness, posting the fastest drop since May and a stronger contraction than that registered for total new work.

Polish manufacturing output fell for the sixth successive month in October, albeit at a slightly softer rate. The latest drop in new orders and a further marked decline in backlogs strongly suggested ongoing falls in production at the end of the year.

Firms cut capacity in October in response to reduced workloads. Manufacturing employment declined for the second month in succession, and at the fastest rate since October 2009. Meanwhile, purchasing activity contracted for the ninth month running. Subsequently, pre-production stocks fell at the strongest pace since January 2010. Firms also reduced warehouse stocks of final goods, and at the fastest rate since May.

October survey data signalled a general lack of inflationary pressures in the Polish goods-producing sector. Average input prices declined for the third time in four months, linked to weak demand for raw materials and the strength of the zloty. Meanwhile, prices charged for final manufactured goods declined for the fourth month running, and at the fastest pace since February 2010. Firms linked falling charges to competition for sales, reduced raw material prices and the maintenance of export prices.

Comment

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

"The October PMI index shows consolidation at low levels and follows a below expectations reading in the previous month. It shows moderation of the contraction rate in output and new orders but a more significant drop in employment and stock of purchases. The new export orders fell to a 40 month low in October. These imply more weak industrial production and employment data releases in the remainder of the year with both production and employment growth most likely in a negative territory. We expect that the increasingly more pronounced economic slowdown will be met with a response from monetary policy. We expect the central bank to start an interest rate cutting cycle in November. The scale of policy easing in this cycle is still an open question as the leading indicators domestically and abroad, among them PMI, still give no indication of the economic slowdown bottoming out in the near future."

Key points

- New orders decline at weaker rate despite stronger fall in export demand
- Input prices decline for third time in four months
- Manufacturers cut workforces at strongest rate in three years

Historical Overview





Sources: Markit, HSBC.





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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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