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HSBC Poland Manufacturing PMI®

Manufacturing new order growth returns in January

Key findings:

- · Resumption of new business growth drives fastest rise in output since July 2011
- · New export orders expand for first time in eight months
- · Input price inflation accelerates to nine-month high

January PMI data compiled by Markit for HSBC highlighted a positive start to 2012 for Polish manufacturers. Having worsened towards the end of last year, business conditions improved at the strongest overall rate in six months in the latest period. This mainly reflected an increase in new orders, which in turn generated faster production growth and halted the decline in employment initiated one month previously. Inflationary pressures built up, with input and output prices rising at the fastest rates in nine and five months respectively.

After adjusting for seasonal variation, the HSBC Purchasing Managers' $Index^{\circledR}$ (PMI^{\circledR}) – a composite indicator designed to give a single-figure snapshot of operating conditions in the Polish manufacturing economy – rebounded strongly in January. It rose for the first time since October, and posted the third-steepest one-month gain in the survey history to 52.2, from 48.8. This signalled an overall improvement in the business climate for the first time in three months.

Central to the recovery in momentum in the sector in January was a resumption of new business growth. Having fallen at the fastest rate in two-and-a-half years in December, the volume of incoming new work increased at the sharpest pace since last August. Growth was also stronger than the long-run survey average. Survey data also signalled a robust increase in new export business, the first expansion for eight months. There was some mention of improving European demand in the latest

anecdotal evidence from respondents.

The recovery in new order growth led to a faster rise in production in January. Data signalled the strongest rate of expansion since last July, and sharper growth than the long-run survey average. Continuous output growth has now been maintained for two-and-a-half years.

Input price inflation accelerated to a nine-month high in January. Firms reported higher prices for oil-related items in particular, and the effect of the weakening zloty on import prices in general. Prices charged for manufactured goods also rose at a faster rate, with the pace of inflation hitting a five-month high.

The volume of outstanding business continued to decline in January, partly reflecting falls in new orders in both November and December. Moreover, the rate of contraction in backlogs accelerated from December's marginal pace, despite the increase in new work in the latest period.

Polish manufacturing employment stabilised in January. Survey data indicated broadly no change on the month, following December's fall. A further sign of improving market conditions was a rise in the volume of inputs purchased by goods producers, following a two-month sequence of contraction. The rate of growth in purchasing activity was the fastest in seven months, but suppliers' delivery times lengthened only marginally. Stocks of purchases were little-changed compared to December levels.



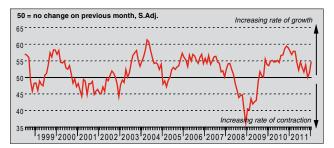
The HSBC Poland *Purchasing Managers' Index*[®] (*PMI*[®]) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, 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.

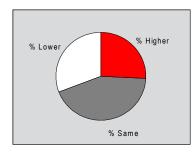




Output Index

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



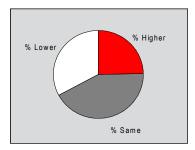


Goods producers in Poland registered a sharper increase in output at the start of 2012. The seasonally adjusted Output Index registered its highest level since last July, and was above its long-run average of 52.0. A number of survey respondents linked higher production to a recovery in new order intakes, and improving demand from European markets.

New Orders Index

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

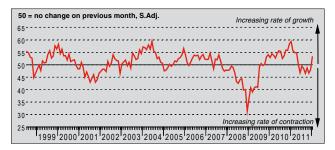


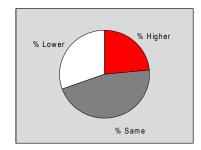


New business received by Polish manufacturers rose for the first time in three months in January. The seasonally adjusted New Orders Index posted a record one-month gain, moving up sharply from December's two-and-a-half-year low and signalling the strongest rate of expansion since last August. The Index also compared favourably with its long-run trend level of 51.0. Firms reported improving client demand both in domestic and export markets.

New Export Orders Index

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



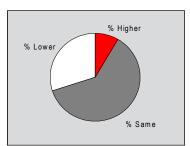


A sharp rise in the seasonally adjusted New Export Orders Index indicated a return to growth in new business from international clients at Polish goods producers in January. That followed a seven-month sequence of contraction. The one-month rise in the Index was the third-largest in the series history, and the rate of expansion signalled was the strongest since last April. Firms reported improving European demand, helped in part by the weakening zloty-euro exchange rate.

Backlogs of Work Index

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

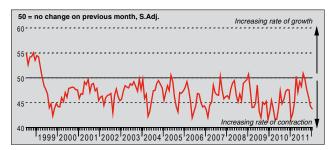


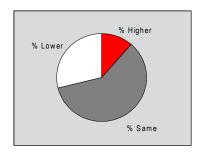


The level of outstanding business held in the manufacturing sector continued to decline in January, suggesting spare capacity in the sector. This was despite the rebound in new order growth. Survey data indicated an eighth successive monthly contraction in backlogs, with the rate of depletion faster than in December.

Stocks of Finished Goods Index

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



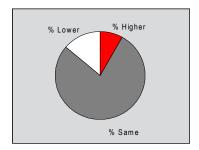


The level of completed goods held in warehouses at Polish manufacturers declined further in January. The current sequence of decline now stretches to five months. Moreover, the rate of contraction has accelerated throughout this period. The seasonally adjusted Stocks of Finished Goods Index signalled the fastest pace of decline since February 2011 in the latest period. Some firms reported improving sales at the start of the year, while others utilised existing stocks as opposed to committing to new production, reflective of a cautious outlook.

Employment Index

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



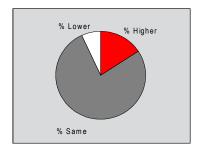


Manufacturing employment in Poland broadly stabilised in January. That followed a solid decline in December, when the seasonally adjusted Employment Index sank to a 26-month low. The latest figure recovered to fractionally above the no-change mark of 50.0, failing to signal meaningful growth in workforces. That said, it was well above the long-run survey average of 47.1. Where firms reported hiring additional staff, this was often attributed to recent intakes of 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.



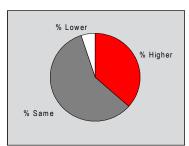


Polish manufacturers continued to raise their prices charged in January. The rate of output price inflation was the strongest in five months, but still weaker than the average for 2011. The current sequence of inflation now stretches to 22 months. Firms linked higher output prices to cost pressures from raw materials and energy.

Input Prices Index

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



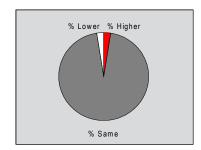


Average input prices paid by Polish manufacturers rose in January. Moreover, the rate of inflation strengthened for the fourth time in five months, to the fastest since last April. More than 36% of survey respondents reported higher input prices than one month previously, linked to the effect of the weakening zloty on import prices and oil-related products in particular. The seasonally adjusted Input Prices Index was well above its long-run average of 57.7.

Suppliers' Delivery Times Index

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

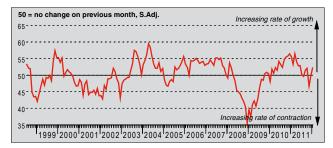


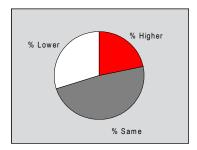


Suppliers' delivery times lengthened on average for the fourth successive month in January. That said, the seasonally adjusted Index was only just below the no-change mark of 50.0, indicating only a marginal degree of pressure on vendors. Firms reporting longer delivery times linked delays either to problems sourcing specific materials or difficulties with imports.

Quantity of Purchases Index

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

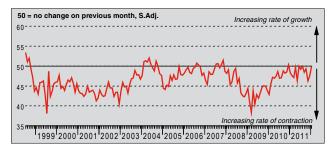


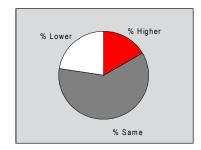


Reflecting the increases in output and new order volumes during the month, the level of inputs ordered by Polish manufacturers increased in January. That followed a two-month period of decline. The seasonally adjusted Quantity of Purchases Index rose further from November's 28-month low, to signal the sharpest rate of expansion since last June.

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 remained broadly constant in January, with the seasonally adjusted Stocks of Purchases Index only fractionally below the no-change threshold of 50.0. This suggested that higher output during the month was largely matched by receipts of new inputs, as survey data indicated little pressure on suppliers.

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 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 (PMIP) 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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