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HSBC Poland Manufacturing PMI®

Polish manufacturing business conditions remain stagnant in March

Key findings:

- PMI signals broadly no change in operating conditions
- · Output growth remains lacklustre
- Input price inflation remains strong, despite easing to four-month low

The latest survey of the Polish manufacturing economy, compiled by Markit for HSBC, signalled an ongoing stagnation of the sector at the end of the first quarter. New orders registered another – albeit mild – fall, while output growth remained sluggish. Manufacturers trimmed headcounts slightly and the trend in input stocks was broadly flat. Average input prices continued to rise sharply, yet competitive pressure restricted firms' ability to increase their own prices.

After adjusting for seasonal variation, the HSBC Purchasing Managers' $Index^{\textcircled{\$}}$ $(PMI^{\textcircled{\$}})$ – a composite indicator designed to give a single-figure snapshot of operating conditions in the Polish manufacturing economy – posted 50.1 in March. That was little-changed from 50.0 in February, and indicative of broadly no improvement in overall business conditions in the goods-producing sector. Higher output was largely offset by negative readings for both new orders and employment.

The underlying weakness of business conditions in the Polish manufacturing sector reflected a lack of incoming new work. The volume of new business received declined marginally, the fourth contraction registered by the survey since last November. Data signalled that demand in both domestic and export markets was weak, as new export orders were unchanged compared with February.

Manufacturing output growth was maintained in March, extending the current sequence of expansion to 32 months.

The rate of expansion remained weak, however, and was only slightly faster than February's marginal pace.

The latest survey data signalled no growth in manufacturing capacity, as employment in the sector contracted marginally. Meanwhile, backlogs of work fell for the tenth month in succession, albeit at the weakest rate in 2012 so far.

With new orders falling slightly at the end of the first quarter, manufacturers in Poland cut their purchasing volumes. Though marginal, it was the fourth decline of the past five months. Despite this, and reflecting the weak trend in output growth, pre-production stocks were little-changed over the month. The weakness of output growth was also reflected in a seventh successive monthly contraction in post-production inventories.

The latest fall in purchasing volumes was indicative of weak demand for inputs. Despite this, average input prices rose sharply, with the rate of inflation stronger than the long-run series average despite easing to a four-month low. Firms highlighted increased costs of fuel and oil-based products in particular.

Polish goods producers partly passed on higher input prices to customers in March. Average prices charged rose for the twenty-fourth successive month, but the rate of output price inflation eased for the second month running and was only modest overall.



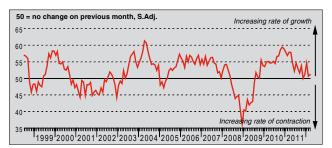
The HSBC Poland *Purchasing Managers' Index* (*PMP*) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output,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

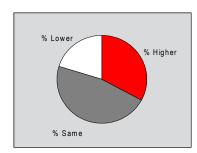




Output Index

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



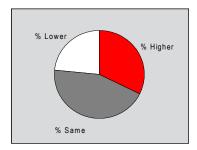


Manufacturing production in Poland rose in March. The seasonally adjusted Output Index remained above the no-change mark of 50.0 for the thirty-second consecutive month, but the latest figure signalled only a weak rate of expansion. Moreover, on a quarterly basis, production growth in Q1 has been the second-weakest since Q3 2009.

New Orders Index

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

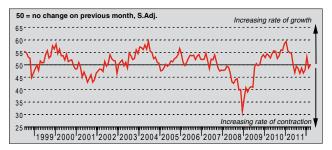


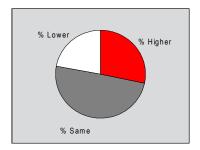


Polish goods producers reported a lower intake of new work in March, as was the case in the previous month. New orders have declined five times in the past seven months, although the rate of contraction in the latest period was only marginal. Anecdotal evidence provided by survey respondents generally betrayed fragile market demand.

New Export Orders Index

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



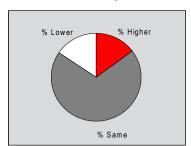


The seasonally adjusted New Export Orders Index equalled the no-change mark of 50.0 in March, signalling a flat trend in new export business received by Polish manufacturers compared with one month previously. New work from international clients has been broadly flat on average over the first quarter as a whole, following declines throughout the last seven months of 2011. Firms continued to report tough and unstable export conditions.

Backlogs of Work Index

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

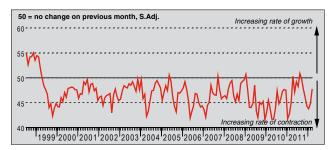


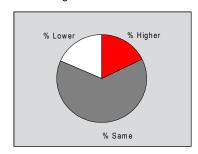


The volume of outstanding business in Poland's goods-producing sector continued to decline in March. The current sequence of contraction now stretches to ten months. Firms generally reported a lack of pressure on capacity, as market conditions remained subdued. The rate of contraction was the weakest in 2012 so far, but remained stronger than the long-run series average.

Stocks of Finished Goods Index

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



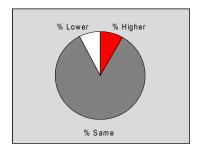


Polish manufacturers continued to cut their inventories of final goods on average in March. The seasonally adjusted Stocks of Finished Goods Index remained below the no-change mark of 50.0 for the seventh successive month, but improved since February to signal the weakest rate of decline since last October.

Employment Index

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



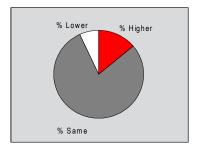


Manufacturing headcounts in Poland fell in March, the third reduction of the past four months. That said, the rate of job shedding slowed since February to a fractional pace. Reflecting this, around 84% of survey respondents reported no change in their workforce numbers compared with one month previously. Reasons for lower employment included retention difficulties linked to wage demands, sluggish new orders and natural wastage.

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.



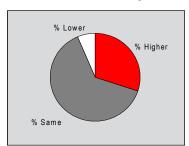


Prices charged for manufactured goods continued to rise in March. The current sequence of output price inflation now stretches to two years. The seasonally adjusted Output Prices Index dropped for the second month running, however, and signalled only a modest overall rate of increase in charges. This partly reflected some firms' efforts to attract new customers by either freezing prices or offering discounts.

Input Prices Index

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



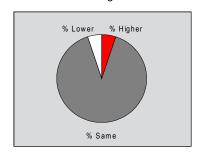


Price pressures faced by Polish manufacturers remained strong in March. The seasonally adjusted Input Prices Index was above its long-run average, despite easing slightly to a four-month low, and indicated a sharp rate of input cost inflation. The main sources of upward pressure on costs were oil-related products and steel.

Suppliers' Delivery Times Index

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

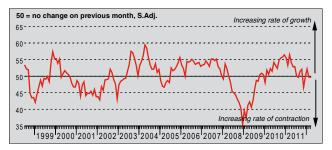


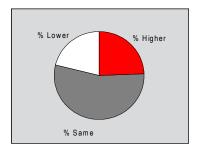


Survey data indicated little pressure on suppliers' delivery schedules in March. The seasonally adjusted Suppliers' Delivery Times Index was only marginally below the no-change mark of 50.0, indicating a fractional rise in average lead times for inputs shipped to Polish manufacturers. The Index was broadly in line with its long-run average during the month.

Quantity of Purchases Index

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

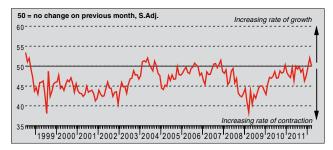


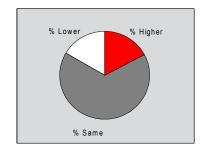


The trend in purchasing volumes at Polish goods producers remained broadly flat in March. The seasonally adjusted Quantity of Purchases Index was little-changed from February, and indicative of a negligible decrease in input volumes. The Index has registered below 50.0 five times in the past eight months. New purchases linked to higher output requirements were broadly offset by stock adjustments elsewhere.

Stocks of Purchases Index

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





The level of raw materials and other inputs held in stock in the Polish manufacturing sector was broadly stable in March. That followed an increase in February that was the strongest since May 2004. Stock replenishment at some companies was countered by cost cutting and downward adjustments at other firms.

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 ($PM^{(P)}$) 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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