

HSBC Poland Manufacturing PMI®

Polish manufacturing business conditions deteriorate in April

Key findings:

- New orders fall at fastest rate since June 2009
- Output largely flat since March
- Cost pressures remain strong

The latest survey of the Polish manufacturing economy, compiled by Markit for HSBC, signalled an overall deterioration in business conditions in April, following a flat trend over the previous two months. New orders fell at the fastest rate for nearly three years, while output was little-changed from March and purchases of new inputs also contracted. Cost inflationary pressure eased slightly but remained strong, while employment in the sector rose marginally.

The headline HSBC Poland Manufacturing PMI® is a composite single-figure indicator of manufacturing performance. It is derived from indicators for new orders, output, employment, suppliers' delivery times and stocks of purchases. Any figure greater than 50.0 indicates overall improvement of the sector.

The PMI fell from 50.1 in March to 49.2 in April. That signalled a slight worsening of overall business conditions in the goods-producing sector, following a neutral trend in the previous two months. The PMI has registered below 50.0 three times in the past six months, following a period of uninterrupted improvement from November 2009 to October 2011.

Driving the overall deterioration in operating conditions in April was a decline in new business. The volume of new work has fallen for the past three months, and the latest contraction was the steepest since June 2009. Foreign demand remained weak, as new export orders fell in the latest period. New business from export markets has now declined nine times in the past eleven

months.

The ongoing decline in new business flows to Polish goods producers resulted in a near-stagnation of production at the start of the second quarter. Output was little-changed from March, with the respective Index posting its second-lowest figure in two-and-a-half years. That said, production has not registered an outright contraction since July 2009.

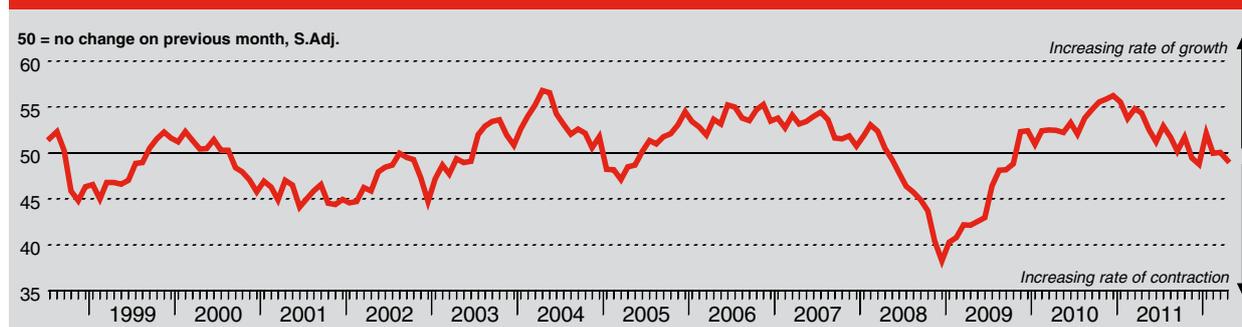
Output was supported by work on outstanding contracts in April. Subsequently, backlogs of work fell for the eleventh month in succession, and at the fastest rate since last October.

In contrast to the deteriorating trends for output and new orders, manufacturers raised workforces on average in April. This followed a two-month sequence of job shedding. That said, the rate of employment growth was only marginal.

Goods producers cut purchasing volumes in April, the fifth decline in the past six months. Moreover, the rate of contraction was the second-strongest of the past 33 months. Consequently, stocks of inputs shrank at the fastest rate in five months.

Input price inflation eased to a seven-month low in April, but remained stronger than the long-run average for the survey. Firms reported a wide range of contributory factors, including raw materials, energy, fuel, taxes and wages. In contrast, prices charged for final manufactured goods rose only modestly, and at the slowest pace since last September.

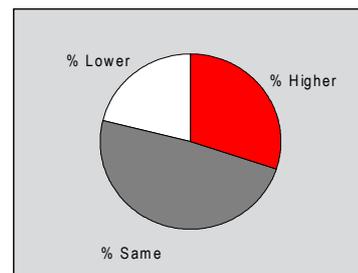
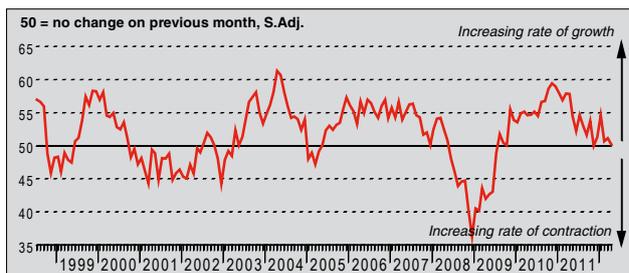
HSBC Poland Purchasing Managers' Index® (PMI®)



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

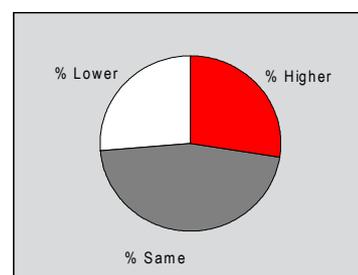
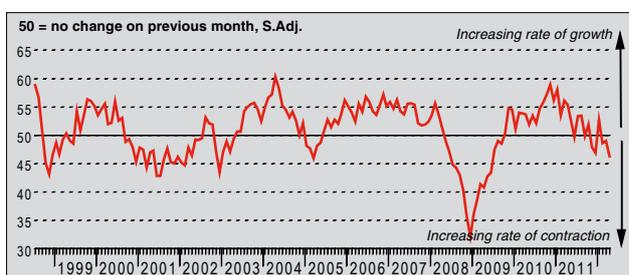
Q. Please compare your production/output this month with the situation one month ago.



Growth of Polish manufacturing output stagnated in April, as a number of firms reported falling new business receipts. The seasonally adjusted Output Index was close to the neutral level of 50.0, signalling broadly no change in production compared with one month previously. Moreover, the Index was at the second-lowest level of the past two-and-a-half years.

New Orders Index

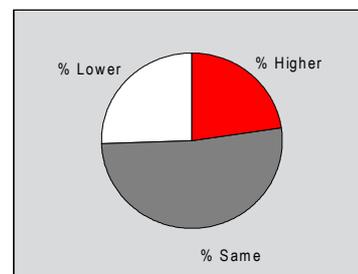
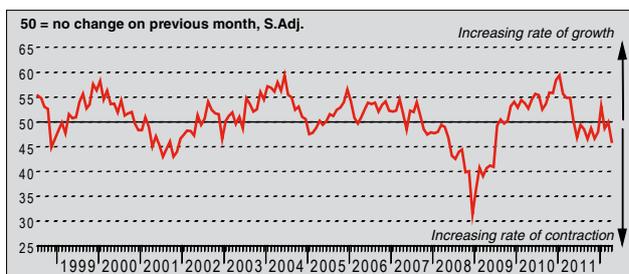
Q. Please compare the level of new orders received this month with the situation one month ago.



The volume of new business placed at Polish goods producers declined further in April. The current sequence of contraction now stretches to three months. Moreover, the seasonally adjusted New Orders Index fell further, pointing to the fastest rate of depletion since June 2009. Anecdotal evidence generally highlighted worsening demand, although some firms noted new business from emerging markets in Asia and Latin America.

New Export Orders Index

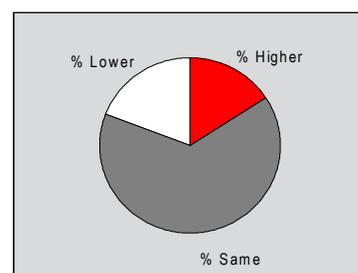
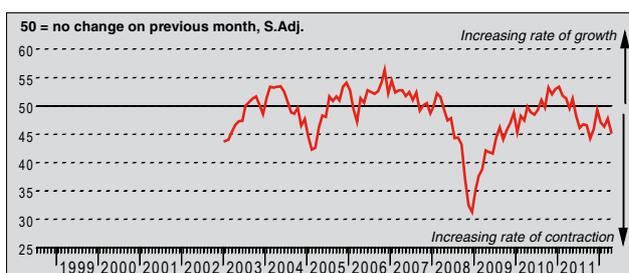
Q. Please compare the level of new export orders received this month with the situation of one month ago.



New export orders in the Polish manufacturing sector declined in April, having been unchanged the previous month. Moreover, the rate of contraction was the fastest in nearly three years, as the seasonally adjusted Index sank to a 34-month low. Around one-quarter of the panel reported lower new export business compared with one month previously, with weak European demand frequently cited.

Backlogs of Work Index

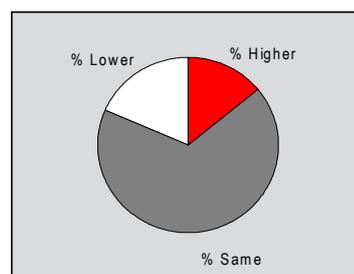
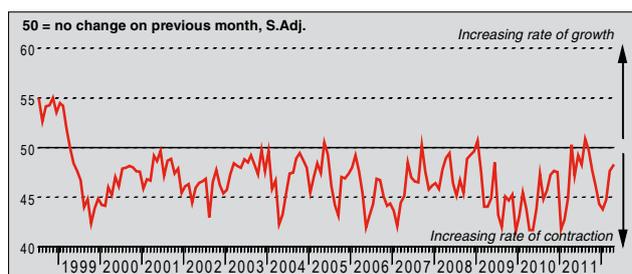
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Survey data signalled a sharp fall in backlogs at Polish manufacturers. Anecdotal evidence linked declining levels of outstanding business to falling new business and no growth of output requirements. The volume of incomplete work has now decreased for eleven consecutive months. The seasonally adjusted Backlogs of Work Index signalled the fastest rate of contraction since last October, and was well below its long-run trend level of 48.5.

Stocks of Finished Goods Index

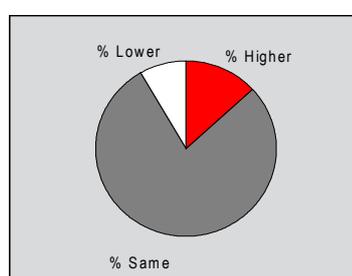
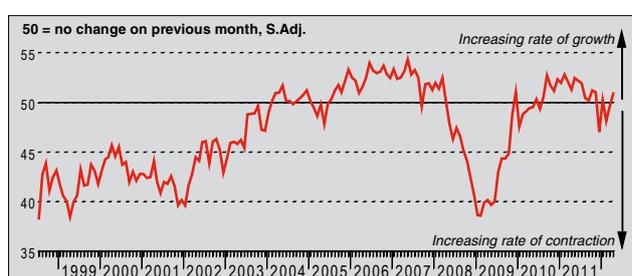
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Post-production inventories in the Polish goods-producing sector declined on average for the eighth successive month in April. Falling stock levels were attributed to productivity improvements and declining output. That said, the rate of stock depletion eased for the third month running, to the weakest since last September.

Employment Index

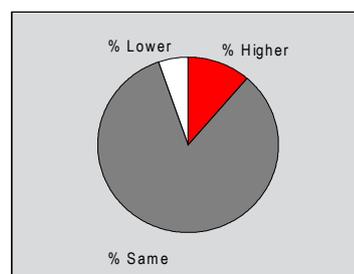
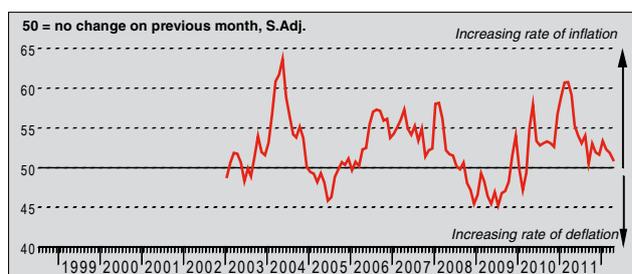
Q. Please compare the level of employment at your unit with the situation one month ago.



Polish manufacturing employment rose slightly in April. That followed a two-month sequence of net job shedding in the sector. Those respondents signalling higher headcounts than in March reported rolling out new training programmes and investing in capacity. That said, the seasonally adjusted Employment Index was only just above neutrality, indicating a marginal rate of growth.

Output Prices Index

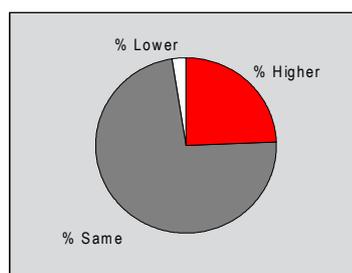
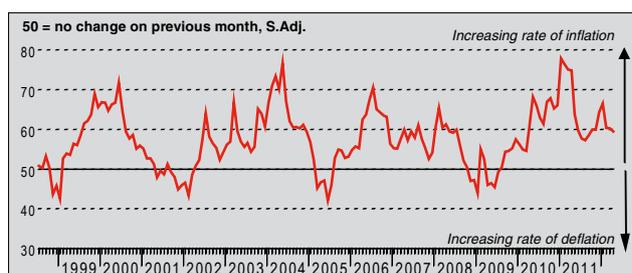
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Goods producers in Poland continued to raise their factory gate prices in April. The seasonally adjusted Output Prices Index remained above the no-change threshold of 50.0 for the twenty-fifth successive month, but eased further since the start of the year to signal a slowing rate of charge inflation. The overall increase in output prices was the weakest since last September, and the second-lowest in the current sequence of inflation.

Input Prices Index

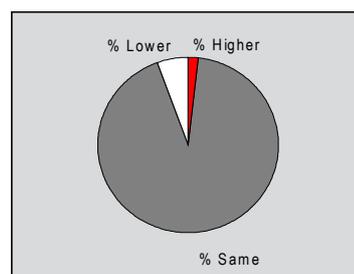
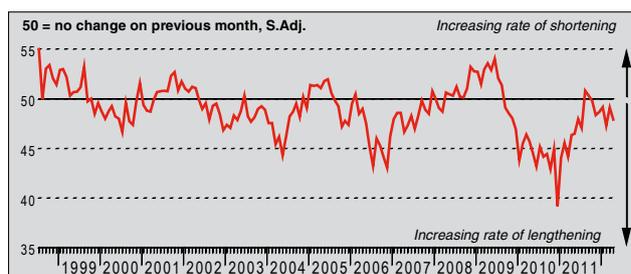
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Cost pressures in the Polish manufacturing sector remained elevated at the start of the second quarter, as the seasonally adjusted Input Prices Index remained above its long-run trend level of 57.7. Firms reported higher input prices stemming from raw materials, energy, fuel, taxes and wages. The overall rate of input cost inflation eased further, however, to the weakest since last September.

Suppliers' Delivery Times Index

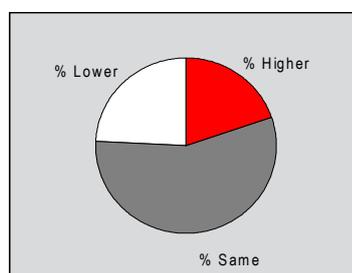
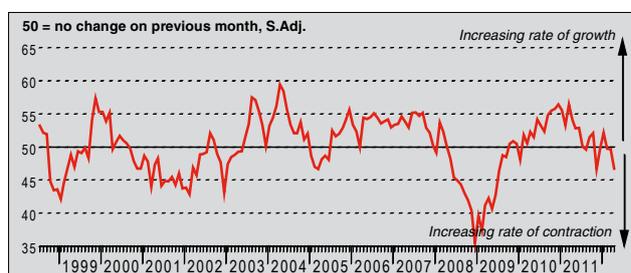
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



The seasonally adjusted Suppliers' Delivery Times Index remained below the no-change mark of 50.0 in April, indicating an ongoing worsening in the performance of vendors supplying Polish manufacturers. The rate at which times lengthened was moderate, but greater than the trend shown by historic survey data. Lead times have lengthened continuously for the past seven months.

Quantity of Purchases Index

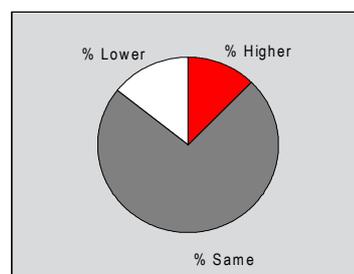
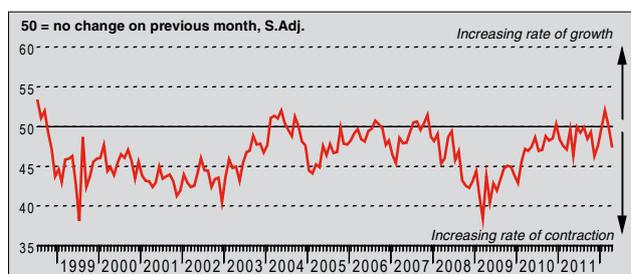
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Input volumes fell for the third successive month in April, the longest sequence of decline for over two-and-a-half years. Moreover, the rate of contraction accelerated to the fastest since last November. Firms mainly reported that lower production requirements dictated reduced spending on new inputs.

Stocks of Purchases Index

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



Input stocks at Polish manufacturers declined in April, following a two-month period of expansion. The seasonally adjusted Stocks of Purchases Index signalled the fastest rate of contraction since last November, although it remained above its long-run average of 46.5. Firms linked lower input inventories to reduced output requirements and efforts to cut costs.

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*[®] (*PMI*[®]) is a composite index based on five of the individual indexes with the following weights derived from Markit's survey of the UK manufacturing 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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