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# HSBC Poland Manufacturing PMI®

Sharp fall in new export orders weighs on Polish manufacturing sector

#### Key findings:

- · New export orders fall at fastest rate since June 2009, despite weaker zloty
- · Output contracts marginally in first decline for nearly three years
- PMI below neutrality for second successive month

The latest survey of the Polish manufacturing economy, compiled by Markit for HSBC, signalled a second successive overall deterioration in business conditions in May. New orders declined further, with new export business notably weak, while output fell for the first time since July 2009, albeit marginally. Pressure on input prices remained strong despite easing further, while prices charged for manufactured goods rose only modestly – suggesting pressure on firms' margins.

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 to its lowest level of 2012 so far in May, posting 48.9, down from April's 49.2. That signalled a broadly similar rate of deterioration in business conditions as that seen at the end of 2011 (48.8). The output, new orders and stocks of purchases components all weighed on the headline figure in May, while suppliers' delivery times was broadly neutral and employment provided a marginal positive influence.

New business intakes fell for the fourth successive month in May. The rate of contraction eased slightly since April but, over the second quarter so far, the pace of decline is the sharpest since Q2 2009. Firms reported weak demand from both domestic and export markets, and new orders to the latter have now fallen ten

times in the past 12 months. The rate of contraction accelerated in May to the fastest in nearly three years, despite the weaker zloty.

The ongoing decline in new work resulted in a marginal drop in manufacturing output in May. The contraction was the first registered since July 2009.

Backlogs of work held at Polish goods producers declined for the twelfth month running in May. Moreover, the rate of contraction accelerated to the fastest since last October. The latest drop in backlogs was indicative of spare capacity in the sector.

Firms adjusted their purchasing operations down in line with lower output requirements. Input volumes fell for the fourth successive month, and stocks of purchases declined at the sharpest rate since last November. Stocks of finished goods also fell, at the fastest rate since January.

The main bright spot from the latest survey findings was a sustained increase in employment at Polish manufacturers. That said, the rate of job creation was only marginal.

Cost pressures on manufacturers remained strong in May, partly linked by surveyed firms to the weaker zloty. Specific items reported up in price included chemicals, paper and steel. The overall rate of input price inflation was the weakest in nine months, but still strong in the context of historic survey data. In contrast, prices charged for final goods rose only modestly, reflecting competitive pressure.



The HSBC Poland *Purchasing Managers' Index*® (*PMl*P) 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 *PMl*P 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.

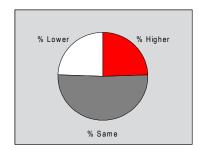




#### **Output Index**

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



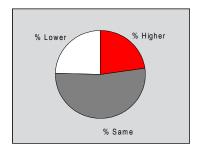


Production of Polish manufactured goods fell in May, after adjusting for seasonal factors. The seasonally adjusted Output Index dipped just below the no-change mark of 50.0, indicating a marginal rate of decline. That brought to an end a sequence of continuous growth that started in August 2009. Where output declined compared with one month previously - at almost one-quarter of firms – the main reason provided was lower intakes of new work.

#### New Orders Index

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

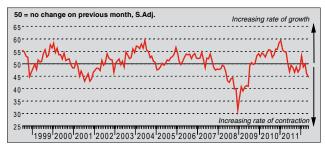


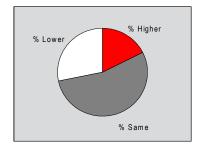


The volume of new business received by Polish manufacturers declined for the fourth successive month in May. The rate of contraction was slightly weaker than in April, but faster than those registered in February and March. Moreover, new business has now declined eight times over the past 12 months. Firms reported weak demand and a general economic slowdown, linked in part to uncertainty in European markets.

# New Export Orders Index

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

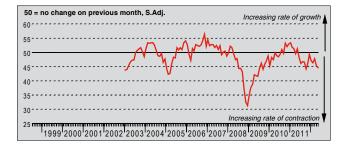


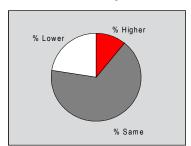


The downturn in demand from Polish manufacturers' export markets gathered momentum in May. The rate of contraction in the latest period was the fastest since June 2009. Over the past 12 months, new export business has risen only once, in January. Anecdotal evidence partly linked weakening export business inflows to worsening market conditions in Europe.

# Backlogs of Work Index

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

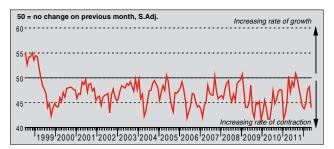


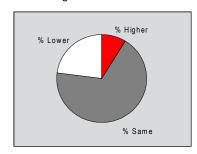


The seasonally adjusted Backlogs of Work Index remained below the neutral threshold of 50.0 in May, signalling a decline in the volume of outstanding business held at Polish goods producers. Moreover, the Index fell for the second month running, indicating a sharper rate of contraction that was the fastest since last October. The current sequence of decline now extends to 12 months. Firms linked falling backlogs to lower new orders and free capacity.

#### Stocks of Finished Goods Index

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



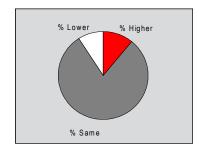


Post-production inventories in the Polish manufacturing sector declined for the ninth month running in May. The rate of depletion was marked, and the strongest since January. Firms reported despatching orders to clients more quickly, and adopting lean production strategies. Exactly 23% of firms cut warehouse stocks of finished goods during the month, compared with less than 9% that increased them.

#### **Employment Index**

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



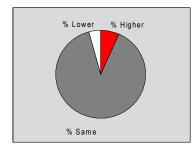


Workforce growth in Poland's manufacturing sector was maintained in May, but at only a marginal rate. The seasonally adjusted Employment Index remained just above the no-change mark of 50.0, the third such outcome so far in 2012. Around 80% of firms kept their workforces unchanged from one month previously.

# 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.



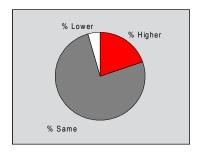


Survey data continued to signal muted pricing power at Polish goods producers. The seasonally adjusted Output Prices Index remained above the no-change mark of 50.0 for the twenty-sixth successive month, indicating higher prices charged for final manufactured goods. That said, the rate of inflation was little-changed from April's seven-month low, and was also weak in the context of historic survey data.

# Input Prices Index

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



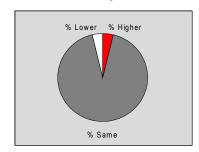


The rate of input cost inflation slowed for the fourth month running in May. The seasonally adjusted Input Prices Index was at its lowest level since last August, and the third-lowest since March 2010. That said, the rate of inflation signalled by the latest reading was broadly in line with the long-run survey average. Specific items reported up in price included chemicals, paper and steel. Firms also mentioned the effect of the weaker zloty in raising import prices generally.

#### Suppliers' Delivery Times Index

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



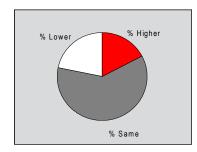


The performance of vendors supplying Polish manufacturers was broadly unchanged from one month previously in May. The seasonally adjusted Suppliers' Delivery Times Index remained below the no-change mark of 50.0 for the eighth month running, but only to a fractional extent and was broadly indicative of no lengthening in times since April.

# Quantity of Purchases Index

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

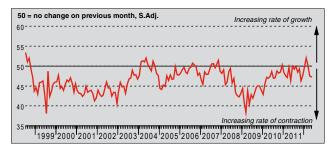


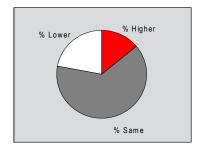


In line with the trend for new orders, purchasing volumes in the Polish manufacturing sector declined for the fourth month in a row in May. Also mirroring the pattern for new business, the rate of decline eased since April but remained sharper than those posted both in February and March. Purchasing has declined seven times in the past ten months.

# Stocks of Purchases Index

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





The seasonally adjusted Stocks of Purchases Index remained below neutrality in May, indicating a further reduction in pre-production inventories held at Polish goods producers. The rate of decline strengthened marginally since April, and was the fastest in six months. Inventories have risen, on average, only three times in the past four-and-a-half years. Lower stock levels were mainly linked to reduced orders.

#### 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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