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HSBC Poland Manufacturing PMI®

Contraction of Polish manufacturing sector slows in July

Key findings:

- · Weakest fall in new business in four months
- Input prices decline for first time since July 2009
- Employment rises at fastest pace since February 2011

HSBC survey data compiled by Markit indicated a near-stabilisation of business conditions facing Polish manufacturers in July. New orders declined at the weakest rate since March, while output fell only marginally since June. Firms raised headcounts at the fastest rate since February 2011, but continued to adjust purchasing lower as stocks were sufficient to meet demand. The latest survey also signalled falling input and output prices in the sector.

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 recovered from June's 35-month low of 48.0, posting 49.7 in July. That signalled a fourth successive overall deterioration in the business climate, but at only a marginal pace that was the weakest in that sequence. Output, new orders and stocks of purchases all exerted negative influences, but to lesser extents than in June.

The downturn in new business received by Polish goods producers stretched to a sixth successive month in July. The rate of contraction slowed from June's three-year record, however, to the weakest since March.

Weak international demand linked to the Eurozone crisis

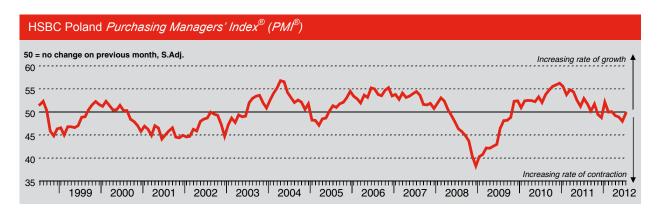
continued to weigh on overall new business flows in July. The volume of new export orders declined for the twelfth time in the past 14 months, and the rate of reduction remained robust despite easing to the weakest since April.

The sustained fall in new orders resulted in another drop in output in July. That said, the rate of contraction eased to a marginal pace. The completion of outstanding contracts continued to support production during the month, as backlogs declined at the second-fastest rate in over three years.

The main bright point from the latest survey was a faster rise in manufacturing employment. Job creation was registered for the fourth successive month, and the rate accelerated to the fastest since February 2011.

In line with the trend in new business, the volume of inputs purchased by Polish manufacturers declined for the sixth month running in July. The rate of reduction slowed sharply from June's three-year record, however. The level of inputs held in stock also fell during the month, as did final goods inventories.

Survey data indicated a fall in input prices for the first time in three years in July. A number of firms linked lower cost pressures to falling prices for oil-related inputs. Similarly, prices charged for Polish manufactured goods declined for the first time since March 2010. Firms reported that they had lowered their prices due to competitive pressures.



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.

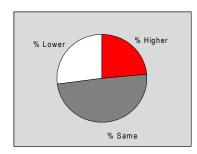




Output Index

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

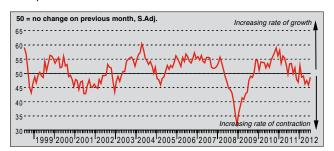


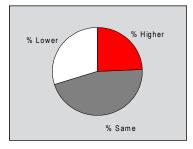


Production in the Polish manufacturing sector declined for the third month running in July. That said, the rate of contraction was marginal, and the weakest in the sequence. Survey respondents primarily linked lower output to falling receipts of new business. Prior to May, production had risen continuously since August 2009.

New Orders Index

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





The volume of incoming new business received by Polish goods producers declined for the sixth successive month in July. Firms reported weaker demand from both domestic and export markets. The seasonally adjusted New Orders Index recovered from June's three-year low and signalled only a modest rate of reduction, but was nevertheless below its long-run average.

New Export Orders Index

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



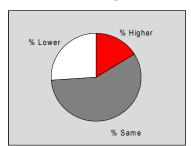


Survey data indicated a fourth successive monthly reduction in new export contracts received by Polish manufacturers. The seasonally adjusted New Export Orders Index improved to a three-month high, but still signalled a solid rate of decline. The Index has registered above 50.0 only once in the past 14 months. Some firms reported weak demand from Eurozone countries in the latest period.

Backlogs of Work Index

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

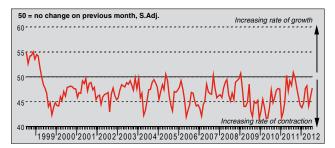


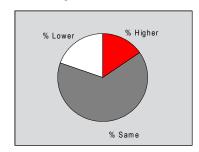


The seasonally adjusted Backlogs of Work Index remained below the no-change mark of 50.0 for the fourteenth successive month in July, indicating falling outstanding workloads. Cuts to incomplete business were frequently attributed to lower new orders. The rate of backlog depletion eased from June's three-year record, but was still the second-fastest in the current sequence of decline.

Stocks of Finished Goods Index

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



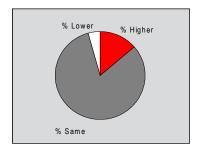


Polish goods producers continued to trim their inventories of final goods on average in July, with some firms commenting that they had cleared previously unsold stock. The seasonally adjusted Stocks of Finished Goods Index remained below the no-change mark of 50.0 for the eleventh successive month, but signalled the weakest rate of depletion since April.

Employment Index

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



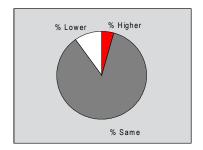


Manufacturers in Poland raised headcounts on average for the fourth successive month in July. Moreover, having been only marginal throughout the second quarter, the rate of job creation accelerated to the fastest since February 2011. Close to 14% of firms reported higher employment during the month, mainly linked to investment in capacity.

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.



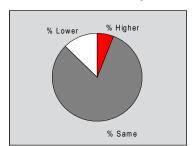


Prices charged for Polish manufactured goods fell in July. It was the first month since March 2010 where a reduction was signalled, though the seasonally adjusted Output Prices Index was indicative of only a marginal rate of decline. Some firms reported that they had lowered their charges in response to competitive pressures and specific requests from clients.

Input Prices Index

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



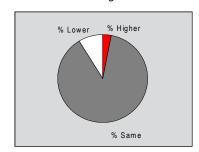


The average price paid for inputs by Polish goods producers declined for the first time in three years in July. The seasonally adjusted Input Prices Index fell for the sixth successive month, and the month-on-month drop in the Index was the second-largest since April 2009. The latest anecdotal evidence highlighted lower prices for oil-related items such as chemicals.

Suppliers' Delivery Times Index

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

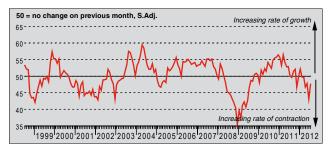


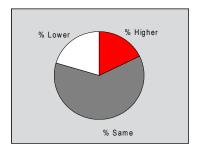


The average time taken to deliver inputs to Polish manufacturers lengthened in July, reversing June's slight overall improvement. The seasonally adjusted Suppliers' Delivery Times Index eased to a three-month low, but the latest figure signalled only a marginal rate of lengthening. Delays from suppliers, reported at 9% of companies, were generally linked to shortages of raw materials.

Quantity of Purchases Index

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

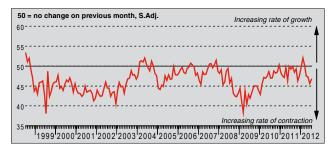


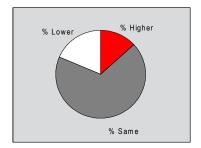


Purchasing activity in the Polish manufacturing sector declined for the sixth successive month in July. Firms linked lower input volumes to efficiency drives, sufficient stock levels for current low production levels and falling new orders. That said, the rate of contraction slowed sharply from June's three-year record to a moderate pace.

Stocks of Purchases Index

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





Goods producers in Poland reduced their input holdings for the fourth successive month in July. The rate of decline eased from June's 28-month record, but was still sharper than those posted in April and May. Firms reported optimising warehouse levels in line with current production requirements.

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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