

HSBC Poland Manufacturing PMI®

Polish manufacturing downturn extends to seventh month

Key findings:

- New orders decline at weaker rate despite stronger fall in export demand
- Input prices decline for third time in four months
- Manufacturers cut workforces at strongest rate in three years

HSBC survey data compiled by Markit indicated that Polish goods producers continued to experience deteriorating business conditions at the start of the fourth quarter. Output, new orders and purchasing activity all continued to fall in October, albeit at slower rates than in September. Manufacturers continued to erode their backlogs, and cut workforces at the fastest rate in three years. Meanwhile, inflationary pressures in the sector remained weak as both output and input prices declined over the month.

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 remained below neutrality for the seventh consecutive month in October. The PMI improved fractionally to 47.3, from September's 38-month low of 47.0, but the latest figure was still the second-lowest in the current sequence of sub-50.0 readings. The PMI was negatively impacted by all five of its components during the latest period.

Central to the overall deterioration in the business climate was a ninth consecutive month-on-month contraction in the volume of new business received. The rate of decline slowed from September's 39-month record, but was still solid. Data

signalled that export markets remained a key source of weakness, posting the fastest drop since May and a stronger contraction than that registered for total new work.

Polish manufacturing output fell for the sixth successive month in October, albeit at a slightly softer rate. The latest drop in new orders and a further marked decline in backlogs strongly suggested ongoing falls in production at the end of the year.

Firms cut capacity in October in response to reduced workloads. Manufacturing employment declined for the second month in succession, and at the fastest rate since October 2009. Meanwhile, purchasing activity contracted for the ninth month running. Subsequently, pre-production stocks fell at the strongest pace since January 2010. Firms also reduced warehouse stocks of final goods, and at the fastest rate since May.

October survey data signalled a general lack of inflationary pressures in the Polish goods-producing sector. Average input prices declined for the third time in four months, linked to weak demand for raw materials and the strength of the zloty. Meanwhile, prices charged for final manufactured goods declined for the fourth month running, and at the fastest pace since February 2010. Firms linked falling charges to competition for sales, reduced raw material prices and the maintenance of export prices.

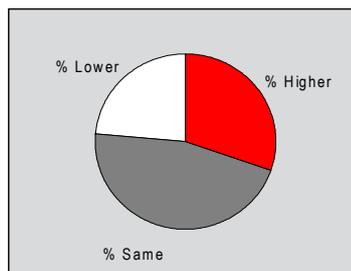
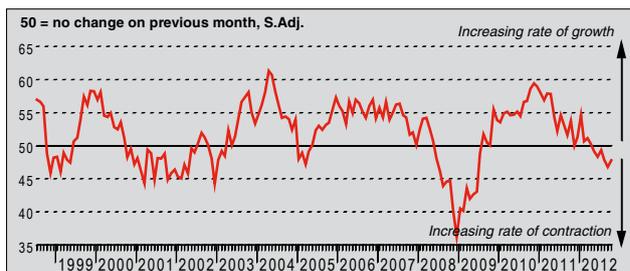
HSBC Poland Purchasing Managers' Index® (PMI®)



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

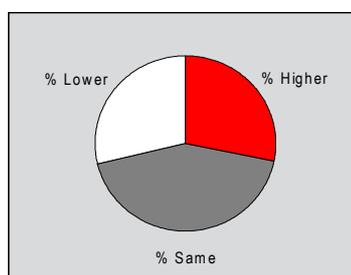
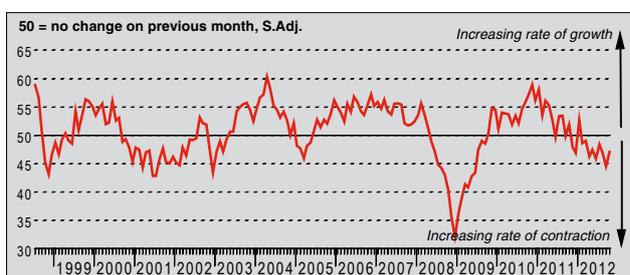
Q. Please compare your production/output this month with the situation one month ago.



Manufacturing output in Poland declined for the sixth month in succession in October. The rate of decline eased from September's 39-month record, but was still the second-fastest over the current sequence. Instances of falling output were primarily attributed by survey respondents to declining new business volumes.

New Orders Index

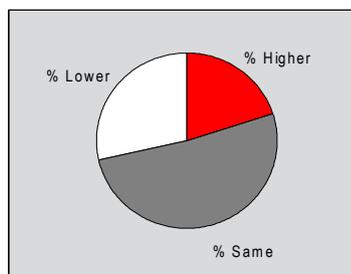
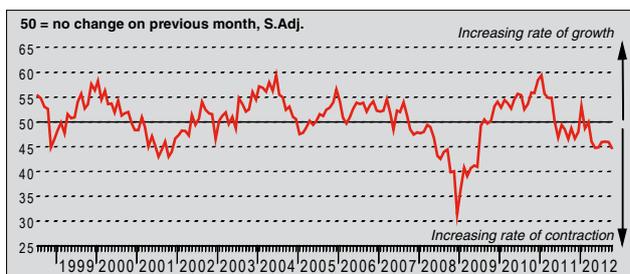
Q. Please compare the level of new orders received this month with the situation one month ago.



The volume of incoming new work in the Polish goods-producing sector declined for the ninth successive month in October. That said, the seasonally adjusted New Orders Index rose from September's 39-month low, and signalled the weakest rate of contraction since July. The latest anecdotal evidence suggested that export markets were the main source of weak demand during the month.

New Export Orders Index

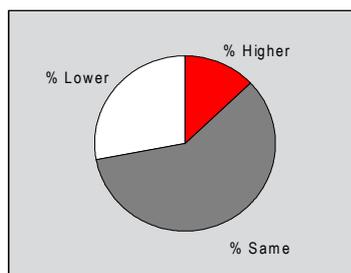
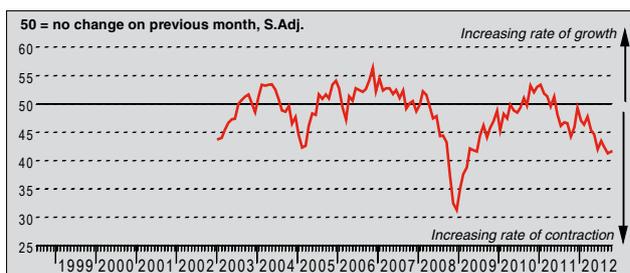
Q. Please compare the level of new export orders received this month with the situation of one month ago.



The seasonally adjusted New Export Orders Index remained below the no-change mark of 50.0 for the seventh month running in October, indicating a further contraction in international orders for Polish manufactured goods. Moreover, the rate of decline signalled was the fastest since May. Firms generally reported weak demand.

Backlogs of Work Index

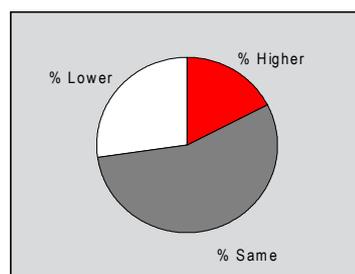
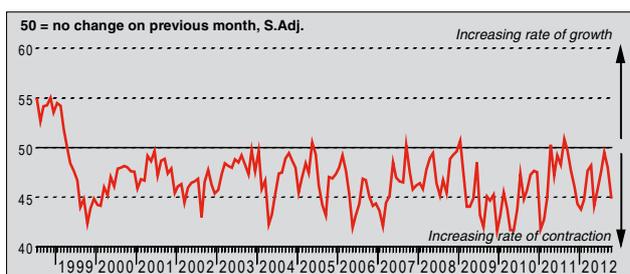
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The volume of incomplete work held at Polish manufacturers declined for the seventeenth month in a row in October. The seasonally adjusted Backlogs of Work Index was little-changed from September's 42-month low, indicating a further substantial pace of contraction. Firms reported that falling intakes of new work had freed up capacity and enabled them to complete existing workloads more quickly.

Stocks of Finished Goods Index

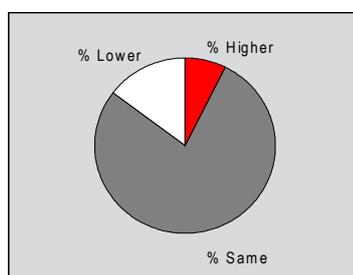
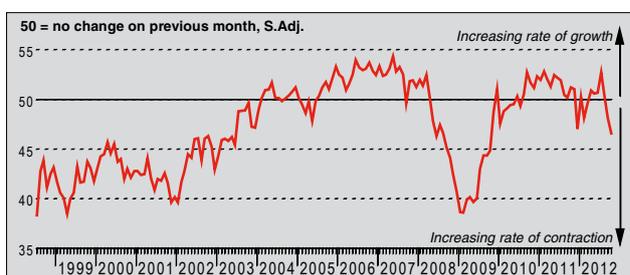
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Warehouse stocks of final goods held at Polish manufacturers declined further, on average, in October. Survey data have not signalled an overall rise in finished goods inventories since August 2011. Moreover, the seasonally adjusted Stocks of Finished Goods Index fell on the month, and indicated the fastest drop since May. Firms linked destocking to falling new orders and lower production.

Employment Index

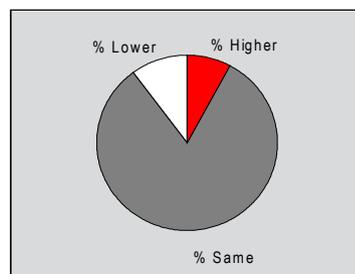
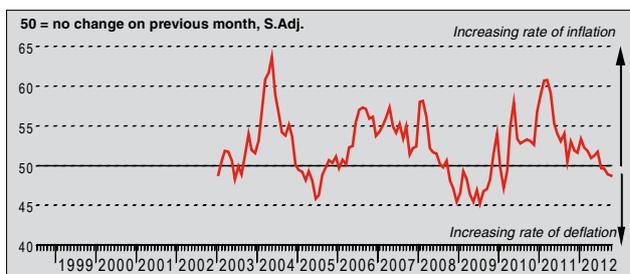
Q. Please compare the level of employment at your unit with the situation one month ago.



The level of Polish manufacturing employment fell for the second month running, following a five-month sequence of job creation. Moreover, the seasonally adjusted Employment Index moved further below the no-change mark of 50.0, and signalled the fastest rate of job shedding since October 2009. Firms linked lower workforces to reduced output requirements and the need to boost productivity.

Output Prices Index

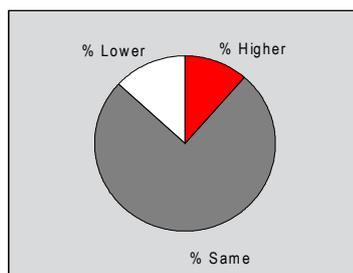
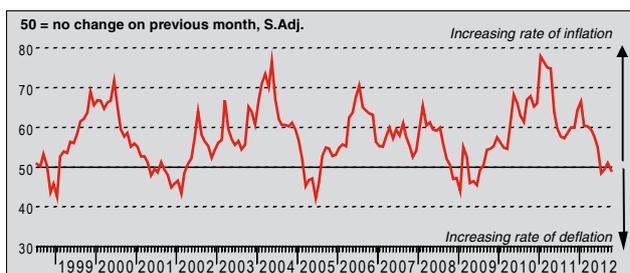
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Polish goods producers lowered their charges on average in October. The current sequence of price discounting now stretches to four months. Moreover, the rate of reduction in the latest period was the strongest registered since February 2010. Anecdotal evidence linked lower output prices to a variety of factors, including competition, the need to maintain export prices (to offset the stronger zloty) and lower raw material prices.

Input Prices Index

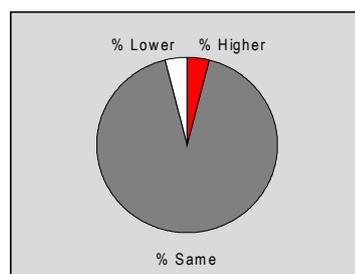
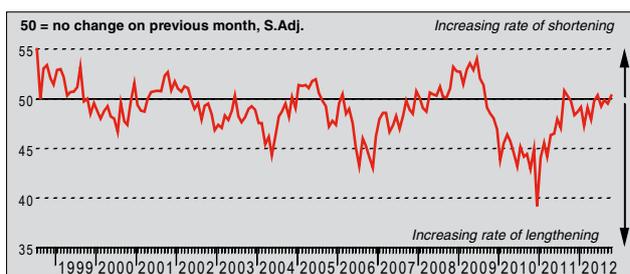
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Survey data indicated reduced cost burdens facing Polish manufacturers in October. The seasonally adjusted Input Prices Index was below the no-change mark of 50.0 for the third time in four months, signalling lower average costs than one month previously. Firms reported that negotiations with suppliers had resulted in discounts, and also that exchange rates had played a part in lowering average import prices.

Suppliers' Delivery Times Index

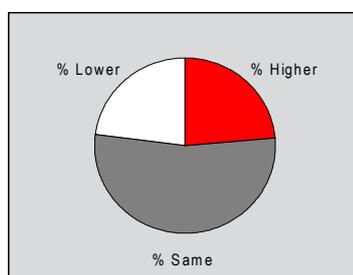
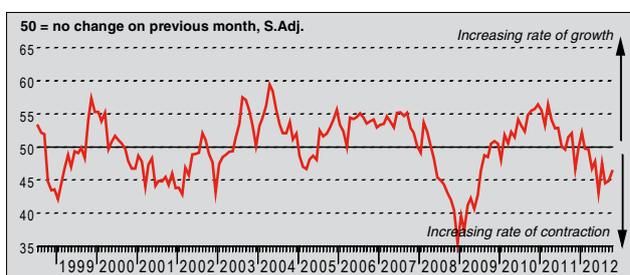
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



The seasonally adjusted Suppliers' Delivery Times Index edged above the no-change mark of 50.0 in October, signalling shorter average lead times for inputs delivered to Polish manufacturers. That followed a three-month sequence of lengthening times, although the improvement in vendor performance was only marginal. Some firms reported that low workloads at suppliers had enabled quicker shipments of orders.

Quantity of Purchases Index

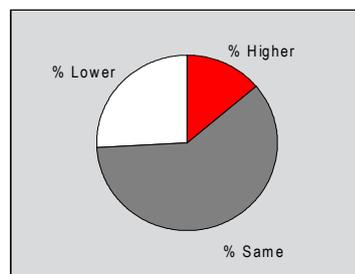
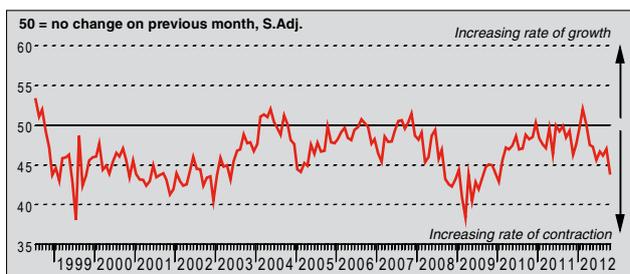
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Purchasing activity by Polish manufacturers fell further in October. The current sequence of contraction now stretches to nine months. The rate of decline eased on the month, as signalled by a further rise in the seasonally adjusted Quantity of Purchases Index, but remained solid overall. Firms attributed reduced input volumes to low workloads.

Stocks of Purchases Index

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



Stocks of inputs held at Polish goods producers declined markedly in October. The seasonally adjusted Stocks of Purchases Index fell sharply during the month, and signalled the fastest rate of depletion since January 2010. Input inventories have declined on average every month since April. Firms linked destocking to a lack of incoming 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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