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HSBC Poland Manufacturing PMI®

Polish manufacturing business conditions deteriorate more slowly in December

Key findings:

- PMI still below 50.0, but highest since July
- · Weakest drop in new export orders in current nine-month sequence
- · Employment falls for fourth month running

Operating conditions at manufacturers in Poland deteriorated further in December, according to HSBC survey data compiled by Markit. The current sequence of decline now stretches to nine months, but the pace of deterioration slowed further in the latest period to the weakest since July. This mainly reflected weaker falls in output and new orders. Inflationary pressures remained subdued, while firms continued to cut both workforces and input volumes.

The headline HSBC Poland Manufacturing PMI^{\otimes} 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 50.0 for the ninth successive month in December, but rose for the third month running to 48.5, indicating the weakest overall deterioration in operating conditions since July. The upward movement in the PMI reflected the new orders and output components, with the employment, stocks of purchases and suppliers' delivery times indexes all broadly stable since November.

New orders continued to fall in December. The rate of contraction was only modest, however, and the weakest since July. The rate of loss in new export orders remained slightly

sharper than that for total new work, but was the least marked in the current nine-month sequence of decline.

Production fell for the eighth month in a row in December, although the rate of decline was the slowest in five months. Output was again supported through the completion of outstanding business, which declined sharply. Backlogs of work have fallen every month since June 2011.

Reduced output requirements led to a further cut in employment in Poland's manufacturing sector. The current run of job shedding now stretches to four months, though the rate of decline in December was only modest.

Continuing the trend shown since February, purchasing activity by Polish goods producers declined. Consequently, the volume of inputs held in stock contracted. Suppliers' delivery times lengthened slightly, linked in some cases to unexpected orders or shortages of raw materials.

Average input prices rose for only the second time in the past six months in December. Upward pressure on manufacturers' cost burdens was linked to rising prices for cereals and chemicals. That said, the overall rate of inflation was only marginal as other raw materials, notably steel, were reported to have fallen in price. Meanwhile, goods producers reduced their output prices for the fifth time in six months, albeit only slightly.



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.

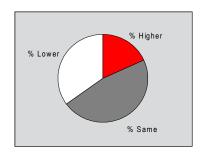




Output Index

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



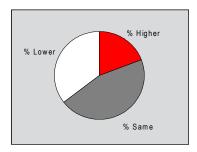


Production at Polish manufacturers continued to decline in December. Companies continued to link falling output to reduced levels of new business. The current sequence of contraction now stretches to eight months, but the rate of loss slowed further from September's 39-month record to the weakest since July.

New Orders Index

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



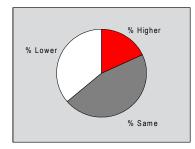


The volume of new business received by Polish goods producers fell further in December. The seasonally adjusted New Orders Index remained below the no-change mark of 50.0 for the eleventh successive month, but the latest figure signalled only a modest rate of contraction that was the slowest since July. Anecdotal evidence suggested that demand conditions remained challenging in both domestic and export markets.

New Export Orders Index

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



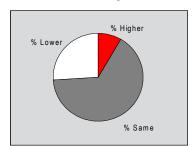


Survey data indicated a ninth successive monthly decline in the volume of new orders received from export markets. Moreover, new export business has risen only once in the past 19 months. Some firms reported stiff competition from rivals based in both China and neighbouring European economies. That said, the rate of decline in the latest period was the slowest in the current sequence.

Backlogs of Work Index

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

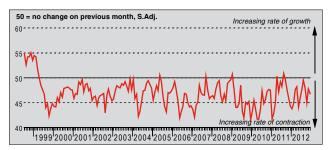


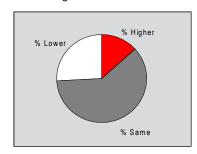


Survey data indicated ongoing spare capacity in the Polish manufacturing sector in the final month of 2012. Backlogs of work declined for the nineteenth successive month, and the rate of contraction remained sharp despite easing from November's 45-month record. The latest anecdotal evidence from survey respondents linked falling backlogs to reduced inflows of new orders.

Stocks of Finished Goods Index

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



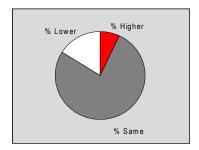


Polish manufacturers cut their warehouse stocks of finished goods in December. The current sequence of inventory depletion now stretches to 16 months. The rate of contraction was moderate, and broadly in line with the survey's long-run average. Firms reported selling directly from stock and falling production.

Employment Index

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



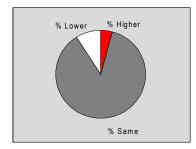


Manufacturing employment in Poland declined for the fourth consecutive month in December, the longest sequence registered for over two-anda-half years. The rate of job shedding was little-changed from November, remaining modest and weaker than October's three-year record. The seasonally adjusted Employment Index was also greater than its long-run average. Firms mainly linked lower headcounts to reduced production.

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.



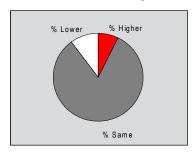


Average prices charged for Polish manufactured goods declined in December, having been unchanged one month previously. The seasonally adjusted Output Prices Index was below the neutral mark of 50.0 for the fifth time in six months, but the latest figure indicated only a marginal reduction in charges. A number of firms linked cuts to tariffs to lower steel prices.

Input Prices Index

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



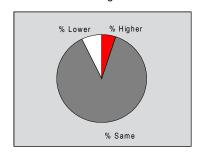


Average input prices paid by Polish goods producers rose in December, having declined four times in the prior five months. That said, the seasonally adjusted Input Prices Index was at a level indicative of only a marginal rate of inflation. Where input prices rose, firms mentioned higher prices for cereals and chemicals. The anecdotal evidence also highlighted lower steel prices.

Suppliers' Delivery Times Index

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



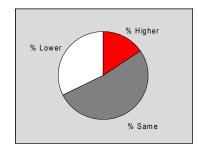


Suppliers' delivery times lengthened only marginally in December, with the seasonally adjusted Index remaining just below the no-change mark of 50.0. Vendor performance has been broadly stable throughout the second half of 2012. Delays from suppliers were either linked to unexpected orders or shortages. Around 7% of firms reported longer input delivery times than one month previously.

Quantity of Purchases Index

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



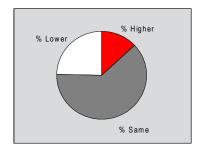


Manufacturers in Poland scaled back their ordering of new inputs in December. Matching the trend seen for new orders, purchases have declined every month since February. The rate of contraction was little-changed from November, and slightly faster than the average over the current sequence. Lower purchasing activity was attributed to reduced production requirements.

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 stocks of inputs in December, on average. The seasonally adjusted Stocks of Purchases Index was unchanged from November's six-month high, indicating a stable, moderate rate of contraction. Pre-production inventories have declined every month since April.

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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