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HSBC Poland Manufacturing PMI®

Polish manufacturing downturn continues in February

Key findings:

- Production and new orders fall
- New export orders show signs of stabilising
- Output prices decline at fastest rate since July 2009

Poland's manufacturing economy remained stubbornly in contraction mid-way through the first quarter of 2013, according to HSBC survey data compiled by Markit. The downturn entered its eleventh month, as output and new business continued to fall and firms shed staff slightly. Inflationary pressures continued to weaken, as input prices fell for the sixth time in eight months and factory gate prices declined at the fastest rate since July 2009.

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.

As has been the case since April 2012, the PMI remained below the no-change mark of 50.0 in February, posting 48.9. That signalled an overall deterioration in operating conditions at goods producers, albeit to the weakest extent since last July.

Central to the overall deterioration in the health of the manufacturing sector was a further decline in the volume of new orders received. New business intakes fell for the thirteenth successive month, albeit at a modest rate. Domestic and export markets both continued to weigh on demand, albeit to only a marginal degree in the case of the latter.

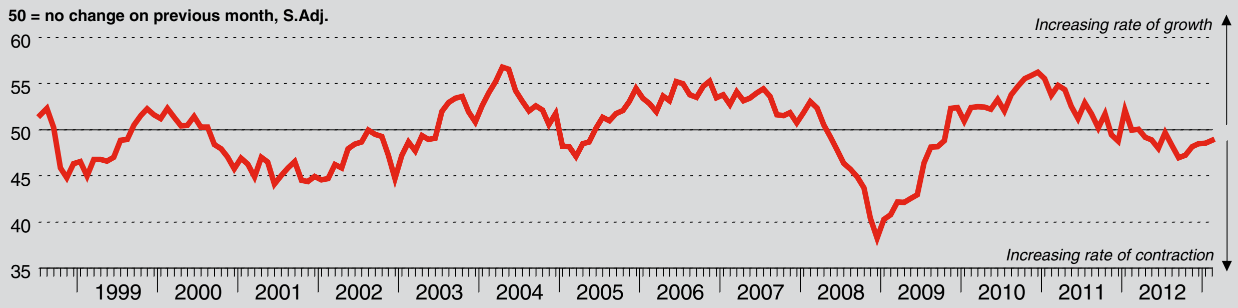
Having nearly stabilised in January, production at Polish manufacturers declined in February. The rate of contraction was modest, and broadly in line with the trend shown over the current ten-month sequence. Falling output was accompanied by a further round of job shedding in the sector, albeit at a marginal rate that was the weakest in the current six-month sequence of job cuts.

The underlying weakness of demand in the sector was confirmed by a further sharp reduction in the volume of outstanding business. The rate of backlog depletion accelerated slightly since January, and was the strongest in three months.

The volume of inputs purchased fell at a sharper rate in February, partly reflecting overproduction in previous months and disappointing sales. Consequently, pre-production inventories declined, while warehouse stocks of finished goods expanded at the sharpest rate since March 1999.

Downward pressure on prices was maintained in February. Average input costs fell for the sixth time in the past eight months, linked to falling raw material prices and negotiations with suppliers. Meanwhile, prices charged for final Polish manufactured goods declined for the seventh time in eight months, and at the fastest rate since July 2009.

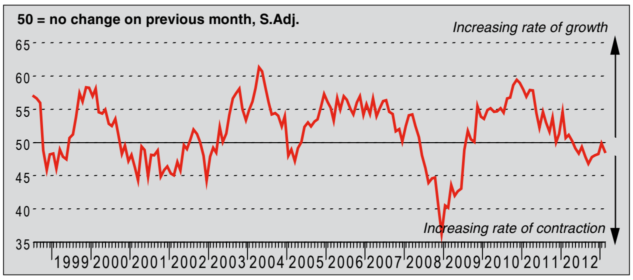
HSBC Poland *Purchasing Managers' Index*® (*PMI*®)

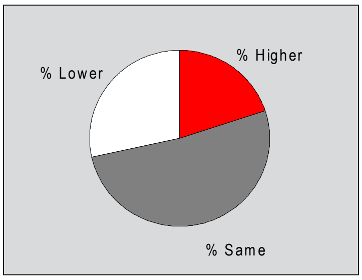


The HSBC Poland *Purchasing Managers' Index*® (*PMI*®) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, 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.

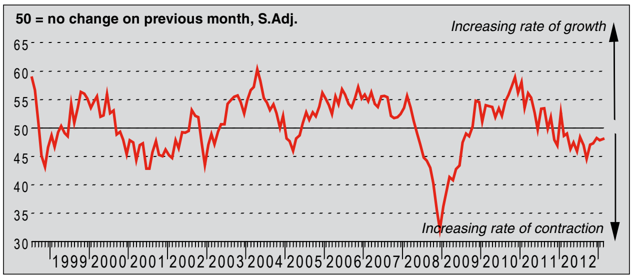


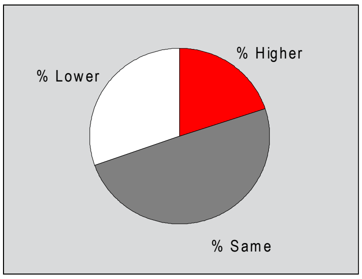


The current sequence of declining manufacturing output in Poland extended to a tenth successive month in February. Moreover, having slowed to a fractional pace in January, the rate of contraction accelerated in the latest period. This was signalled by a fall in the seasonally adjusted Output Index, the first since last September. Anecdotal evidence linked decreased production to falling new orders.

New Orders Index

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

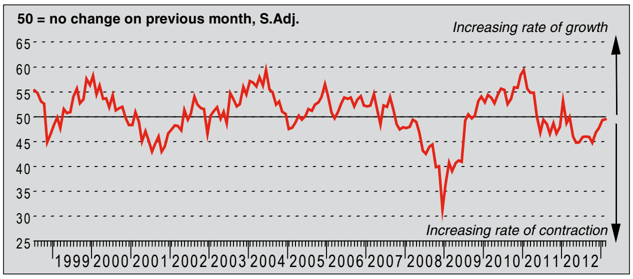


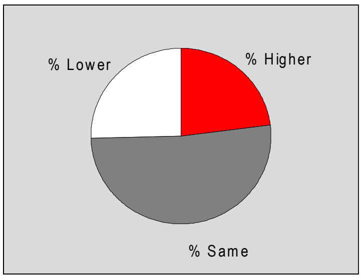


The volume of new orders received by Polish goods producers declined further in February. The seasonally adjusted New Orders Index remained below the no-change mark of 50.0 for the thirteenth consecutive month, although the latest figure indicated only a moderate rate of contraction that was weaker than the average over this sequence. Firms generally reported lacklustre market conditions.

New Export Orders Index

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

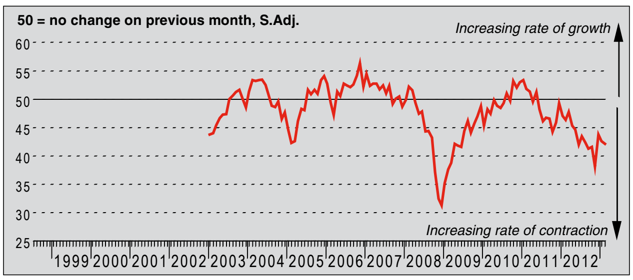


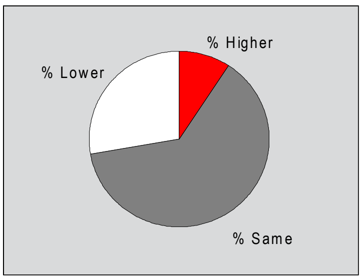


The amount of orders received from export markets continued to fall in February. Around one-quarter of Polish manufacturers surveyed reported lower new export business since January, linked partly to competition from Asia. That said, the rate of decline in the latest period was only marginal and the weakest in the current 11-month sequence.

Backlogs of Work Index

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

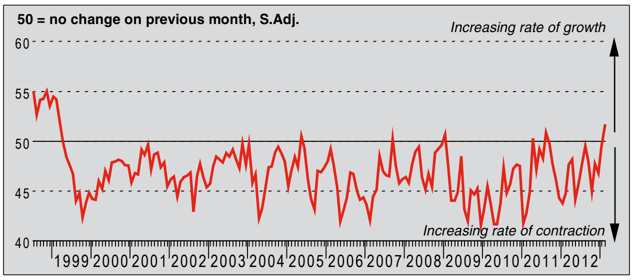


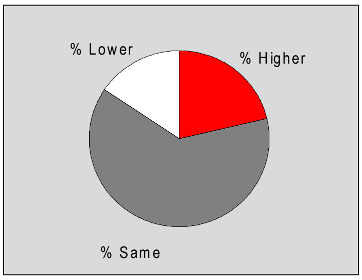


Manufacturing backlogs in Poland continued to decline in February, providing evidence of ongoing spare capacity in the sector. The rate of decline was sharp, and accelerated slightly to the fastest since November. The seasonally adjusted Backlogs of Work Index has been below the no-change mark of 50.0 for the past 21 months.

Stocks of Finished Goods Index

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

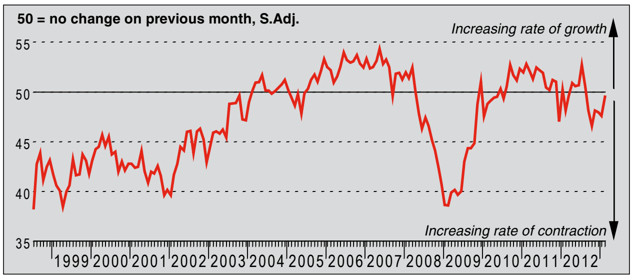


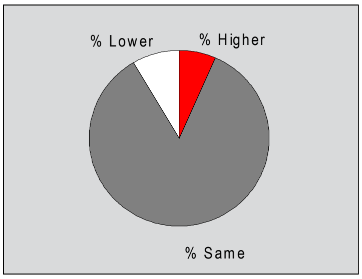


The level of finished goods held in stock in the Polish manufacturing sector rose for the first time in a year-and-a-half in February. Higher stocks reflected a number of factors including falling sales, overproduction and preparation for sales in the coming months. The seasonally adjusted Stocks of Finished Goods Index rose to its highest level since March 1999 in the latest period.

Employment Index

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

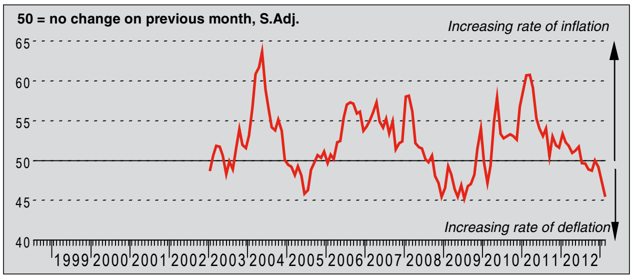


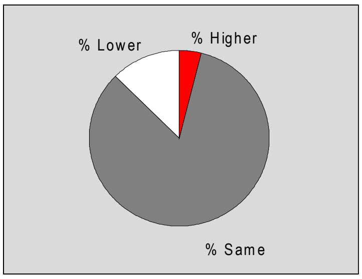


Polish manufacturing employment continued to fall mid-way through the first quarter. The current six-month sequence of job shedding is the longest since that which lasted from May 2008 to November 2009. Firms attributed lower headcounts to reduced production, reorganisation and retirements. That said, the overall rate of reduction was only marginal, and the weakest in the current sequence of decline.

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.

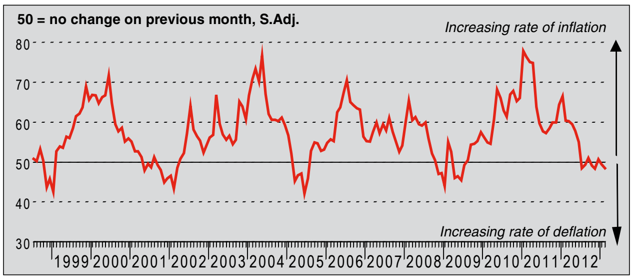


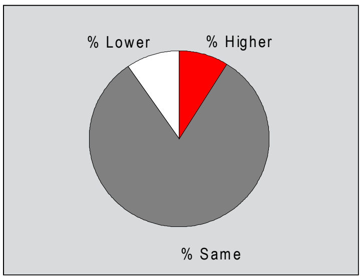


February data indicated a sharp fall in prices charged for final Polish manufactured goods. Factory gate prices have fallen seven times in the past eight months, and the seasonally adjusted Output Prices Index signalled the sharpest rate of reduction since July 2009. Anecdotal evidence suggested that discounting was the result of a combination of lower raw material prices, promotions and international competition.

Input Prices Index

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

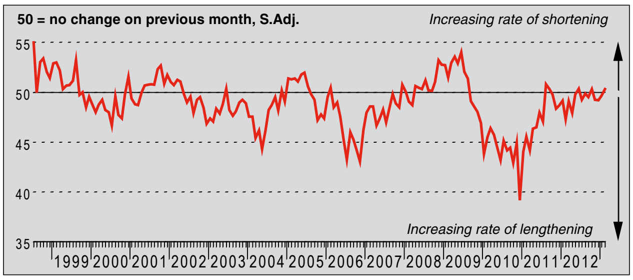


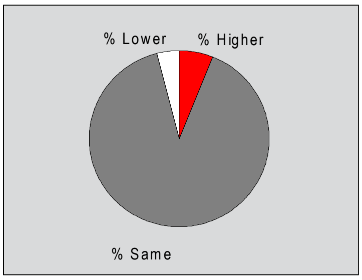


The seasonally adjusted Input Prices Index remained below 50.0 in February, the sixth time in the past eight months in which that has been the case. The rate of reduction in average input prices signalled by the latest figure was only modest, however. Around 10% of firms reported lower cost burdens, linked to falling raw material prices and the renegotiation of contracts with suppliers.

Suppliers' Delivery Times Index

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

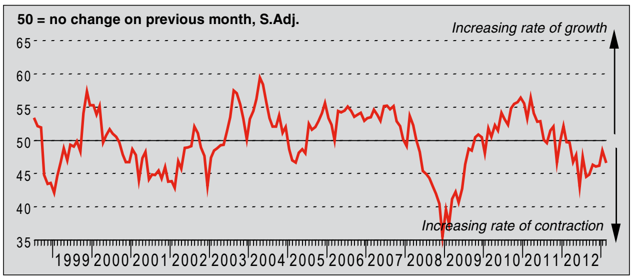


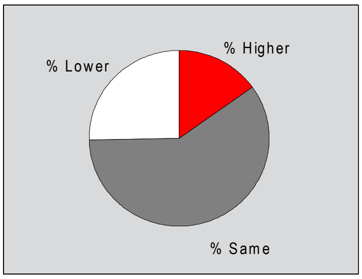


The performance of vendors supplying Polish manufacturers improved slightly in February, following a three-month period of marginal lengthening in delivery times. The seasonally adjusted Suppliers' Delivery Times Index registered above the neutral threshold of 50.0 for only the fifth time in the past three-and-a-half years.

Quantity of Purchases Index

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

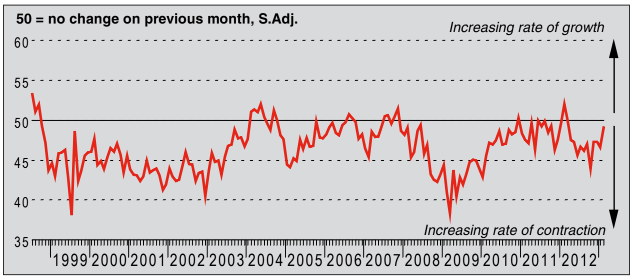


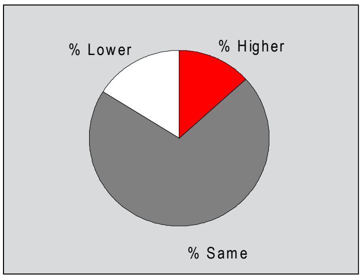


The level of new inputs ordered by Polish goods producers declined further in February, continuing the trend shown since February 2012. Having slowed to a modest pace the previous month, the rate of contraction accelerated in the latest period. The seasonally adjusted Quantity of Purchases Index was in line with the average over the current sequence of sub-50.0 readings.

Stocks of Purchases Index

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





Inventories of raw materials and components held in stock at manufacturers declined for the eleventh consecutive month in February. A number of firms continued to report a preference for utilising existing stocks to support workloads. The overall rate of contraction slowed sharply since January, however, to a marginal pace that was the weakest in the current sequence of depletion.

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.

Warning