

HSBC Poland Manufacturing PMI®

Polish manufacturing downturn intensifies in March

Key findings:

- PMI remains below 50.0 and declines for first time since August
- Record fall in output prices
- Input prices decline at fastest rate since June 2009

HSBC survey data compiled by Markit showed an ongoing downturn in the Polish manufacturing sector at the end of the first quarter. Business conditions have now deteriorated throughout the past year. Moreover, the pace of decline accelerated for the first time since last September, reflecting sharper declines in output, employment and stocks of purchases. Underlining the challenging business climate, a record fall in output prices was signalled in the latest period.

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 March, signalling an overall deterioration in operating conditions at goods producers. Moreover, the PMI fell to 48.0, from 48.9, the first month-on-month decline in the headline index since September. The latest figure was the lowest since October, although the average for the first quarter was the highest since Q2 2012.

New orders received by Polish manufacturers declined for the fourteenth successive month in March. The overall rate of contraction was little-changed from February's moderate pace, despite a sharper fall in new export business. The decline in

new work from export markets was the fastest since November, as firms continued to report competitive pressures.

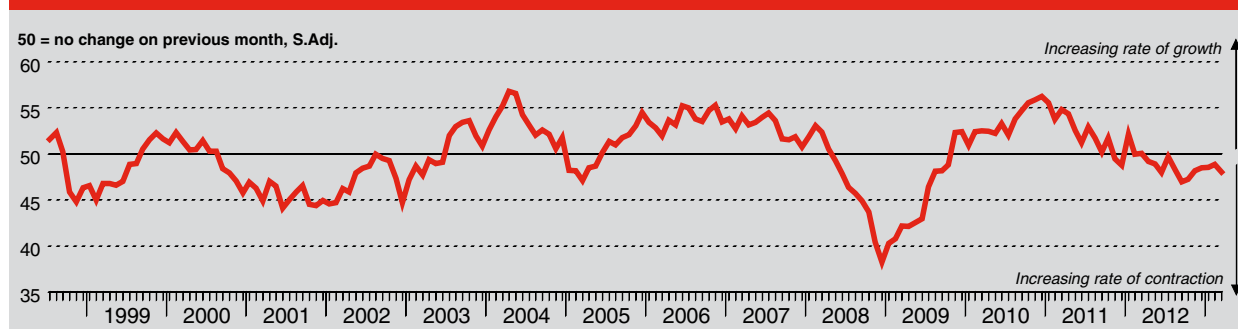
Linked to falling receipts of new work, production declined for the eleventh month running in March, and at the fastest pace since November. Meanwhile, backlogs of work fell sharply during the month. The overall volume of incomplete business in the sector has declined every month since June 2011.

Manufacturers in Poland cut their output prices for the eighth time in nine months in March. Furthermore, the rate of discounting accelerated to a series record (data for output charges were first collected in January 2003). Firms reported having to offer discounts in order to remain competitive.

Input prices fell for the seventh time in nine months in March. Moreover, the rate of reduction was the fastest since June 2009. Anecdotal evidence partly linked reduced cost pressures to lower steel and food prices.

Manufacturing employment declined for the seventh month running in March, the longest sequence of job shedding in over three years. Moreover, the rate of workforce reduction accelerated from February's marginal pace, and was the second-fastest over the current sequence. Goods producers also cut the volume of inputs purchased during the month, and at the fastest rate since last September.

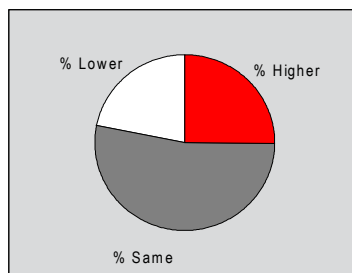
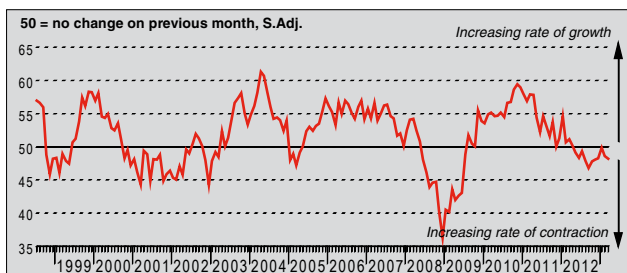
HSBC Poland Purchasing Managers' Index® (PMI®)



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

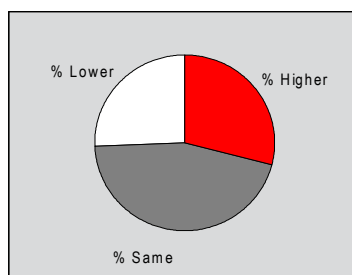
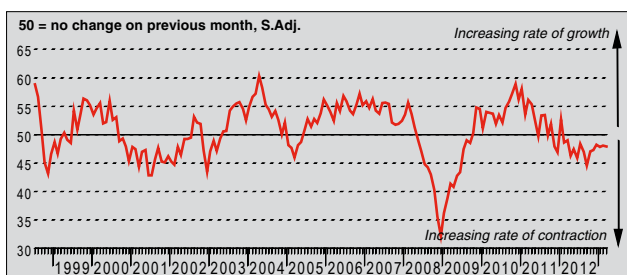
Q. Please compare your production/output this month with the situation one month ago.



Manufacturing production in Poland declined for the eleventh month in a row in March. The seasonally adjusted Output Index signalled only a moderate overall rate of contraction, but nonetheless the fastest since last November. Firms directly attributed lower production to falling new orders.

New Orders Index

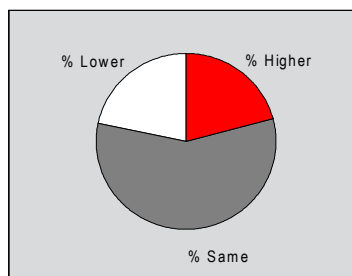
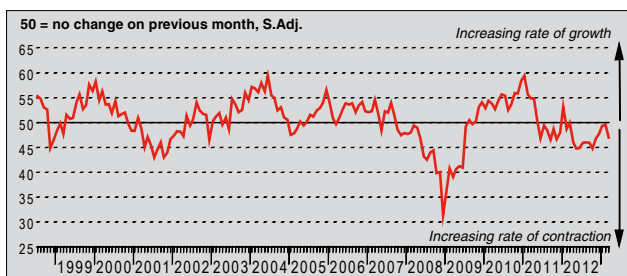
Q. Please compare the level of new orders received this month with the situation one month ago.



The seasonally adjusted New Orders Index remained below the no-change mark of 50.0 for the fourteenth consecutive month in March, signalling an ongoing downturn in new business placed with Polish goods producers. The rate of decline was moderate, and little-changed from that registered in February. Firms linked falling new business to both weakening demand and the loss of work to competitors.

New Export Orders Index

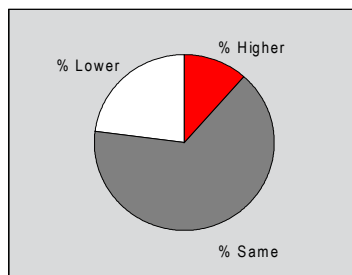
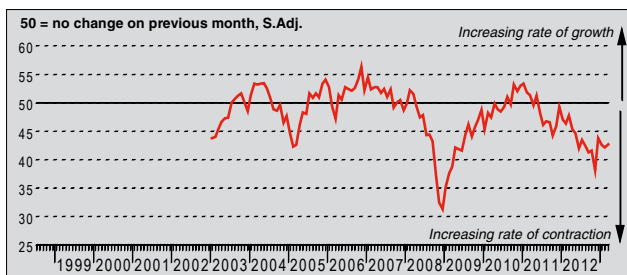
Q. Please compare the level of new export orders received this month with the situation of one month ago.



The volume of new orders received by Polish manufacturers from export markets declined further in March. This extended the current sequence of contraction to one year. Moreover, new export business has risen only once in the past 22 months (January 2012). The seasonally adjusted New Export Orders Index fell on the month, and signalled the fastest rate of decline since November.

Backlogs of Work Index

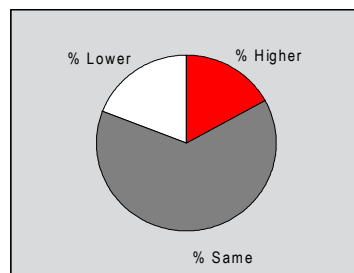
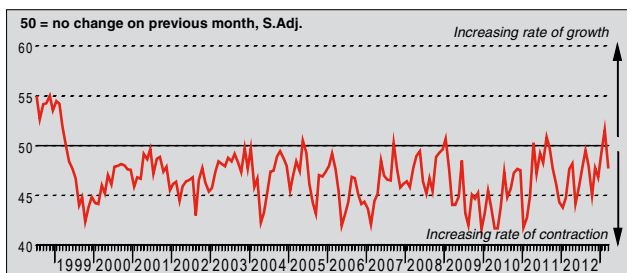
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



In a clear sign of ongoing spare capacity in the goods-producing sector, the volume of outstanding work continued to fall sharply in March. The seasonally adjusted Backlogs of Work Index remained below neutrality for the twenty-second consecutive month, and the latest figure signalled a marked rate of decline that was greater than the trend shown over this period. Anecdotal evidence linked lower backlogs to falling new orders, spare production capacity and deliberate efforts to complete existing workloads.

Stocks of Finished Goods Index

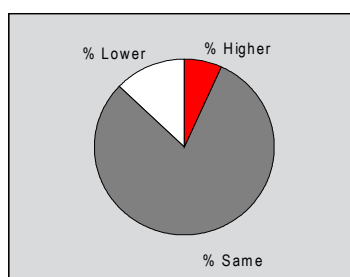
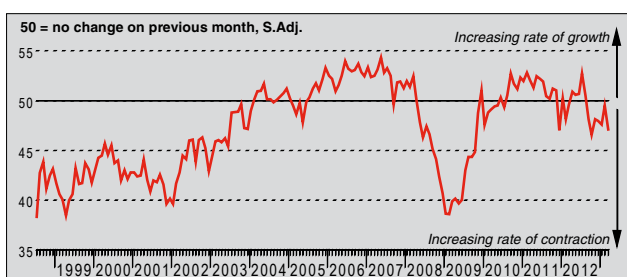
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Post-production inventories in the Polish manufacturing sector declined in March. That followed an increase in February, the first expansion registered in a year-and-a-half. The rate of contraction in the latest period was the fastest since December, but weaker than the long-run survey average.

Employment Index

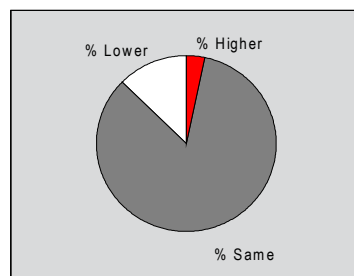
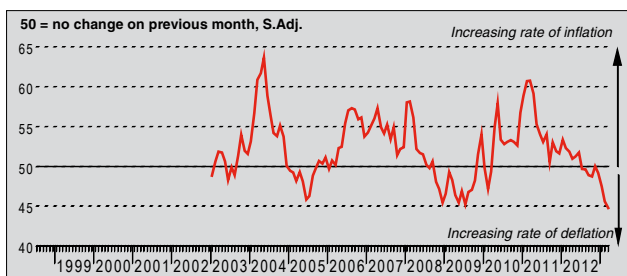
Q. Please compare the level of employment at your unit with the situation one month ago.



Survey data indicated a seventh consecutive monthly decline in Polish manufacturing employment in March. Job shedding was linked partly to natural wastage, but mainly to pressure to reduce costs in light of falling production requirements. Having signalled only a marginal drop in staffing in February, the seasonally adjusted Employment Index fell to its lowest level since October 2012, and was also below its long-run average of 47.3.

Output Prices Index

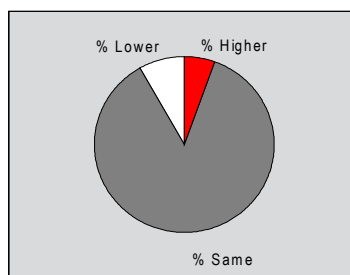
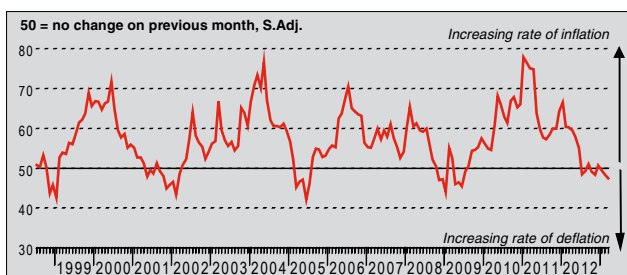
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Goods producers cut their prices for the fourth month running in March. Anecdotal evidence linked discounting to promotions and competitive pressures. Factory gate prices have now declined eight times in the past nine months, and the rate of reduction accelerated in the latest period to the fastest since charges data were first collected in January 2003.

Input Prices Index

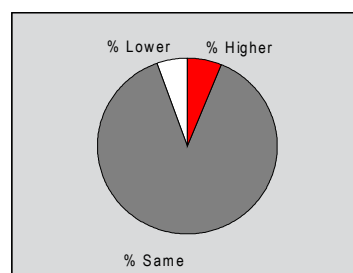
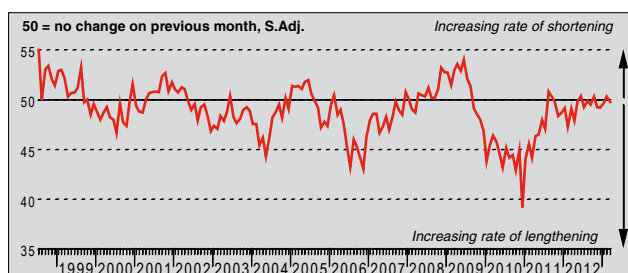
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Average input prices paid by manufacturers in Poland declined for the third month running in March. Moreover, the seasonally adjusted Input Prices Index continued its descent, and the latest figure indicated the fastest rate of reduction in prices since June 2009. Survey respondents mentioned lower steel and food prices as having contributed to declining cost burdens.

Suppliers' Delivery Times Index

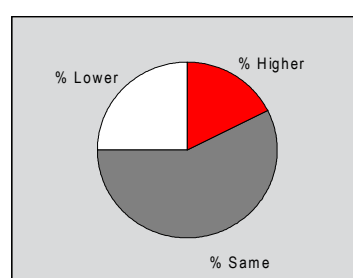
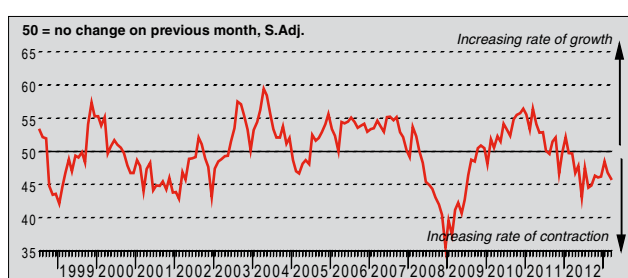
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



The seasonally adjusted Suppliers' Delivery Times Index fell fractionally below the no-change mark of 50.0 in March, having signalled a slight improvement in vendor performance one month previously. The latest figure indicated broadly no change in average lead times since February. Around 88% of survey respondents reported no change in suppliers' delivery times in March.

Quantity of Purchases Index

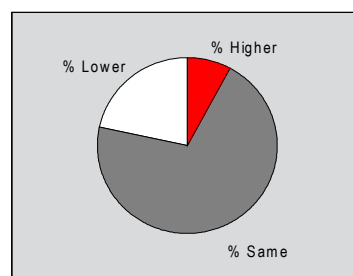
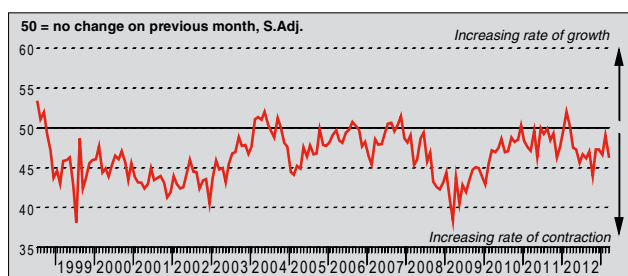
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Purchasing activity in the Polish manufacturing sector declined in March at the fastest rate since September. The current sequence of decline now stretches to 14 months. Firms generally reported weakening demand and lower production requirements as having led to them scaling back purchasing operations.

Stocks of Purchases Index

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



Stocks of raw materials and other pre-production goods held at Polish goods producers declined for the twelfth month in succession in March. The rate of contraction was the fastest since last October. The seasonally adjusted Stocks of Purchases Index was broadly in line with its long-run average during the latest period.

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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