HSBC *Purchasing Managers' Index*® 2013

compiled by markit

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HSBC Poland Manufacturing PMI®

Marginal increase in new orders leads to stable output trend

Key findings:

- First increase in new work since January 2012
- Employment falls for tenth month running
- Longest sequence of falling input prices in over 11 years

The Polish manufacturing sector edged closer to stabilisation at the end of the second quarter, according to the latest PMI data from HSBC and Markit. The volume of incoming new work increased for the first time since the start of 2012, leading to a broad stabilisation in the level of output. Improving demand was supported by a mild rise in new export business. Firms continued to cut workforces and stocks of both inputs and final goods, however, as they sought to control costs. Meanwhile, both input and output prices continued to fall.

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 registered below the no-change mark of 50.0 for the fifteenth month in a row in June, signalling an ongoing period of deteriorating business conditions in the Polish goods-producing sector. The PMI rose for the second month running, however, to 49.3, from 48.0, indicative of only a marginal overall worsening in the business climate. The latest figure was the second-highest in the current sequence of sub-50.0 readings.

New order growth resumed in June, albeit at a marginal pace. Expansion was supported by higher new export orders – only the second increase registered in the sector for over two years.

The rise in new work did not generate an overall increase in production in June, partly reflecting ongoing destocking efforts at manufacturers. Final goods inventories declined for the fourth month running, and at the fastest rate since February 2011. The volume of output was broadly unchanged since May, and has not risen since April 2012.

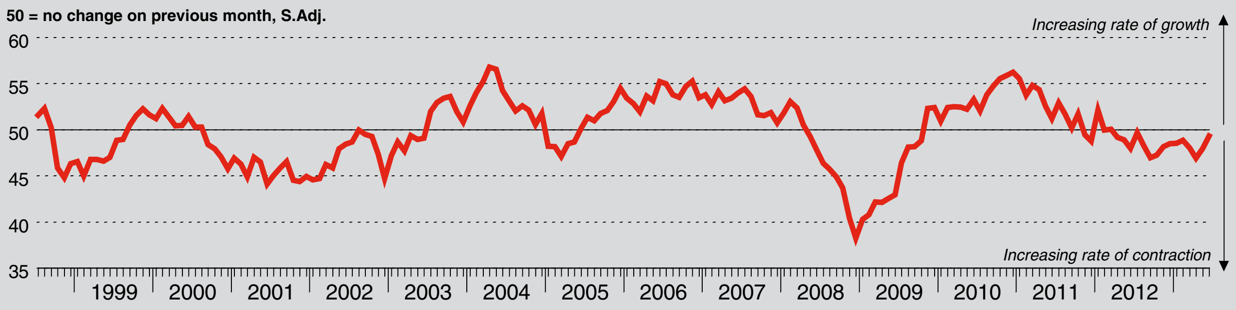
Backlogs of work continued to decline in June, continuing the trend shown since June 2011. The rate of depletion slowed sharply, however, to the weakest since December 2011.

Goods producers remained under pressure to control costs in June. The manufacturing workforce shrank for the tenth month running as firms adjusted capacity in line with low workloads, and the volume of inputs purchased declined for the seventeenth consecutive month. In both cases, however, the rates of contraction were only marginal.

With demand for inputs remaining weak, the performance of suppliers improved overall during June despite some reports of problems associated with flooding. Suppliers' delivery times quickened for the third month in a row, albeit only fractionally.

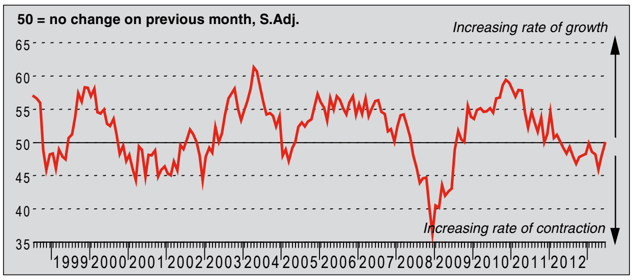
Inflationary pressures remained weak in June. Average input prices fell for the sixth month running, the longest sequence of decline in over 11 years. Meanwhile, prices charged for finished manufactured goods fell for the seventh consecutive month. In both cases, however, the rate of decline eased since May.

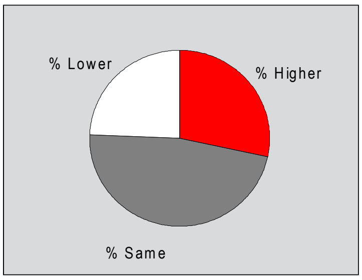
HSBC Poland *Purchasing Managers' Index*® (*PMI*®)



Output Index

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

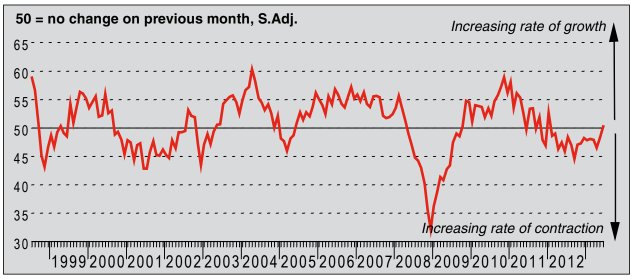


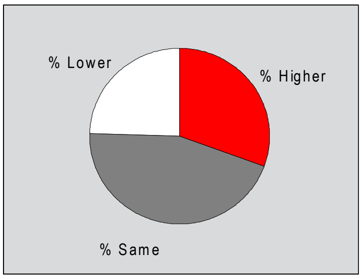


Polish manufacturing output was broadly unchanged in June compared with one month previously. The seasonally adjusted Output Index registered close to the neutral level of 50.0, having signalled declining production during the prior four months. That said, data have not signalled an outright expansion of goods production since April 2012.

New Orders Index

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

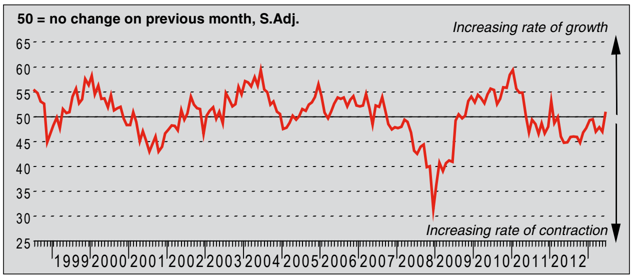


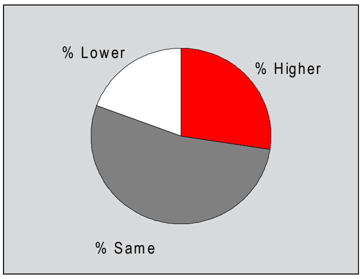


The volume of new orders received by Polish goods producers increased in June. That followed a 16-month sequence of falling new business, the third-longest registered in the survey's 15-year history. Firms partly linked higher new orders to improving export demand, and new products. That said, the rate of growth was only marginal, as signalled by the seasonally adjusted New Orders Index registering only just above 50.0.

New Export Orders Index

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

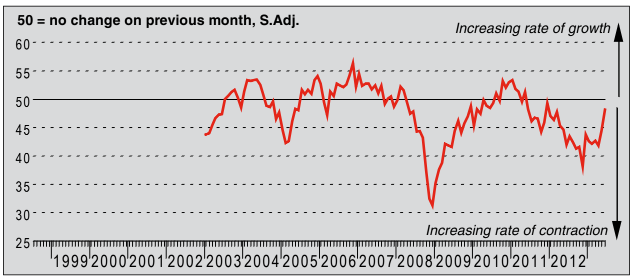


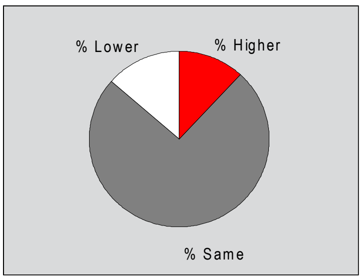


The seasonally adjusted New Export Orders Index rose sharply in June, passing the no-change mark of 50.0 and indicating growth of new export business at Polish manufacturers for the first time since January 2012. June's reading was only the second time in the past 25 months that growth had been signalled. That said, the rate of expansion was only marginal.

Backlogs of Work Index

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

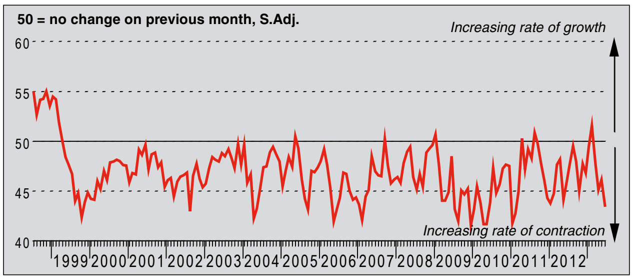


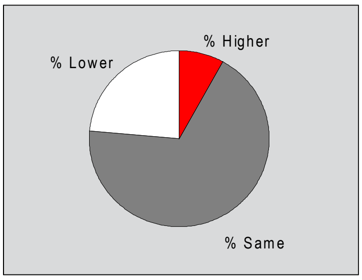


Backlogs of work held at Polish manufacturers continued to decline in June, extending the current sequence of depletion to 25 months. Firms linked lower backlogs to spare capacity and efficiency improvements. That said, the rate of contraction slowed sharply since May, to the weakest since December 2011. Moreover, the month-on-month increase in the seasonally adjusted index since April was the largest observed over a two-month period in the history of the series.

Stocks of Finished Goods Index

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

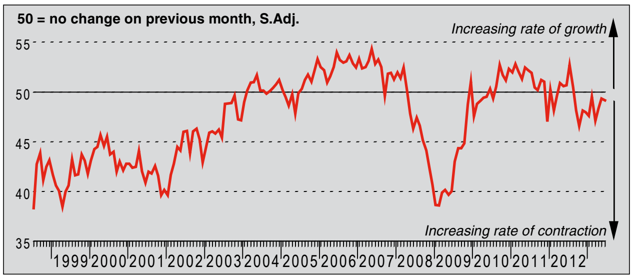


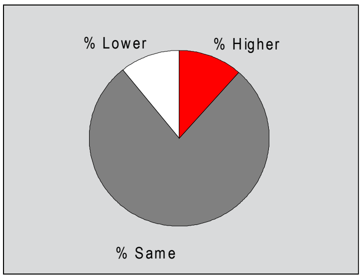


The overall volume of final goods held in stock in the Polish manufacturing sector declined sharply in June. The seasonally adjusted Stocks of Finished Goods Index signalled the fastest rate of inventory depletion since February 2011, and a fourth successive monthly decline. Finished goods stocks have risen only once in the past 22 months. Firms reported selling off excess warehouse stock during the month.

Employment Index

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

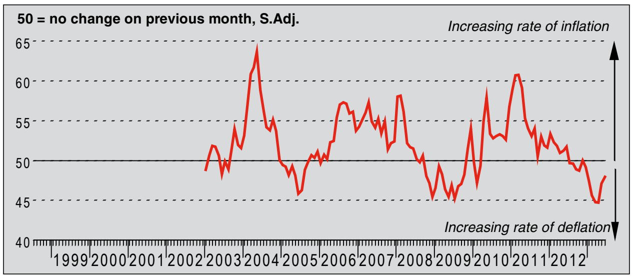


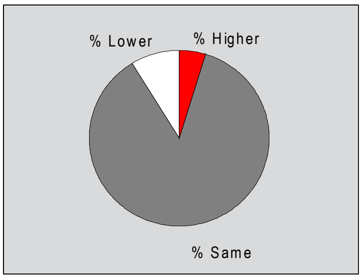


The seasonally adjusted Employment Index remained below the no-change mark of 50.0 for the tenth month running in June, indicating further job shedding at goods producers in Poland. That said, the rate of contraction remained only marginal. Around 11% of firms cut staff during the month, which was mainly attributed to the alignment of capacity with current workloads.

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.

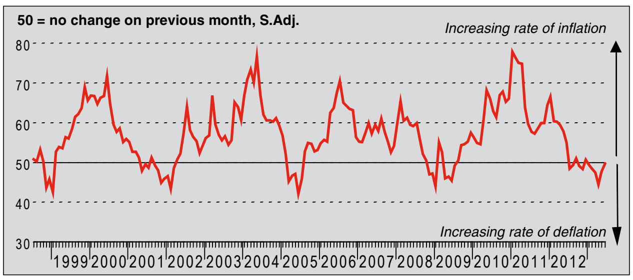


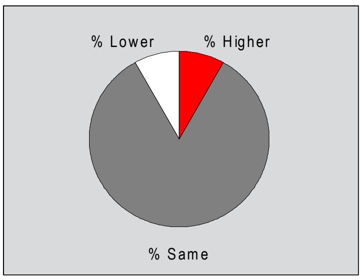


Downward pressure on manufacturers' selling prices continued in June. Factory gate prices have decreased every month since July 2012, except for a pause last November. Firms reported tough competition and promotional activity. That said, the rate of reduction in output prices was the weakest in 2013 so far, as the seasonally adjusted index rose for the second month running.

Input Prices Index

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

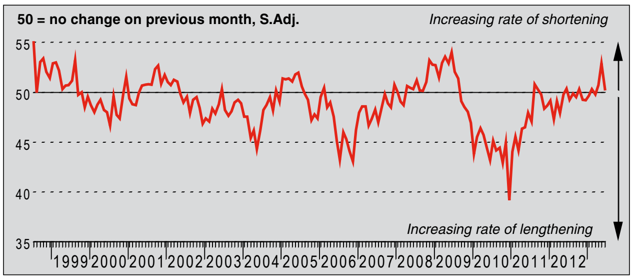


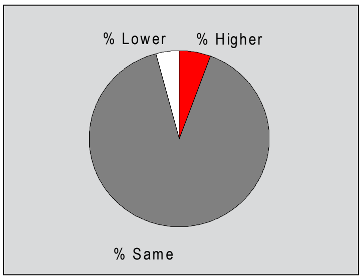


The seasonally adjusted Input Prices Index remained below the no-change mark of 50.0 for the sixth consecutive month in June. That marked the longest sequence of declining input prices paid by Polish manufacturers in 11 years, and the second-longest in the survey history. Firms reported lower raw material prices and negotiations with suppliers to secure discounts in a tough trading environment. That said, the overall rate of reduction slowed for the second month running in June to a marginal pace.

Suppliers' Delivery Times Index

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

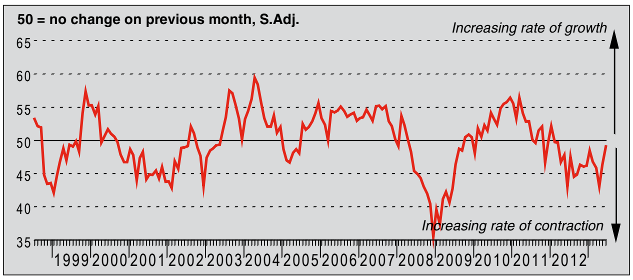


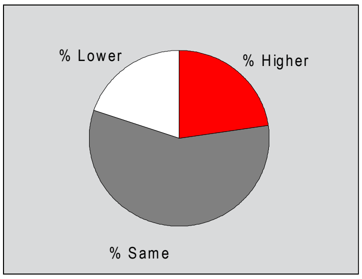


The average time taken for suppliers to deliver inputs shortened for the third month in a row in June. This marked the longest sequence of improvement in performance in nearly four years. That said, the overall rate of improvement slowed to a marginal pace. A number of companies that reported longer times than in May referred to the impact of recent flooding.

Quantity of Purchases Index

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

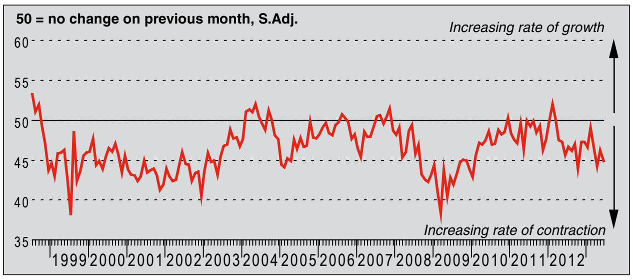


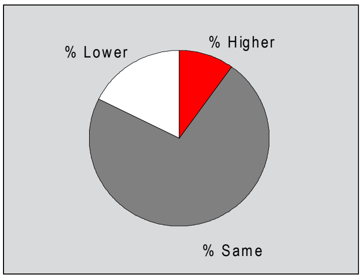


The volume of inputs ordered by Polish manufacturers declined for the seventeenth month running in June. The main reason given for lower purchasing activity was reduced output requirements. The seasonally adjusted Quantity of Purchases Index rose for the second straight month, however, and signalled the weakest rate of contraction since March 2012.

Stocks of Purchases Index

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





The seasonally adjusted Stocks of Purchases Index remained below the no-change mark of 50.0 in June, signalling falling pre-production stocks at Polish manufacturers. The latest figure was the third-lowest in 41 months, and signalled a sharp rate of inventory depletion. Input stocks have now declined for 15 successive months. Firms reported deliberate efforts to cut overheads.

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