

Embargoed until: 09:00 (WARSAW), 1 December 2011

## HSBC Poland Manufacturing PMI®

Falling new orders drive overall deterioration in manufacturing business climate

### Key findings:

- PMI below neutral level of 50.0 for first time in over two years
- New export orders decline for sixth consecutive month
- Cost inflation remains strong despite weakening demand for inputs

HSBC PMI® survey data for November, compiled by Markit, signalled that Poland's manufacturing sector experienced a deterioration in business conditions. Both new orders and backlogs contracted, leading to an overall stagnation in output. External demand was a key factor undermining total new orders, despite the weakness of the zloty. Linked to the exchange rate, input price inflation remained sharp, albeit weaker than at the start of the year.

The headline HSBC Poland Manufacturing PMI is a composite single-figure indicator of manufacturing performance, tracking changes in new orders, output, employment, suppliers' delivery times and stocks of purchases. Any figure greater than 50.0 represents an overall improvement in business conditions.

Falling from 51.7 in October to 49.5, the PMI signalled an overall worsening in the business climate for the first time since October 2009. The PMI has trended lower since the start of the year, save for modest gains in March, July and October. November's figure marked a substantial retreat from the near-record 56.3 set in December 2010 (the third-highest in the survey history).

Driving the downturn in the sector in November was a renewed contraction in new work. New business volumes have fallen three times since June, and the rate of decline in the latest period was the fastest since July 2009. Data signalled weakness both overall and in export markets, with new orders in the latter falling for the sixth month in a row.

The level of outstanding business also declined sharply in November, falling for the sixth successive survey period.

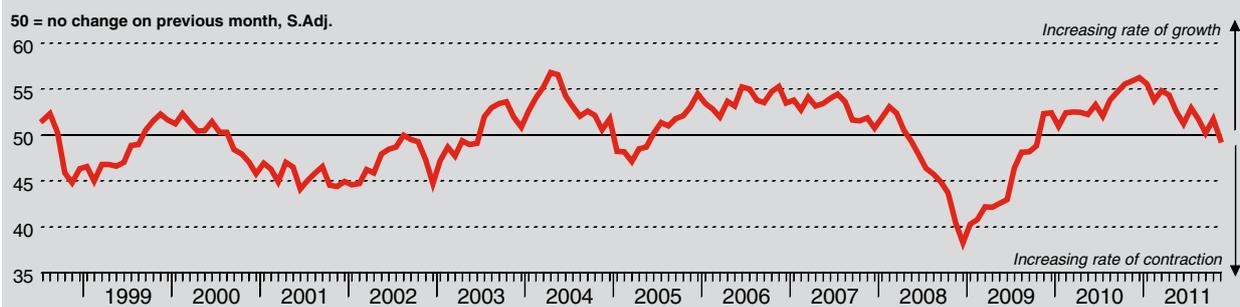
Production was little-changed over the month. The flat trend in output influenced firms' hiring and purchasing decisions in November. Manufacturing employment increased for the sixteenth month running, but at a weak rate. Meanwhile, the volume of inputs ordered fell at a robust pace that was the fastest since July 2009. Linked to this, stocks of pre-production materials declined for the fifth consecutive month, and at the fastest pace since February 2010.

Manufacturers continued to report longer suppliers' delivery times in November, despite falling demand for inputs. That said, the deterioration in vendor performance was only moderate.

Upward pressure on manufacturers' input prices remained stubbornly high in November, despite weaker demand in the sector. Input cost inflation was unchanged from October's five-month high, and marked in the context of historic survey data. Many survey respondents linked higher input prices to the impact of the weak zloty on import costs.

Higher costs were partly passed on to clients in the form of higher output prices in November. Prices for Polish manufactured goods have risen every month since April 2010. That said, the rate of inflation in the latest period eased to a modest pace. This reflected intense competition for market share as the overall volume of new business declined during the month.

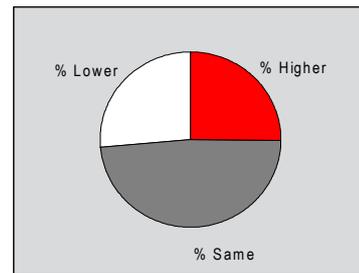
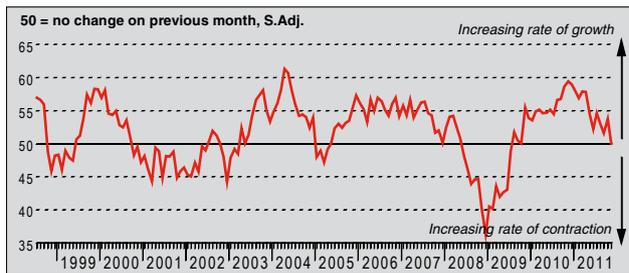
### HSBC Poland Purchasing Managers' Index® (PMI®)



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

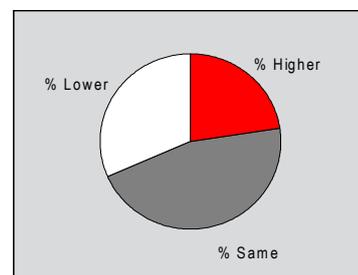
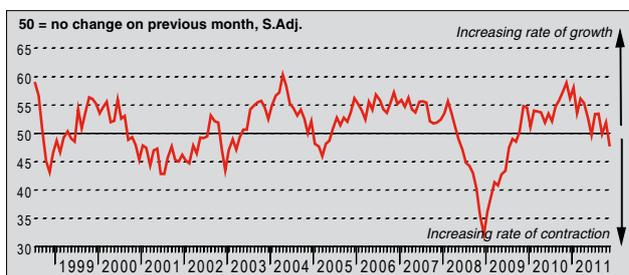
Q. Please compare your production/output this month with the situation one month ago.



Growth of Polish manufacturing output stalled in November. The seasonally adjusted Output Index retreated sharply from October's three-month high, to only just above the no-change mark of 50.0. Moreover, the month-on-month fall in the Index was the largest since December 2008. Anecdotal evidence linked the stagnation in production to a weakening demand climate.

## New Orders Index

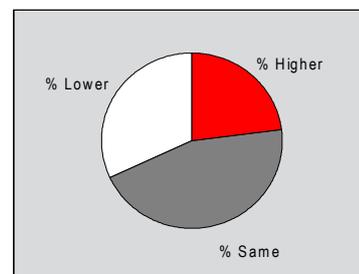
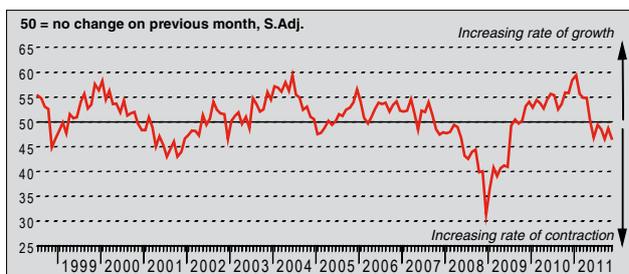
Q. Please compare the level of new orders received this month with the situation one month ago.



Polish manufacturers' intakes of new business declined in November. The seasonally adjusted New Orders Index fell back below neutrality, reversing October's gain and signalling the steepest rate of contraction since July 2009. New orders have fallen three times in the past six months, in contrast to the strong gains seen a year ago. Firms primarily linked lower new business to worsening demand.

## New Export Orders Index

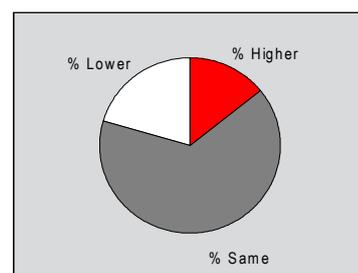
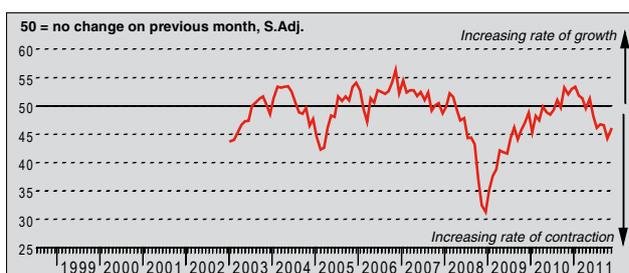
Q. Please compare the level of new export orders received this month with the situation of one month ago.



The volume of new export business received by Polish manufacturers declined further in November. The current sequence of contraction now stretches to six months. Moreover, the rate of reduction accelerated compared with October, as signalled by a fall in the seasonally adjusted New Export Orders Index. The latest figure equalled September's 27-month low. Some firms linked lower exports to the crisis in the Eurozone, while others cited weakening demand from Eastern markets.

## Backlogs of Work Index

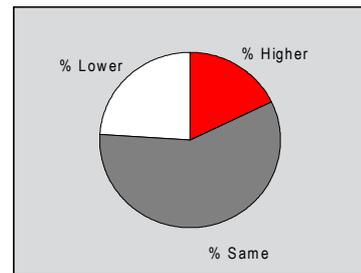
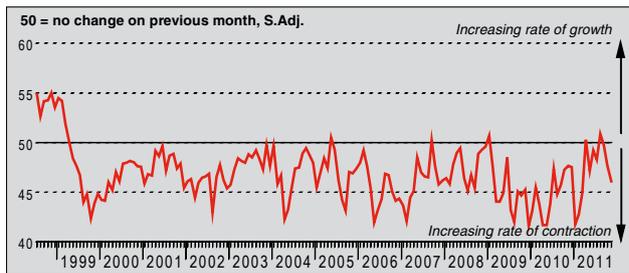
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Continuing the trend since June, backlogs of work at Polish goods producers fell in November. The rate of contraction was slightly weaker than October's 25-month record, but still sharp nevertheless. The seasonally adjusted Backlogs of Work Index was comfortably below its long-run average of 48.5. The latest anecdotal evidence suggested a degree of spare capacity in the sector as workloads stagnated.

## Stocks of Finished Goods Index

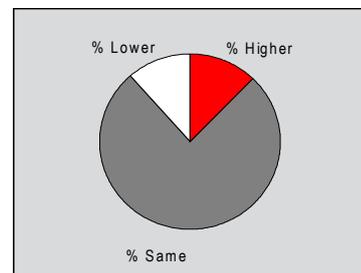
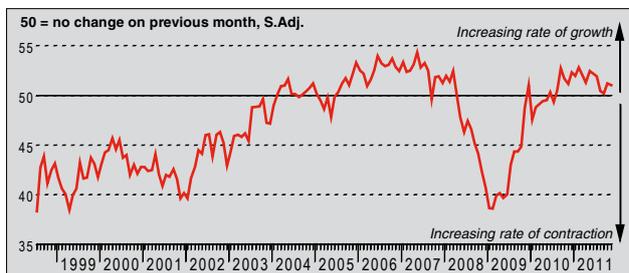
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Survey data signalled a further overall drop in stocks of finished goods in November. Stocks have expanded, on average, only twice since February 2009, in April and August of this year. Moreover, the rate of contraction accelerated in the latest period, to the fastest since March. Firms whose warehouse stocks declined compared with one month previously mainly commented on thinning order books.

## Employment Index

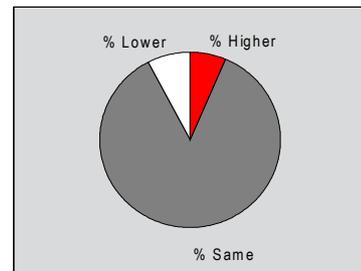
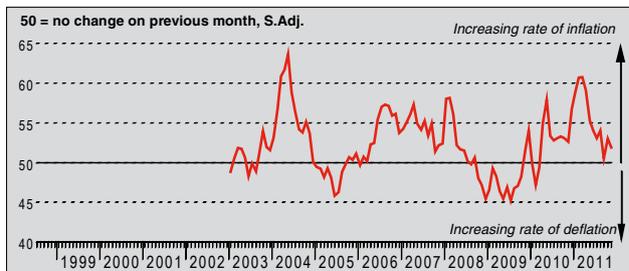
Q. Please compare the level of employment at your unit with the situation one month ago.



Polish manufacturing employment continued to rise in November. The current sequence of growth now extends to 16 months, the second-longest in the survey's 13-and-a-half year history. That said, the rate of job creation remained modest. Reflecting uncertainty in the sector regarding the near-term outlook, more than three-quarters of firms held workforces constant during the month.

## Output Prices Index

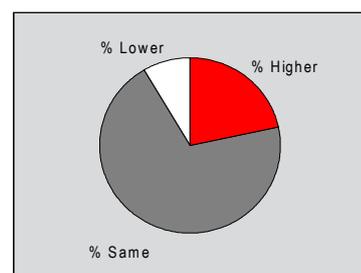
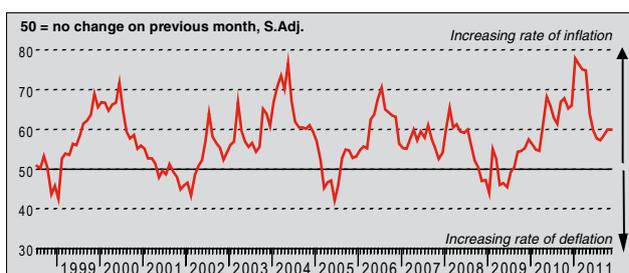
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Manufacturers in Poland continued to increase their output prices in November, mainly linking this to rising input costs. The seasonally adjusted Output Prices Index remained above 50.0, signalling inflation, for the twentieth month in succession. The level of the Index was, however, the second-lowest in this sequence, indicating a relatively muted rate of increase. The Index was also below its long-run average of 52.5.

## Input Prices Index

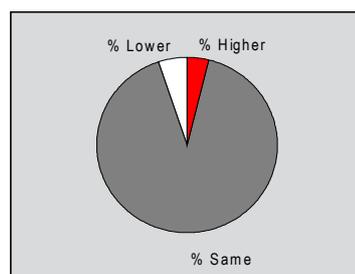
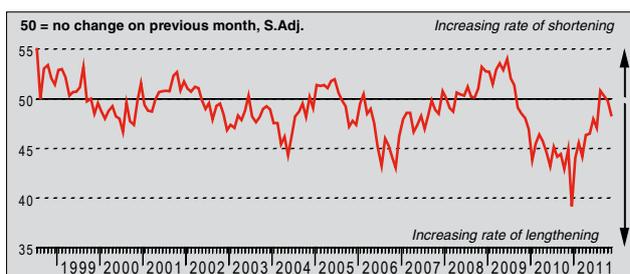
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Inflationary pressure on firms' input costs remained strong in November, widely linked to the continued weakness of the zloty and subsequent impact on import prices. The seasonally adjusted Input Prices Index was unchanged from October's five-month high, and remained above its long-run average. That said, input price inflation in H2 2011 had been much weaker than in the first half of the year.

## Suppliers' Delivery Times Index

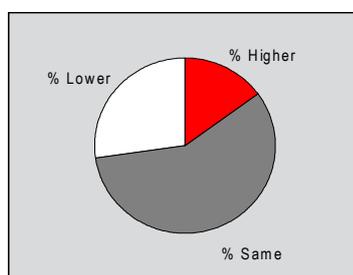
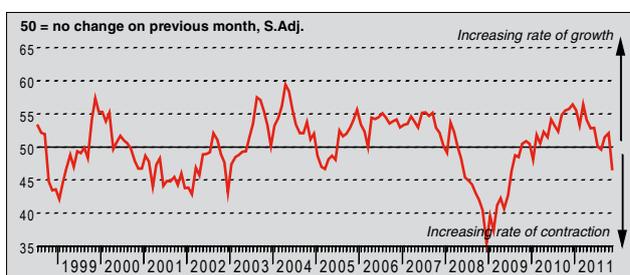
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



The performance of vendors supplying Polish manufacturers deteriorated further in November, following two months of shortening lead times in August and September. The rate at which suppliers' delivery times lengthened was slightly sharper than in October. That said, the seasonally adjusted Suppliers' Delivery Times Index was only slightly below its long-run average during the latest period.

## Quantity of Purchases Index

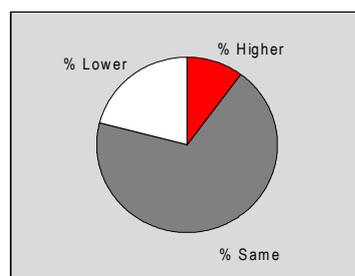
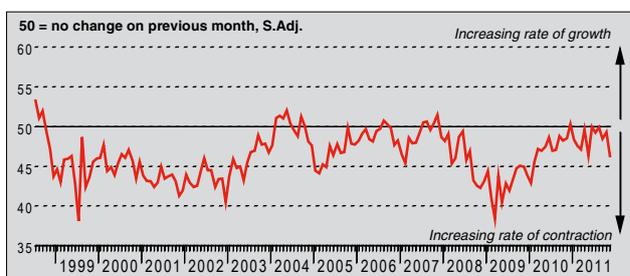
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Purchasing activity in the Polish manufacturing sector declined for the second time in four months in November. Moreover, the seasonally adjusted Quantity of Purchases Index posted its largest one-month drop since April 2000 (and the third-largest to date). The latest figure signalled the steepest reduction in input volumes since July 2009. Firms linked lower purchases to falling new orders and output requirements.

## Stocks of Purchases Index

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



The overall volume of inputs held in stock at Polish goods producers fell for the fifth month running in November. Moreover, the rate of contraction was the fastest since February 2010. Firms mainly linked lower stock levels to declining new orders and backlogs. The seasonally adjusted Stocks of Purchases Index was broadly in line with its long-run average.

## Notes on the Data and Method of Presentation

The *Purchasing Managers' Index*<sup>®</sup> 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)*<sup>®</sup> is a composite index based on five of the individual indexes with the following weights derived from the Chartered Institute of Purchasing & Supply's survey of the UK 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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