

Poland

Industrial output continued to fall in December, as flagged ahead by PMI

- **Industrial output was worse than expected in December...**
- **... but was in line with PMI survey-record low.**

Official data released on 20 January showed a worse than expected performance from Polish industry at the end of last year. Production fell by 4.4% on an annual basis. The statistics office also revised lower the November figure to show a 9.2% drop on a year ago (from 8.7% previously).

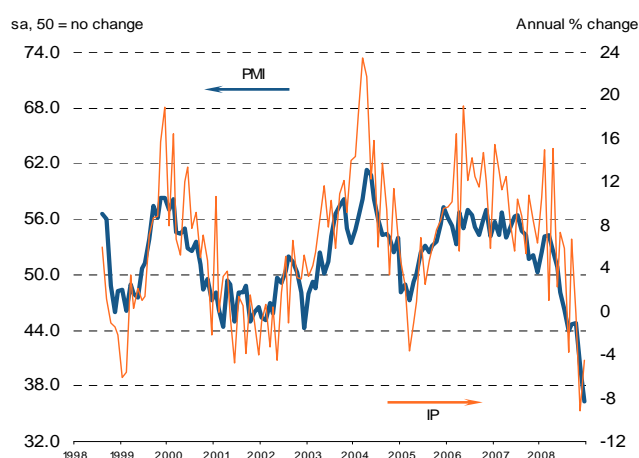
December data from the RBS survey of purchasing managers in Poland's manufacturing economy, compiled by Markit and released 2 January, had provided an advance signal that industrial production would contract sharply in the final month of 2008. The headline index slumped to a record low, driven by marked declines in both output and new orders.

The Output Index from the PMI survey has a good track record against official industrial production (see chart, right). Over the survey history, since June 1998, it produces a correlation of 0.752. Regression analysis indicated that the latest PMI figure was consistent with a fall in production of around 10% on an annual basis in December, so PMI users should not have been surprised by the steeper than expected contraction in industrial output.

The latest PMI and official figures therefore support the case for a further cut in interest rates at the end of January, with some commentators now expecting a 75 basis point move. The central bank's main policy rate currently stands at 5%, having declined by a full percentage point over November and December. These were the first cuts since March 2006 and

illustrate the speed of the turnaround in the Polish economy as the effects of the global financial crisis have spread.

PMI Output Index vs GUS industrial production



Inflationary pressures in Poland eased further in December, also raising the likelihood of an aggressive rate cut at the next MPC meeting. Consumer price inflation slowed to 3.1%, while the PMI survey showed a second successive month of falling input prices for manufacturers and a series-record fall in output prices.

The January Poland Manufacturing PMI is released on 2 February.

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