

Poland

PMI correctly anticipated the easing in the rate of contraction in March

Key findings

- Industrial production declined 2.0% yr/yr, the best outcome in five months.
- PMI showed weakest fall in manufacturing output since October.
- Poland faring better than other regional economies.

Official factory output better than expected

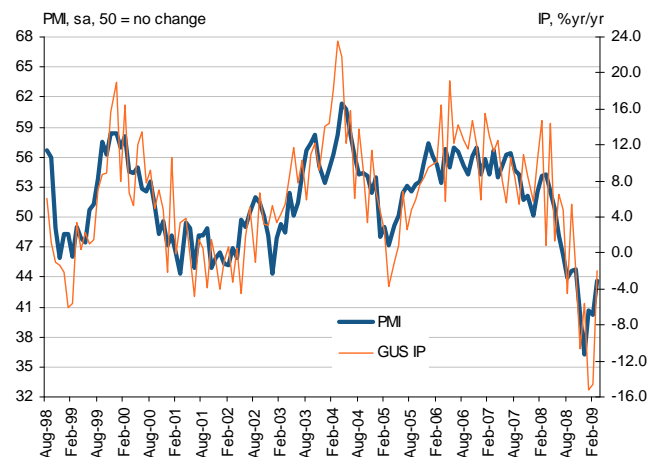
Data released 20 April by the Polish Statistics Office recorded a 2% annual decline in industrial production in March. That was a marked improvement from year-on-year declines of 15.3% and 14.6% (revised) in January and February, and was better than expected. Analysts polled by Reuters had predicted a decline of 6.5%.

The official figures highlighted a rebound in the manufacturing sector, underlining the earlier picture provided by PMI survey data which Markit compiles for RBS. Although still indicative of contraction, the PMI Output Index for Poland rose to a five-month high in March. This mirrors the pattern shown by the official industry series, where the annual rate of decline in industrial production was also the slowest since last October.

Polish PMI tracks official data well

The PMI survey data for Poland produce good relationships with official industrial production. Since the PMI survey began in June 1998, the Output Index has produced a correlation of 0.79 with the annual rate of change in industrial output. Regression analysis applied to the latest PMI output figure signalled an annual fall in industrial production of around 3.5%, suggesting that the market forecast of 6.5% was too pessimistic.

Chart 1: PMI Output Index vs industrial production



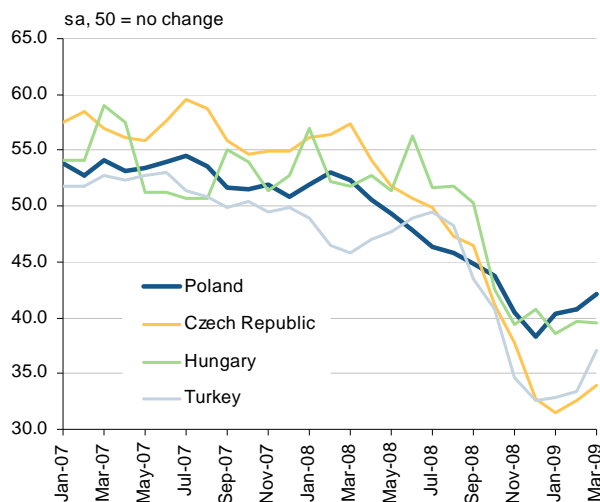
Poland showing resilience to economic crisis

Though the Polish PMI remains weak by its historic standards, Q1 on average saw a slower contraction than in Q4. PMI survey data also suggest that Polish industry is faring better than the trends seen in other emerging European economies, especially the export-reliant Czech Republic (see Chart 2, overleaf).

PMI to provide clues to interest rate cycle

Economic growth in Poland slowed to 2.9% yr/yr in the fourth quarter of 2008, while analysts predict growth of 1% in Q1. Signs of upward momentum from the PMI and the better than expected industry data both add weight to calls for a pause in the current cycle of monetary easing when the National Bank's Monetary Policy Committee meets to decide interest rates on 27-28 April. The headline base rate currently stands at 3.75%, down 225 basis points since last November. April PMI data, released 4 May, will provide an early indication of manufacturing business conditions in Q2.

Chart 2: Manufacturing PMIs, Central and Eastern Europe



Sources: Markit, HALPIM

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