

Poland

PMI foretold unexpectedly weak October industrial output

Key findings:

- **Industrial output surprised on the downside in October**
- **October PMI had indicated that market forecasts were too optimistic**

Official industrial production figures for October showed an annual rate of increase of just 0.2%, much lower than market forecasts. A Reuters poll had predicted annual growth of 2.2%. Growth in September was revised lower to 6.7%, from the originally reported 7% (which was higher than forecasts of 5.6%).

October figures from the RBS/Markit survey of purchasing managers in Poland's manufacturing economy, released 3 November, gave advance warning that industrial production would stagnate at the start of the fourth quarter and therefore suggested that market forecasts were too high. The headline PMI slumped to a record low and has remained in negative territory since May.

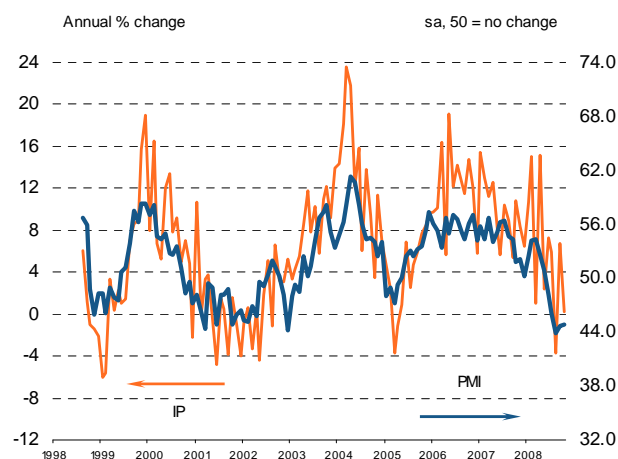
The Output Index from the PMI survey has a good track record against official industrial production (see chart, right). Over the survey history (since June 1998), it produces a correlation of 0.735. Regression analysis applied to the latest figure had signalled a fall of around 1.4% on an annual basis in October.

Poland has appeared to be weathering the wider global downturn relatively well, with domestic demand robust. However, October PMI data pointed to survey-record drops in both total and new export orders. If weak economic data persist, the central bank will face increasing pressure to reverse its monetary tightening policy, aimed at preparing the country for euro adoption and recent concerns over the zloty. Until recently, further hikes had been in the offing in line with

mentioned robust domestic demand (there has been a total increase of 200bps since April 2007) but expectations of cuts early next year have been reinforced by the weak PMI numbers. Overall, GDP growth is expected to slow in Q3 to around 4.8%, from 5.8% in Q2.

Official third quarter GDP figures are released on 28 November. The December PMI is out 1 December.

RBS/Markit Output Index vs GUS industrial production



Trevor Balchin

Economist

Markit

Tel: +44 1491 418 665

Email: trevor.balchin@markit.com

For further information, please visit www.markit.com

The intellectual property rights to this report provided herein is owned by Markit Group Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Markit is a trademark owned by the Markit group.