

Poland

Official production figures follow signal provided by PMI data

Key findings

- **PMI provided accurate signal of better-than-expected industry figures.**
- **But PMI data suggest labour market will remain weak throughout 2009.**

Slower than expected fall in output

Data released on 17 July by the Polish Statistics Office covering industrial production surprised on the upside. In year-on-year terms output continued to fall in June, but the rate of decline was better than expected. The actual decline of 4.3% was less than the 6.2% drop markets had forecasted. It also represented the second-slowest annual contraction since last October.

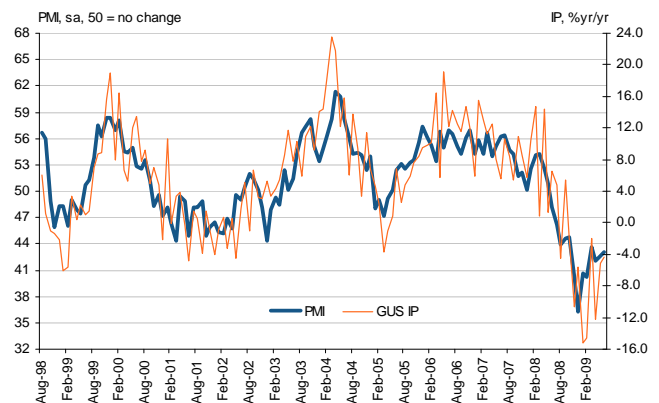
PMI-watchers were probably not caught out by the better than expected official figures. June PMI data covering the manufacturing sector – which accounts for roughly 86% of total industrial output and released over two weeks prior to the official figures – signalled that the rate of decline in manufacturing production was the slowest since last October with the exception of March, a trend which mirrored the official series.

Polish PMI tracks official data well

The PMI survey has an excellent track record against comparable official series. As Chart 1 shows, the PMI Output Index has a close relationship with the annual rate of change in official industrial production and is much less volatile on a monthly basis. This low 'signal-to-noise ratio' means the PMI provides clear signals of turning points in the official data.

Since the PMI survey began in June 1998, the Output Index has a correlation of 0.79 with the official annual rate of change in industrial production. Regression analysis applied to the June Output Index signalled an annual rate of decline of -4.3%, in line with the actual outcome.

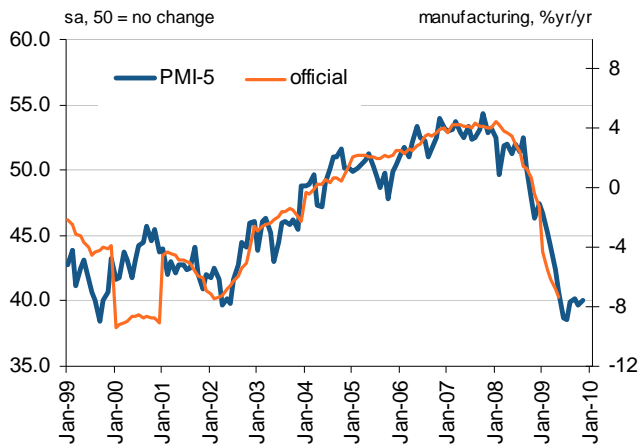
Chart 1: Industrial production



Worsening labour market

The PMI survey also tracks official employment figures very well. Manufacturing jobs in Poland declined by 7.3% year-on-year in May, the worst outcome since February 2002. Since January 1999 the PMI Employment Index has a correlation of 0.82 with the official series, and this improves to 0.89 when the PMI is advanced by five months. Chart 2 (overleaf) plots this close relationship, with the December PMI reading plotted against the May official figure. Regression analysis applied to the December PMI reading signalled a year-on-year fall in manufacturing employment of 7.0%, close to the actual outcome.

Chart 2: Manufacturing employment

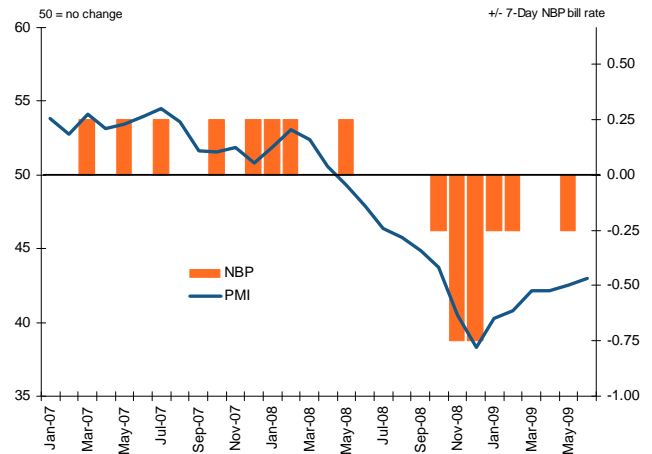


Moreover, the PMI series has remained weak throughout the first half of 2009, suggesting that the official series will average approximately -8% yr/yr over the second half of 2009.

Optimism on growth

Following the release of the official industrial production data, Deputy Finance Minister Ludwik Kotecki stated that Polish GDP may have increased by around 0.1-0.3% in the second quarter. Previously, the government had been forecasting zero growth in the three months to June. In Q1, economic growth slowed to 0.8% yr/yr, from 2.9% in the final quarter of 2008. The National Bank of Poland cut interest rates to 3.50% in June but is expected to leave them unchanged at the meeting scheduled for 29 July.

Chart 3: Poland Manufacturing PMI vs NBP rate



The PMI has provided a strong signal that Q1 represented the worst phase of the economic slowdown in Poland. July data, scheduled for release on the first working day in August, will provide the first signal of business conditions in manufacturing in the second half of the year.

Forthcoming data:

- 29 July: NBP monetary policy announcement
- 3 August: Markit Poland Manufacturing PMI (July)
- 19 August: Industrial production (July)

Trevor Balchin

Economist

Markit

Tel: +44 1491 461 065

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.