

Poland

Industrial output better than expected in October

Key findings

- Industrial output beats market consensus in October.
- PMI data point to further gains in coming months.
- GDP to have strengthened in Q3.

PMI and official data continue to cement picture of steady recovery in Poland's industrial sector

PMI data covering the Polish manufacturing sector are compiled by Markit for HSBC and released over two weeks prior to comparable official figures. October PMI data showed that business conditions were nearing recovery at the start of the fourth quarter. New orders and purchasing activity both rose for the first time in 18 months, while jobs were lost at the slowest pace in over a year.

The headline HSBC Poland Manufacturing PMI rose for the eighth time so far in 2009 since hitting a record low in December 2008. Though the latest figure of 48.8 remained indicative of overall contraction, it was the highest reading since the index dipped below the no-change mark in May 2008 (49.3). Any figure greater than 50.0 represents an overall improvement in business conditions.

Data released on 19 November by the Polish Statistics Office (GUS) covering industrial production showed a smaller fall in output in October than analysts had been expecting. Production fell 1.2% on an annual basis, a better outcome than the 2.0% fall forecasted by economists polled by Thomson Reuters. This mirrored a similar trend in September, when the annual fall of 1.3% was better than the expected drop of 2.2%.

Chart 1: PMI Output Index vs industrial production

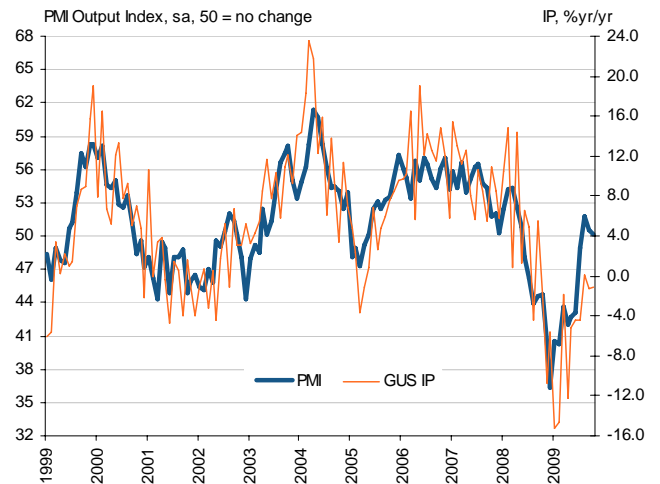


Chart 2: PMI New Export Orders Index vs exports

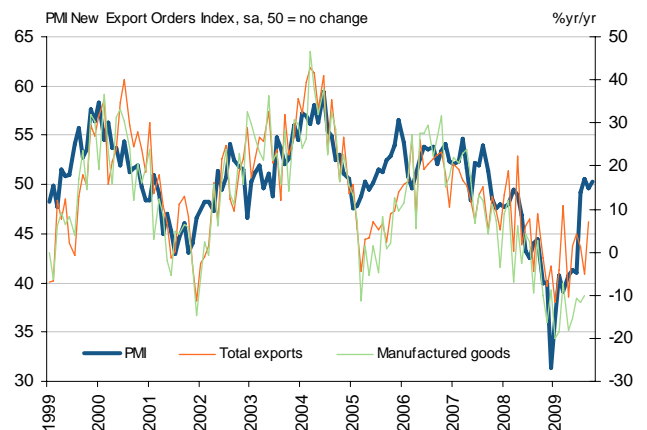
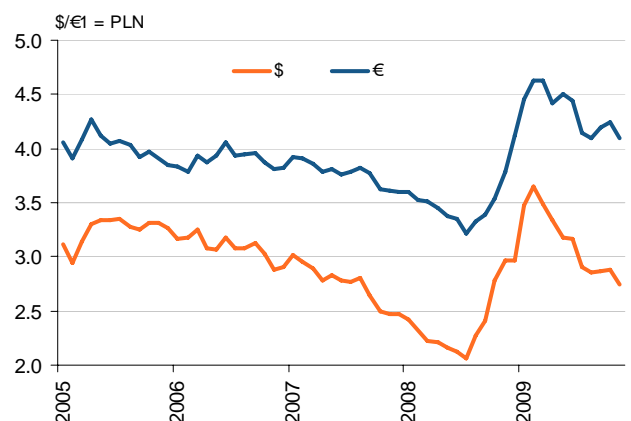


Chart 3: Zloty vs Dollar/Euro



Aside from its large domestic market, which shielded it from recession, Poland's industrial recovery has been aided by the Eurozone's stabilisation and relative weakness of the zloty over 2009. PMI data showed that new export orders rose for the second time in three months in October, contributing to an overall rise in new orders for the first time since April 2008.

Polish PMI tracks official data well

The PMI survey has an excellent track record against comparable official series. The 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, therefore providing a reliable advance guide to the underlying trend and turning points in the official production data. Since the PMI survey began in June 1998, the Output Index has exhibited a correlation of 0.79 with the official annual rate of change in industrial production. Over time, an Output Index reading of 50 is consistent with an annual rate of expansion of 3.9%. The headline PMI has a correlation of 0.91 with the official year-on-year industry series when advanced by one month, highlighting the leading indicator properties of the survey.

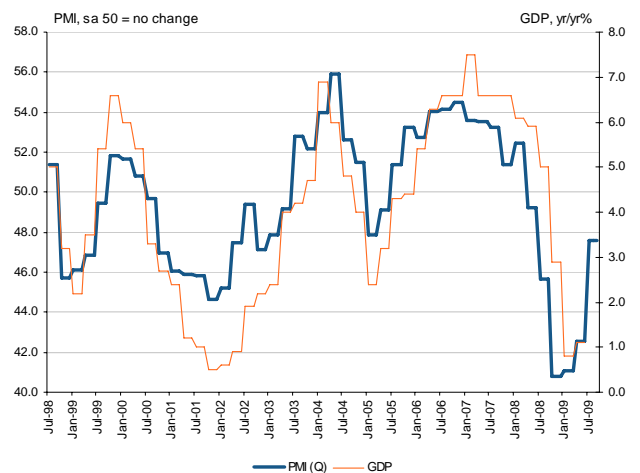
PMI signals upside risk to Q3 GDP

The wider economy is also seen recovering in the latter part of the year. A Reuters poll of analysts in November put Q3 GDP growth at 1.2% yr/yr, although PMI data suggest that this view may prove overly pessimistic. Official third quarter GDP figures are released on 30 November. More recently, the Finance Ministry stated that growth in Q4 could reach 2%. Over

2009 as a whole, the Ministry expects GDP to rise by 1.2-1.4%. The European Commission is slightly less bullish at 1.2%, although this is still an improvement from a previously forecasted 1.0% expansion.

The latest International Monetary Fund (IMF) estimate for Polish GDP growth in 2009 of 1.0% compares favourably with the trend for Central & Eastern Europe* as a whole, which the organisation expects to contract by 5%. The region is also seen rebounding less sharply than Poland in 2010, with growth estimated at 1.8% versus Poland's 2.2%.

Chart 4: Poland Manufacturing PMI vs NBP GDP



Forthcoming data:

- 1 December: Poland Manufacturing PMI (November)
- 30 November: GUS GDP (Q3 2009)

*Central and Eastern Europe composed of 15 countries: Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Estonia, Hungary, Latvia, Lithuania, Former Yugoslav Republic of Macedonia, Montenegro, Poland, Romania, Serbia, and Turkey.

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