

Poland

PMI signalled robust industrial recovery in Q3

PMI Output Index signalled rising production for second month running in September

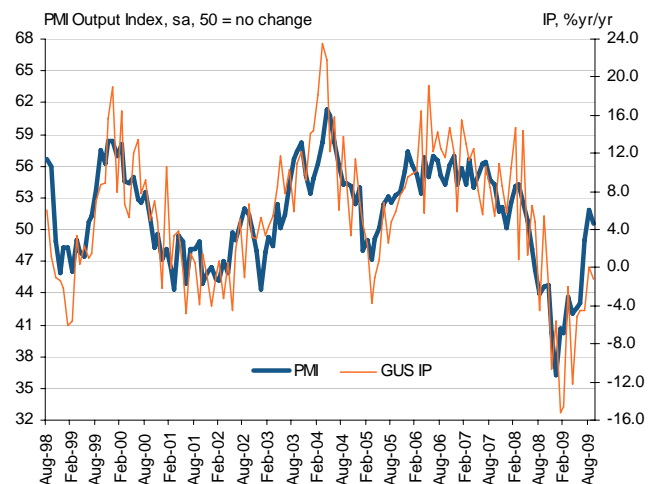
PMI data covering the Polish manufacturing sector are compiled by Markit for HSBC and released over two weeks prior to comparable official figures. September data signalled that manufacturing output rose for the second month running. However, new orders and employment continued to fall. The headline PMI figure – which reflects changes in output, new orders, employment, supplier performance and input stocks – remained indicative of a modest deterioration of business conditions as a result. Price discounting remained a key theme of the latest survey findings, as firms reported intense competition for business.

Data released on 19 October by the Polish Statistics Office (GUS) covering industrial production showed a smaller fall in output in September than analysts had been expecting. Production fell 1.3% on an annual basis, worse than a revised 0.1% gain in August but a better outcome than the 2.2% fall forecasted by economists polled by Thomson Reuters.

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 figure has a correlation of 0.91 with the official year-on-year industry series when advanced by two months, highlighting the leading indicator properties of the Markit survey.

Chart 1: PMI Output Index vs industrial production



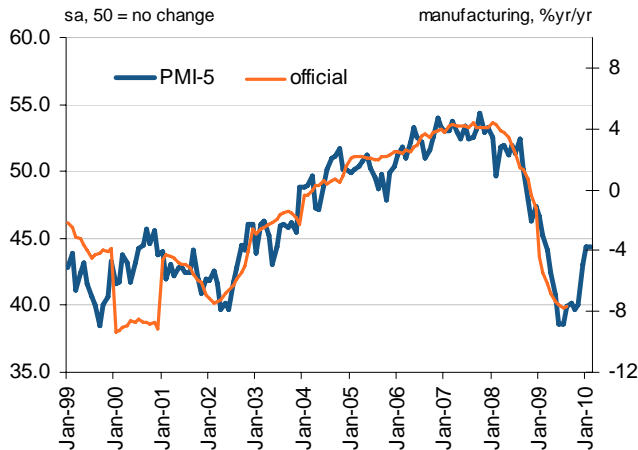
Manufacturing labour market approaching turning point

The PMI survey also anticipates official employment figures very well. The most recent official data show that manufacturing jobs in Poland fell 7.6% on a year ago in August. Though still severe, the rate of job shedding eased slightly compared to July, the first time that this has occurred since employment began falling on an annual basis in November 2008.

Since January 1999 the PMI Employment Index has shown a correlation of 0.82 with the official series, and this improves to 0.89 when the PMI is advanced by five months. Back in March, the PMI's Employment Index rose for the first time in eight months which, when plotted against the August official figure, provided an advance signal that the rate of job shedding would soften mid-way through the third quarter. On this basis, PMI employment data for Q3 as a whole suggest that the official rate of decline in manufacturing jobs will have roughly halved by the first quarter of 2010.

The manufacturing sector accounts for around 22% of total Polish employment.

Chart 2: PMI Employment Index* vs manufacturing employment



* PMI index shown with five-month advance.

Polish GDP outlook improves

The Polish government currently forecasts growth of 0.9% over the course of 2009, following much stronger than expected second quarter figures*. Underlining the improved outlook for the economy, the International Monetary Fund (IMF) has revised up its 2009 GDP estimate for Poland in its latest biannual World Economic Outlook Report. It currently forecasts growth of 1.0%, having previously estimated a contraction of 0.5% back in April. In 2010 the organisation is predicting growth of 2.2%.

The 2009 IMF estimate for Poland compares favourably with the trend for Central & Eastern Europe** as a whole, which the IMF expects to contract by 5%. The region is also seen rebounding less sharply than Poland in 2010, with growth estimated at 1.8%.

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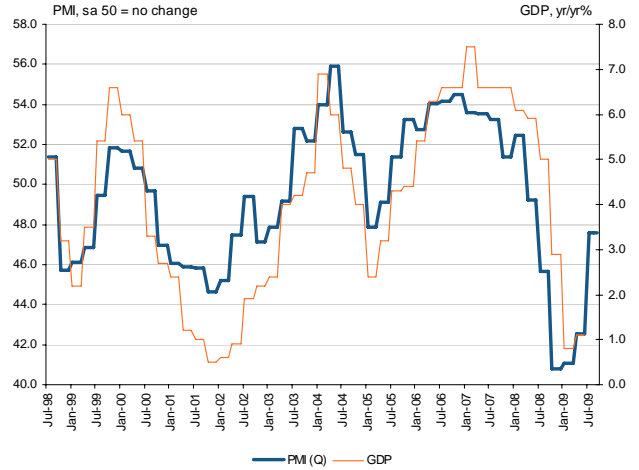
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Chart 3: Poland Manufacturing PMI vs NBP GDP



The Polish statistics office releases GDP figures for the third quarter on 30 November. Regression analysis applied to the PMI signals an annual rate of expansion of around 3%.

Forthcoming data:

2 November: HSBC Poland Manufacturing PMI (October)

30 November: GUS GDP (Q3 2009)

*http://www.markit.com/assets/en/docs/commentary/markit-economics/sept%2009/Poland_GDP_09-09-01.pdf

**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.