

Poland

Manufacturing PMI's rise confirmed by official data

Key findings

- **Manufacturing output rises 0.6% yr/yr in August, matching PMI Output Index rise above 50.0 no-change mark.**
- **2009 GDP forecasts revised up.**

Official data follow PMI's upward trajectory

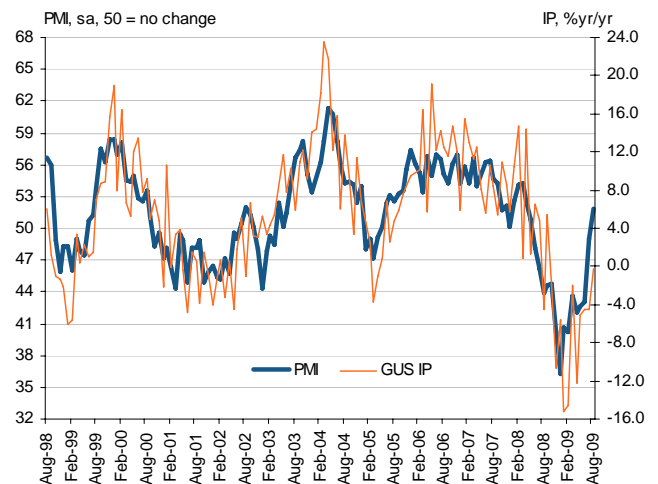
Data released on 17 September by the Polish Statistics Office covering industrial production showed a marked easing in the annual rate of decline. Year-on-year output fell by 0.2% compared to a revised 4.4% drop in July. However, manufacturing – which accounts for roughly 86% of total industrial output – rose by 0.6%, while construction output surged 11.0%. In contrast, mining and utilities firms both continued to show falling output.

August PMI data, compiled by Markit for HSBC and released over two weeks prior to the official figures, indicated that Polish manufacturing production had risen modestly compared to one month previously. That ended a 14-month period of contraction. New orders fell only marginally, while backlogs of work declined at the slowest rate since June 2008. The headline PMI remained below the neutral level of 50.0, mainly reflecting a further drop in employment, but rose to its highest level in 15 months.

Polish PMI tracks official data well

The PMI survey has an excellent track record against comparable official series. As Chart 1 shows, 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. 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. Over time, an Output Index reading of 50 is consistent with an annual rate of expansion of 3.9%.

Chart 1: PMI Output Index vs industrial production



Rate of job losses set to slow

The PMI survey also tracks official employment figures very well. Manufacturing jobs in Poland declined by 7.7% year-on-year in July, the worst outcome since December 2000. 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 February PMI reading plotted against the July official figure. PMI figures for the past three months have signalled a slowing rate of decline in the manufacturing workforce, suggesting strongly that the official series is set to improve in the fourth quarter of 2009. Manufacturing accounts for around 22% of total Polish employment.

Chart 2: PMI Employment Index vs manufacturing employment

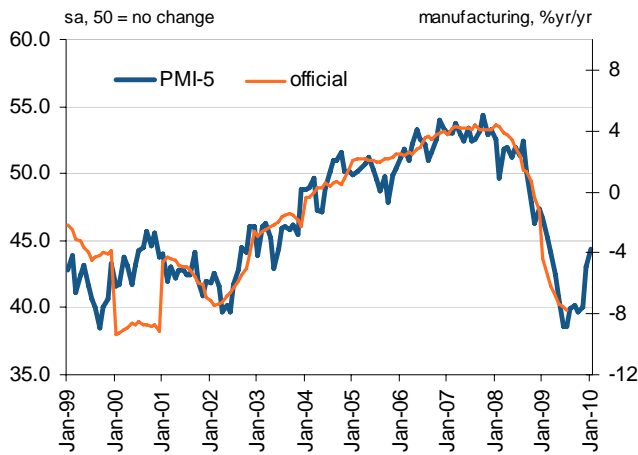
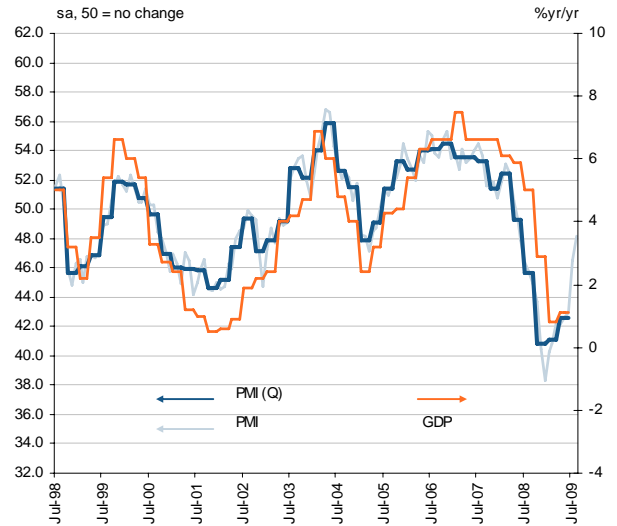


Chart 3: Poland Manufacturing PMI vs NBP GDP



Polish 2009 GDP forecasts raised

On 14 September the European Commission revised upwards its 2009 GDP forecast for Poland, expecting 1.0% growth. It had previously forecasted a contraction of 1.4%. The latest view was in line with the government's estimate of 0.9%, and followed much stronger than expected second quarter figures*. Underlining the improved outlook for the Polish economy, the IMF has stated that it will revise upwards its GDP estimate for Poland in the forthcoming World Economic Outlook Report for October. It currently forecasts a contraction of 0.5%.

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

Forthcoming data:

- 1 October: HSBC Poland Manufacturing PMI (September)

Trevor Balchin

Economist

Markit

Tel: +44 1491 461 065

Email: trevor.balchin@markit.com

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