

## Poland: PMI contracts further

December's PMI reading surprised negatively with a fall to 47.6, driven by declining orders. However, we expect a rather benign slowdown in the coming months



The PMI index collapsed in December from 49.5 to 47.6. The drop was related to a worsening assessment of new orders and current activity - according to the Markit comment. Other components i.e. quantity of purchases and backlog of work decelerated modestly, while only the employment indicator remained stable. The forward-looking index of future production expectations (not included in the main index) recovered after a disappointing quarter.

The result of the December PMI survey is at odds with the results provided by the statistical office (GUS) and the quarterly survey of the National Bank of Poland. GUS provided evidence of an acceleration in current activity and orders (both domestic and foreign) in December. Moreover, the scale of the PMI contraction has outpaced the decline in other central and eastern European countries e.g. Hungary, the Czech Republic and Germany. Therefore Polish companies may be overreacting to the flow of negative news from Europe.

So far, we've seen, at most, a modest link between survey evidence and actual manufacturing turnover. We expect industrial production growth to increase to 7.3% year-on-year from 4.7% in

December, reflecting positive statistical effects. The softer industrial performance among eurozone countries should affect Poland's readings with a lag. We expect 1Q19 GDP to fall below 4% YoY (vs. an estimated 5.1% for 4Q of 2018).