

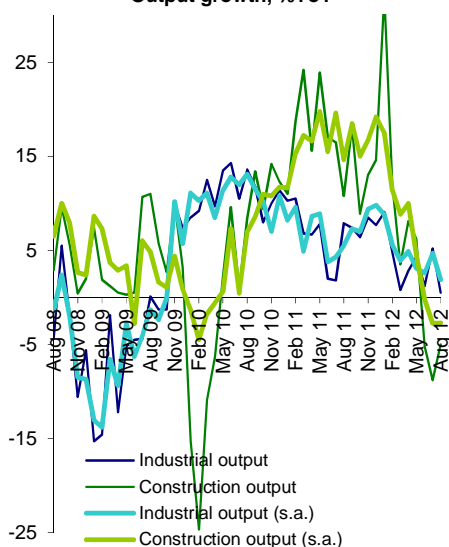
# Instant comment

## New evidence for continuing slowdown

19 September 2012

As expected, recent data for Polish industry confirmed that July's rebound was just a short-lived disturbance in a downward trend. Industrial output growth slowed down in August to 0.5%YoY and in construction another solid drop was recorded (-5.6%YoY). We expect to see confirmation of negative tendencies also in retail sales data, which will fit into our scenario of clear economic slowdown. Slowing PPI growth shows diminishing cost pressure on Polish producers. The data is just another set of arguments in favour of lowering interest rates by the Polish central bank.

Output growth, %YoY

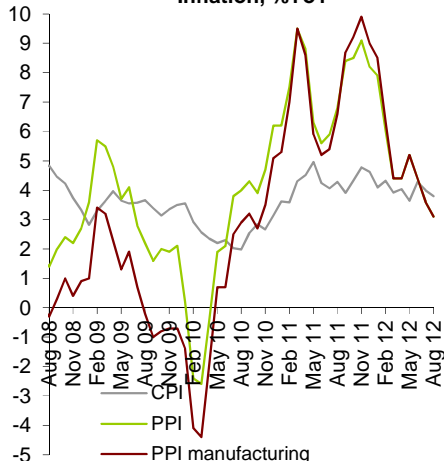


### Industrial output slows, protracted fall in construction

The pace of industrial output growth plunged to 0.5%YoY in August, falling below our forecast and market consensus (1.9%YoY). This time – contrary to situation in past few months – the data was not influenced by number of working days compared to past year. According to the CSO, after seasonal adjustment the pace of growth of industrial output reached 1.9%YoY, lowest since October 2009. The value of construction and assembly output declined by 5.0%YoY, roughly in line with our forecast (-5.6%YoY) and less than anticipated by the market (-8.2%YoY). After seasonal adjustment the pace of growth reached -2.7%YoY.

These data is another proof of strong deceleration of economic growth in Poland not only due to weaker foreign trade (reflected in data on manufacturing) but also due to abating domestic demand (visible for example in construction sector). In the following months one should expect these negative tendencies to continue. Particularly data for September – when there are two working days less than in 2011 – may look very weak. In whole Q3 the pace of GDP growth may decelerate in our view clearly below 2%.

Inflation, %YoY



### PPI inflation growth has continued downward trend

In August producer prices increased by 0.1% in comparison with July, which translated into decline in annual grow to 3.1% (down from 3.6% in previous month, data revised downward by 0.2pps compared with preliminary results). This was the third straight decline in PPI's annual growth, which drove the rate down by ca. 2 pp since May. In monthly terms the higher influence on the PPI inflation in total were prices growth in water supply; sewerage, waste management and remediation activities (by 0.3%) and in manufacturing (by 0.2%), mainly due to prices increase manufacturing in coke and refined petroleum products (by 4.1%). The August's PPI data were slightly higher than our forecast and market consensus (at 3.0%YoY). These data confirm decline in cost pressure in enterprise sector and we foresee this trend to continue in upcoming months.

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