

Instant comment

Falling production heralds rates reduction

17 October 2012

Output in industry fell in September by 5.2%YoY and in construction by ca. 18%YoY. In both cases readings were worse than market expectations, which triggered zloty depreciation and drop of bond yields at the short end of the curve. The data were distorted by a lower number of working days, but they still confirm that economic growth in Poland is decelerating. Producer prices rose by 1.8%YoY, which is the lowest reading in two years and confirms that there is no threat of inflationary pressure. These figures supported expectations that the MPC will cut interest rates by 25bps in November, while two other cuts are probable until the end of 1Q 2013.

Output plunged

The industrial output plunged in September by 5.2%YoY versus market expectations at -4.1%YoY and our forecast at -7.1%YoY. Furthermore, construction output contracted by 17.8%YoY, nearly as much as we expected (-18%) and more than suggested by market consensus (-12%). It has to be borne in mind that September's data were biased down by the effect of two working days less than in the same month of the previous year, which makes the data interpretation more difficult. However, if we trust the seasonal adjustment method used by the CSO, the data still shows further deterioration of situation in Polish manufacturing and construction sectors. According to estimates of the statistical office, the seasonally adjusted industrial output contracted by 1.6%YoY (first annual decline since the end of 2009), while the seasonally adjusted construction declined by 9.5%YoY (strongest drop since April 2005).

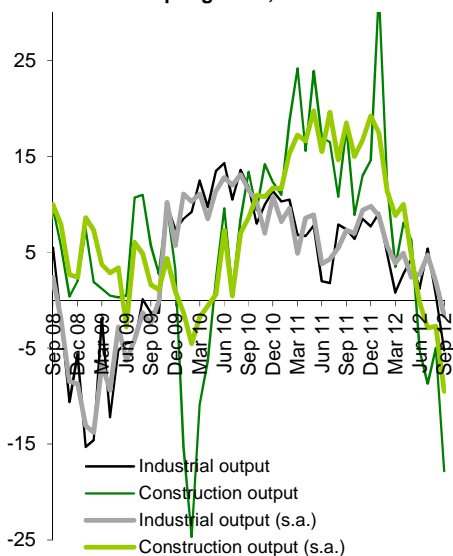
Production data in the upcoming months will probably not look as pessimistic as in September, as the number of working days will be higher than one year before in October-November period. Still, taking into account economic growth outlook in the euro zone, it is difficult to expect any material revival in industrial activity in Poland anytime soon. Improvement in construction sector also should not be expected. The figures are supporting our forecast of further GDP growth deceleration in second half of 2012.

PPI lowest in two years

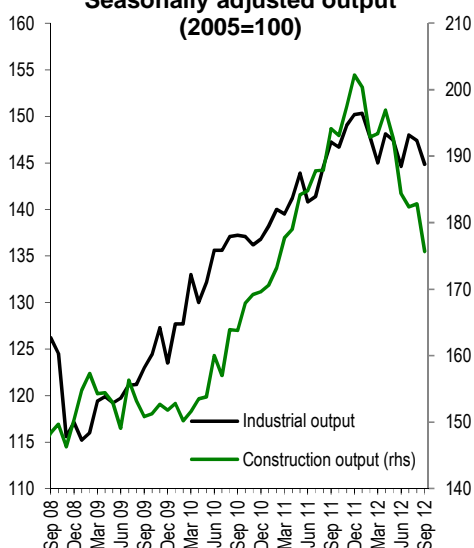
PPI inflation declined to 1.8%YoY in September, down from 3.0%YoY (revised) in August, which was more or less in line with our and market predictions (1.7%). Annual growth of PPI was the lowest since April 2010. One should notice that starting from January producer prices increased by only 0.4% (versus growth by 6.4% in the same period of 2011 and 4.1% 2010). It clearly shows how weak is producer prices growth.

In monthly terms inflation PPI increased by 0.5% due to growth in commodity prices on the international market (for example copper prices went up by ca. 8%) and slight zloty depreciation (domestic currency weakened by ca. 1% against euro).

Output growth, %YoY



Seasonally adjusted output (2005=100)



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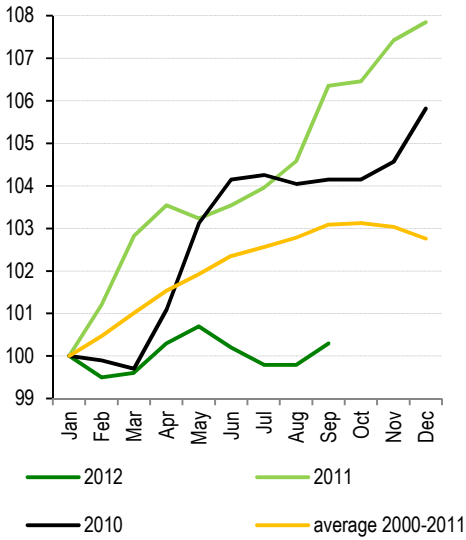
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Level of producer prices (Jan=100)



We expect the PPI inflation to continue downward trend due to weak pressure on the demand side. However, the main risk for our prediction might be a potential zloty depreciation or further increase in commodity prices.

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