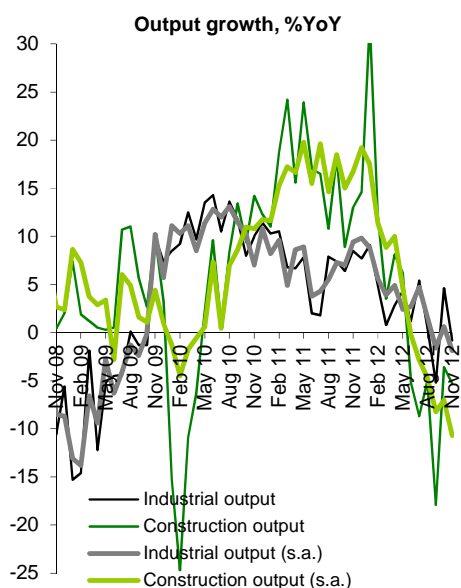


# Instant comment

## Industrial output below expectations

19 December 2012

**Industrial output plunged in November by 0.8%YoY, well below expectations. The decline in construction was slightly smaller than anticipated and reached -5.3%YoY, though after seasonal adjustment the contraction was deepened compared to previous months. The PPI growth declined below 0% for the first time since mid-2010, which confirms lack of any cost pressure amid clear deceleration of economic growth. Today's data support expectations for further interest rate cuts. Yields of Polish bonds declined by ca. 3bps after the release.**

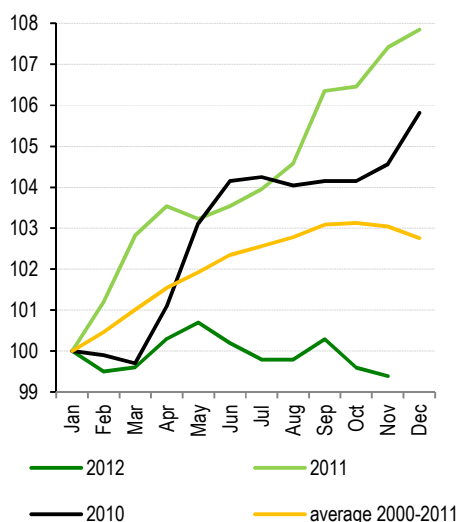


### Gloomy data from Polish manufacturing sector

In November industrial output declined by 0.8%YoY, which is significantly worse result than expected – the market consensus and our forecast assumed a slight increase in production by 0.4%YoY. According to CSO calculations, after eliminating the impact of seasonal factors the production dropped by 1.9%YoY, which is the worst performance since October 2009. For a change, data from the construction sector were slightly better than expected, because the production fell “only” by 5.3%YoY, while we were expecting a twice deeper slump, and the median market forecast amounted to -8.6%YoY. It is worth noting, that after the elimination of seasonal factors construction output fell by as much as 10.7%YoY, which is the deepest drop since April 2005.

Data released today clearly confirm that economic activity in Polish manufacturing and construction sectors is deteriorating at fast pace in the final quarter of the year. It is worth to remember that in November there was one working day more than in the same month of 2011. Thus the negative pace of growth in manufacturing is extremely disappointing and is only partly compensated by the fact that slump in construction sector was smaller than expected. All in all, this data confirm anticipated by us strong deceleration of GDP growth in 4Q (probably to ca. 0.5%YoY).

Level of producer prices (Jan=100)



### Deflation of producer prices

PPI inflation rate declined in November to -0.1%YoY from 1.0%YoY in October. Producer prices declined in annual terms for the first time since mid-2010. It is worth reminding that exactly one year ago the PPI growth rate was as high as 9.1%YoY. The scale and pace of slowdown of price growth in industry is perfectly reflecting the weakness of inflationary pressure in this sector. This is a result of a couple of factors – weakening economic growth and demand for industrial goods, which translated into weak demand pressure, combined with strengthening zloty and declining global commodity prices, which translated into weak supply pressure. In monthly terms prices in industry fell by 0.2YoY. We are expecting that the PPI inflation measure will remain negative or close to zero in the upcoming months.

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