

# Instant comment

## Gradual improvement on the labour market

20 August 2013

**Growth of industrial production accelerated in July to 6.3%YoY, while decline in construction output slowed to -5.2%YoY. These are next pieces of macro data confirming that economic activity in Poland is gradually gaining speed and GDP growth in H2 2013 will be higher than in H1. PPI stayed in negative territory (-0.8%YoY), but was slightly higher than forecast. Still, cost pressure in corporate sector is low due to weak domestic demand. Released data caused decline in yields, mainly at the long end of the curve (by ca. 5bps).**

### Recovery in industry and construction

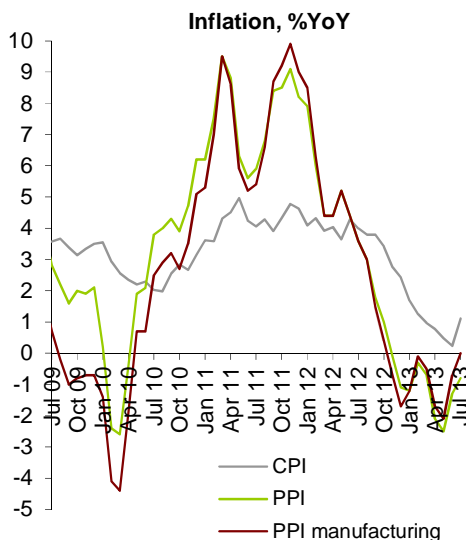
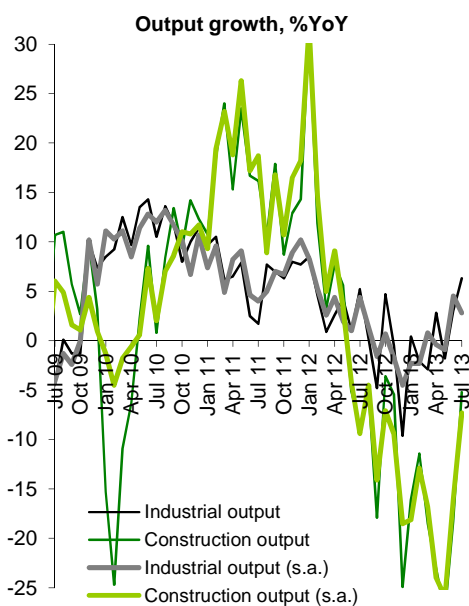
Industrial output advanced in July by 6.3%YoY, slightly less than we expected (7.0%YoY) but stronger than predicted by market consensus (5.1%YoY). Acceleration versus June (which posted 3.0%YoY growth) was partly due to higher number of working days than in July 2012. However, even after adjusting the data for this effect we will see a continuation of recovery in Polish industry. According to the CSO, industrial output excluding seasonal effects increased by 2.8%YoY. Similarly as in previous months, most considerable rises were recorded by export-oriented branches (like manufacturing of transport vehicles, electrical devices, furniture). This is another piece of confirmation that the scenario of export-driven recovery, expected by us for some time already, is materializing.

A positive surprise was delivered by construction and assembly output, which posted a considerable rebound after a few months of declines. Annual growth rate remained negative (-5.2%YoY), but was notably higher than expected (our forecast -7.7%YoY, consensus at -12.2%YoY). The seasonally adjusted index of production level in construction in July returned to February's level, offsetting drops from last four months. We are still below levels of output seen in 2011 and 2012, but the fact that this branch is also showing some signs of bottoming-out is quite optimistic news. If this tendency is confirmed in the upcoming months, it can mean that we are facing some recovery in fixed investments (as a bulk of them consists of investment in buildings).

### PPI still in negative territory

PPI inflation increased in July to -0.8%YoY and was slightly higher than we and market expected (-0.9%YoY). June's data were revised upwards, to -1.3%YoY. Monthly change of prices was in line with our expectations (0.2%) and was due to hikes in industrial manufacturing (0.3%), while prices in other categories were flat or declined. An upward pressure on prices in manufacturing was put by higher USDPLN and rising prices of some commodities, like oil.

We are expecting that in the upcoming months PPI will stay below zero. Weakness of domestic demand will translate into low cost pressure on enterprises, while exchange rate and commodity prices will remain the main drivers of producer prices. This situation may however change as signs of recovery become more evident.



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