

INSTANT COMMENT

19 February 2014

Output data better than expected

Pace of growth of industrial output decelerated in January to 4.1%YoY from 6.6%YoY seen in December. However, this result proved better than expected and confirmed positive signals given by leading indicators (PMI, gauges calculated by the CSO). On the other hand, data on construction and assembly output disappointed, contracting by 3.9%YoY, well below market consensus. The general picture drawn by January's data released so far show a continuation of disinflationary economic revival (producer prices declined by 0.9%YoY in January). These data confirm positive tendencies in the economy and this should be reflected in higher pace of economic growth presented by the MPC in March.

Output data confirm a continuation of recovery in the domestic economy

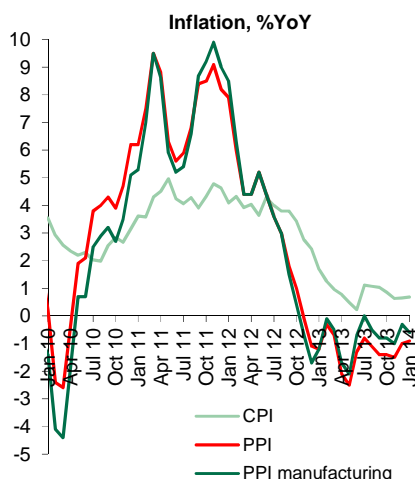
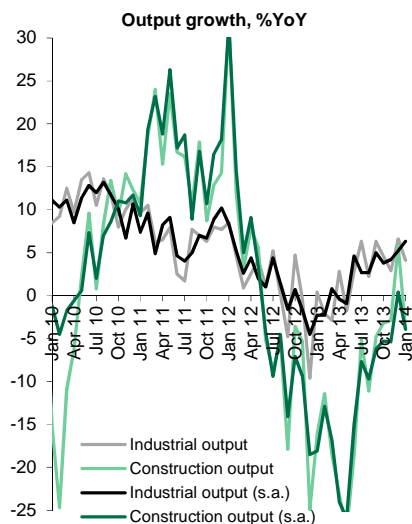
Industrial output increased by 2.9%MoM in January and was 4.1% higher compared to the same period last year. In line with expectations, annual pace of growth decelerated (from 6.6% in December) but the scale of slowdown was smaller than we and the market expected (forecasts at 3.1% and 3.6%, respectively). It is worth to notice that output growth reached 6.3%YoY and 2.3%MoM after seasonal adjustment (vs. 5.2%YoY in December). This is the best result since the beginning of 2012. 24 out of 34 sectors recorded an expansion on the annual basis, mainly in branches with significant exposure to foreign markets. The biggest increase, by 16.2%YoY, was recorded in case of furniture production.

On the other hand, construction and assembly output disappointed. January's contraction by 3.9%YoY proved to be much below our forecast (0.0%YoY) and market consensus (1.3%YoY). Construction output contracted by 3.9%YoY after seasonal adjustment. Main factor that weighed on the headline was a plunge in units dealing with civil engineering (-10.1%YoY).

Taking into account the negative working day effect in January, the growth rate of output has to be interpreted as a very good result. This is an optimistic forecast for the upcoming months, when we are expecting further acceleration of output, supported by both external demand and recovering domestic demand. These statistics are in line with our scenario of gradual rebound in the domestic economy.

PPI slightly up

PPI inflation amounted to -0.9%YoY in January (vs. -1.0%YoY in December after revision), in line with our forecast and slightly below market expectations (-0.8%YoY). In MoM terms, producer prices increased by 0.1%. Prices in manufacturing did not change, but hikes were recorded in other main sectors. We are expecting a slight rise of PPI in the upcoming months, but this gauge will still be running at low levels, reflecting the weakness of inflationary pressure.



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