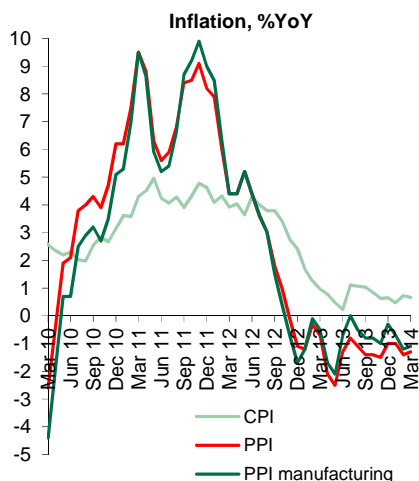
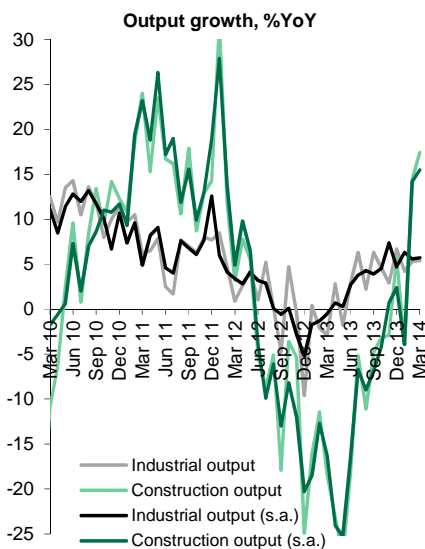


INSTANT COMMENT

17 April 2014

Output data under impact of weather

Growth of industrial output reached 5.4%YoY in March, slightly below expectations, and construction output accelerated to 17.4%YoY, beating consensus. Both numbers have been influenced by weather conditions. In our opinion, these releases draw a quite positive picture and indicate a further recovery of economic activity, also in investments. Producer prices declined by 0.2%MoM and 1.3%YoY confirming the non-inflationary recovery. Today's releases should be neutral for the MPC and do not change our scenario for the monetary policy for 2014 and 2015. We continue to expect stable NBP rates until the year-end and the first rate hike in early 2015.



Manufacturing and construction influenced by the weather

Growth of industrial output accelerated in March to 5.4%YoY (vs. 5.3%YoY in February) and occurred to be below both the market consensus (6.4%YoY) and our cautious forecast (5.9%YoY). After the seasonal adjustment, output grew by 5.7%YoY. It seems that this disappointment was largely due to weather effect again, as weather conditions proved much better than a year ago (it was cold and we had a heavy snowfall in March 2013). Consequently, the output in the energy supply sector plunged substantially for a second month in a row (-7.3%YoY) and weighed on the overall performance of industry. Production in mining also proved lower than in 2013 (-6.3%). If we consider only manufacturing output data, a strong growth has been recorded (7.7%YoY, the highest since January 2012) confirming that the economy is expanding due to rising domestic and foreign orders. Sectors exposed to foreign markets continued to outperform other sectors.

In contrast to industrial output disappointment, construction and assembly output surprised clearly to the upside (+17.4%YoY vs. consensus at 13.9%YoY and our forecast at 10.6%YoY). In this case, weather conditions provided a visible boost. Nevertheless, the scale of improvement suggests that the activity in construction is actually improving, probably due to higher investments.

In general, data on the March industrial output confirm positive tendencies in industrial and construction output and justify hopes that pace of the GDP growth will be slightly above 3% in 1Q2014.

Deflation in producer prices continues

Producer prices declined in March by 0.2%MoM and by 1.3%YoY. It was 17th consecutive month of negative annual PPI. On annual basis, the biggest drop was recorded in mining and quarrying (by nearly 10%) and in manufacturing (by 1.1%) while prices of water supply, sewerage, waste management and remediation activities as well as electricity, gas, steam and air conditioning supply increased by 0.9% and 0.8%, respectively.

These data confirm the non-inflationary recovery in the Polish economy. In our view, PPI deflation may continue until the end of the year. We expect average PPI at -1.7%YoY in 2014 after -1.3%YoY in 2013.

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