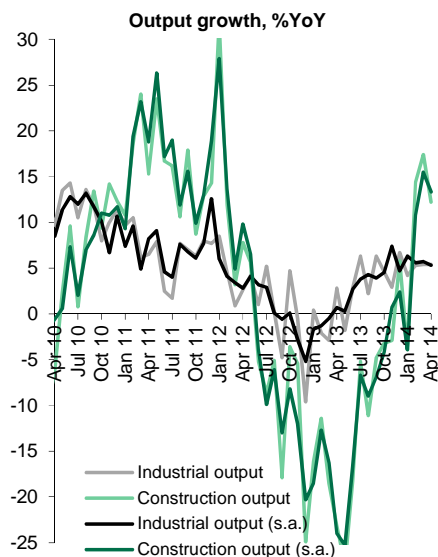


# INSTANT COMMENT

20 May 2014

## Solid data from industry, PPI deflation

In April industrial output expanded by 5.4%YoY, while construction and assembly output added 12.2%YoY. We think that the recovery of domestic economy is continued among lack of inflation pressure in the manufacturing sector (decline of PPI by 0.7%), despite weaker readings in comparison to our forecasts. In our view, the upcoming months should bring a further rise in output, supported by both domestic and foreign demand. Recent data from the real economy show that impact of Russia-Ukraine conflict on the Polish economy is limited so far. These data did not affect the domestic financial market.



### Industrial output growth at a moderate level

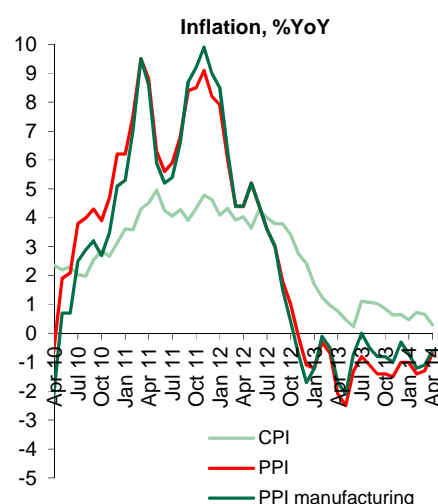
In April, industrial output contracted by 2.3%MoM and increased by 5.4%YoY (annual growth unchanged vs. March). This release beat market expectations (5.1%YoY), but fell below our estimates (6.2%YoY). After the seasonal adjustment, industrial output increased by 0.9%MoM and 5.3%YoY. When compared to the past year, output increased in 27 out of 34 segments, most in branches with high exports focus (among other, coke and refined petroleum products by 21.8%YoY or furniture by 14.9%YoY). Additionally, output in manufacturing continued to grow more than 7% and this is a good signal for the future. Contrary to our expectations, April saw more decline of electricity, gas, steam and air conditioning supply (-5.6%YoY after -7.3%YoY in March).

Pace of growth of construction and assembly output reached 3.2%MoM and 12.2%YoY, clearly below our and market expectations (24%YoY and 19.7%YoY, respectively). Data indicate that the weather effect – that has boosted construction in the recent months – did not have that visible impact in April. After the seasonal adjustment, construction and assembly output increased by 13.3%YoY and 5.4%MoM. Entities dealing mainly with specialised construction activities and those specializing in civil engineering performed best after growing 16.8%YoY and 14.5%YoY, respectively. This suggests that government investments may be starting to revive.

To sum up, today's industrial output and construction data clearly show that economic recovery has been continued. Impact of Russia-Ukraine conflict for domestic economy is still very limited. We expect growth in production to continue in coming months, supported by both domestic and external demand.

### No price pressure in industry

PPI inflation amounted to -0.7%YoY in April, i.e. in line with market expectations and slightly above our forecast (-0.8%). In monthly terms prices declined by 0.1%, with most considerable decreases in manufacture of electrical devices (-0.8%) and metals (-0.7%) and in mining and quarrying (-0.7%). Upward pressure on prices in industry is weak and in our view it will stay low at least until the year-end, so PPI indicator should stay below zero.



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