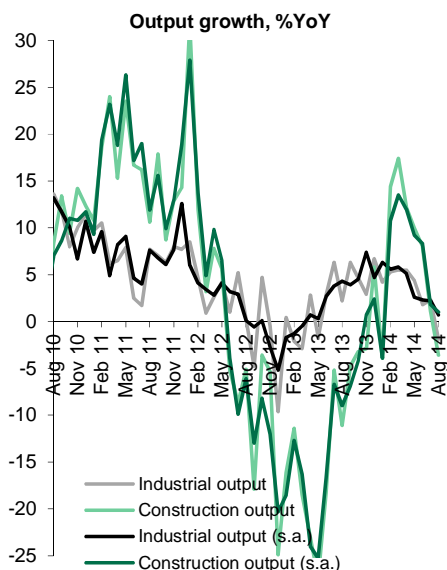


INSTANT COMMENT

17 September 2014

Weak output is not just a seasonal phenomenon

In August industrial production fell by 1.9%YoY, while construction output declined by 3.6%YoY. The data were influenced by one working day less as compared to August 2013. Nevertheless, the figures were also below market consensus (and below our forecast, which was one of the few assuming a negative reading). The seasonally adjusted output growth was at only 0.7%YoY, which was the lowest reading in more than a year. This shows that production slowdown in August is not only a seasonal phenomenon. The data confirmed a decline in Poland's economic activity mainly due to decline in exports orders (as suggested by recent PMI data). We maintain our forecast of GDP growth in 3Q14 at 2.8%YoY and we think the market consensus (Bloomberg 3.1%) will probably change soon. At the same time, the stat office reported that producer prices declined by 1.5%YoY, showing lack of producer price pressure. We believe that recent macro data are supportive for re-opening of easing cycle by the Poland's MPC in October. We still expect cumulative 75bps with three moves by 25bps in the next three months, though after today's publication there is higher chance for move by 50bps in October, suggested by some MPC members.



Industrial output contracted in August by 1.9%YoY (and 8.5%MoM) and this was the strongest drop since May 2013. After the seasonal adjustment, output expanded by 0.7%YoY, (the weakest increase for over a year) and dropped 1.2%MoM. We had expected a contraction in output (our forecast was at -0.8%YoY), but the scale of slowdown is clearly surprising. In line with earlier suggestions of SAMAR (Polish car market research institute), the construction of motor vehicles, trailers and semi-trailers contracted significantly (by 18.6%YoY). The decline was recorded also in the other sectors, including food products (by nearly 5%YoY) – partly the effect of ban of food exports imposed by Russia on Poland.

Construction and assembly output dropped last month by 3.6%YoY and 5.4%MoM. After the seasonal adjustment, this sector expanded by 1%YoY and contracted by 1.8%MoM. This data may indicate some slowdown in infrastructure investments, particularly as regards the real estate sector (construction of buildings dropped by nearly 16%YoY).

In August producer prices fell by 1.5%YoY after a 0.3%MoM increase (effect of exports prices growth due to zloty's weakening). Prices dropped in annual terms in all categories, however, one should notice that decline in manufacturing prices slowed. In monthly terms prices in this category increased in August by 0.3%, mainly due to increase in prices of manufacture of coke and refined petroleum products (by 1.2%). We expect gradual increase in producer prices to slightly above zero at the end of this year.

Today's weak readings in both industrial and construction output indicate a decline in economic activity in Poland and confirm earlier signals from leading indicators (August PMI index, business climate indices published by Poland's stat office). It mainly results from drop in exports orders due to (among others) deterioration in economic situation in our main trade partners (mainly in Germany). We uphold our forecast of GDP growth for 3Q14 at 2.8%YoY (below market consensus).

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