

# ECONOMIC COMMENT

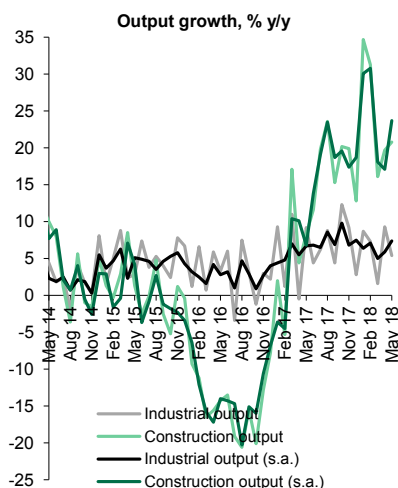
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## Output beats forecasts

Industrial output rose in May by 5.4% y/y, above market consensus (3.6% y/y and our forecast 3.9% y/y). Industry was driven down from 9.3% y/y recorded in April by the negative working day effect, but it seems that May results were boosted by foreign demand, given that export-oriented sectors recorded quite high growth rates. Still, we are expecting that the gradual slowdown in the euro zone will undermine Polish exports and industry in the months to come. Construction rose by 20.8% y/y, in line with our expectations. We are expecting construction to slow down in the months to come, given that the sector has hit capacity constraints.

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In May industrial output rose 5.4% y/y, above market consensus (3.6% y/y) and our forecast (3.9% y/y). Headline growth was driven down from April's 9.3% y/y by the negative working day effect, but it seems that May saw improvement in foreign demand. The export-oriented sectors recorded quite high growth rates (production of machinery and equipment rose 21% y/y). Seasonally adjusted industrial output growth reached 7.4% y/y vs 5.9% y/y in April and 5% in March. This was the highest reading since the beginning of the year.

May reading may give some hope that Polish industry will resist for some more time the slowdown observed in the euro zone. However, leading indicators suggest that next quarters may bring further growth deceleration abroad and this is likely to adversely influence Poland's exports and industrial output.

Construction and assembly output rose 20.8% y/y, in line with our expectations and above market consensus (17.8% y/y). The main engine of growth was civil engineering – category fueled by the EU funds and showing higher activity less than six months before the local government elections (+36.8% y/y).

We assume that in the further months, we will see capacity constraints and there will be deceleration of construction production growth, albeit gradual. We expect that annual growth could drop below 10% only in the final months of the year.

PPI inflation accelerated to 2.8% y/y in May from 1.0% y/y in April after a rise in prices by 1.2% m/m. Industry prices were driven up by the weaker zloty (average EURPLN at 4.28 in May versus 4.19 in April) and higher commodity prices. However PPI components describing the behavior of prices of highly processed goods grew slowly. We are expecting PPI to go further up in the upcoming months. Prices in construction went up again, to 2.4% y/y in May (the highest since January 2009) after advancing by 0.3% m/m. Situation in construction (very high capacity utilization) is clearly affecting prices of sold production in this sector and we are expecting this inflation measure to go further up.

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