

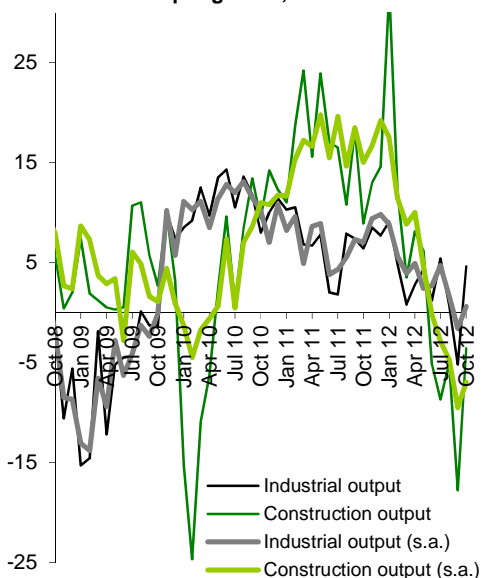
Instant comment

Rebound in output, very low PPI

20 November 2012

Today's data on industrial output were more or less in line with our expectations (4.6%YoY as compared to our forecast of 4.9% and market consensus at 3%). A strong rebound in output (as compared to a 5% contraction in September), was due to higher number of working days (this effect was working in an opposite direction in September). Still, the CSO's seasonally adjusted data also showed a slight rebound. In our view, this is not a herald of a revival and we still have to wait for a bottoming-out, which will be confirmed by the upcoming data (they will be still under influence of working day effect). Data from the construction sector were also better than expected. Annual decline was less considerable than in last four months and amounted to 3.6%YoY (our forecast -5.6%, consensus -7%). Producer prices showed a weak growth by a mere 1% in annual terms. In general, today's data do not change the picture of economic situation, which is still suggesting that the Monetary Policy Council should continue its easing cycle.

Output growth, %YoY



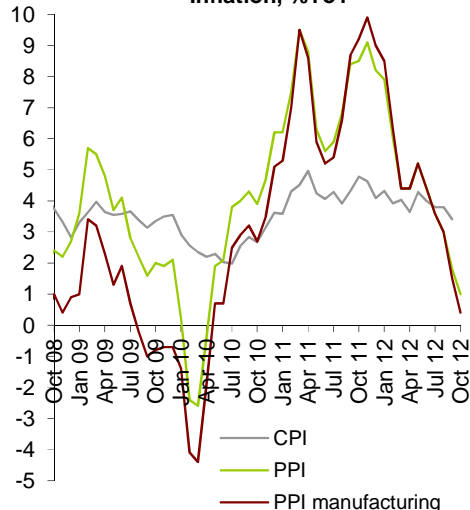
Rebound in output in line with expectations

Industrial production rose in October by 4.6%YoY, which was more or less in line with our expectations. Our forecast, which was the highest on the market, amounted 4.9% compared to consensus at the level of 3%. Clear rebound, as compared with more than 5% drop in September was associated with a greater number of working days (by two, month ago this effect was acting in the opposite direction). However the seasonally adjusted data provided by the CSO showed slight rebound - in October an increase of 0.6%YoY compared with a fall of 1.6% the month before. In our opinion this is not a promise of recovery, and we still have to wait a couple of months for the bottom in economic cycle. Continuation of slowdown will be confirmed in the upcoming data. It should be noted, however, that to May 2013 monthly production data will still be under the influence of working days (one more in November, two less in December). October's data in the construction sector was also better than expected. The decline in annual terms was lower than in the last four months and amounted 3.6%YoY (-5.6% we expected, the consensus -7%).

Strong decline of PPI

PPI inflation declined in October to 1.0%YoY from 1.8%YoY in September (much more than expected, our forecast and market consensus was at 1.7%YoY). On monthly basis producer prices dropped by 0.7%, biggest decline since mid-2009. Most visible reduction of prices was recorded in manufacture of coke and refined petroleum products (by 4.1%), mining and quarrying (of 2.2%) and production of metals (1.3%). That was probably due to strong appreciation of the zloty seen in last months (particularly versus the dollar) and some slight decline to commodities prices in October. We expect the PPI to decelerate further and it cannot be excluded that deflation in annual pace of growth will be recorded.

Inflation, %YoY



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