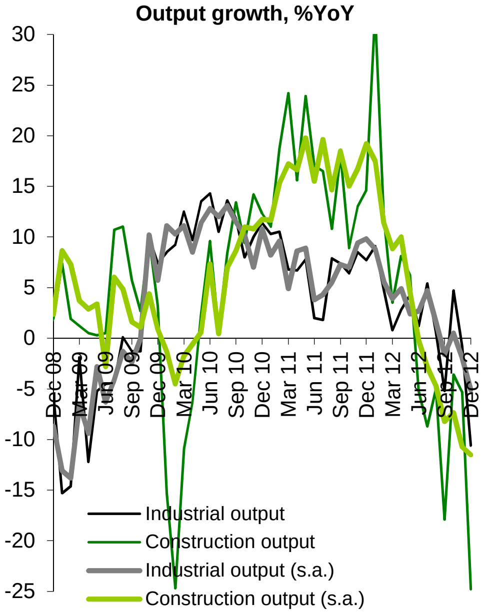
Bank Zachodni WBK

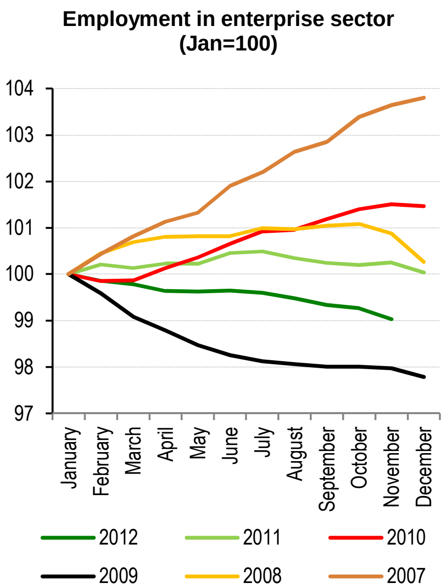
Instant comment

More weak data

18 January 2013

Just as we expected, data on industrial output showed a double-digit decline. Moreover, a much worse-than-expected result was posted by construction and assembly output (ca. –25%YoY). These figures, combined with a continuation of marked decline in employment (-0.5%YoY), a moderate wage growth (2.4%) and deflation of PPI (-1.1%YoY) deliver a quite clear message for the Monetary Policy Council – pause in cutting cycle is not reasonable right now. Today's data confirmed the continuation of slowdown, while the data released earlier showed a lack of inflationary pressure (CPI inflation below target, core inflation at 1.4%). Figures for January will not be better (yet, output will be supported by number of working days), showing a further deceleration of GDP growth. Inflation may fall below 2%. This means, in our view, that interest rates will be cut two more times, in February and March.





Sharp production drop

In line with our forecast (the most pessimistic on the market), industrial production recorded a double-digit drop in December (-10.6%YoY vs. our forecast -10.3% and market consensus -6.9%). Although the result was under impact of smaller number of working days (two days less than in 2011), the seasonally adjusted growth in production was also very low, reaching -5.1%YoY, which is the worst result since mid-2009. Double-digit output drop was recorded in most of industries, mainly those export-oriented (cars -22.2%, furniture -22.6%). Moreover, construction and assembly sector recorded a sharp slump by ca. 25%YoY, which was much below expectations.

Overall, industrial production in Q4 fell by over 2%YoY (the worst result since Q2-2009), versus nearly zero growth in Q3. As regards construction and assembly output, it collapsed by 12.6%YoY in Q4 after falling -11% in Q3. Data about retail sales for December will be released at the end of this month, drawing (almost complete) picture of economic situation at the end of 2012. However, situation in the labour market (details below) does not support private consumption demand, and data about car registrations suggested that a negative surprise from sales is possible. Thus, we do not change our forecast regarding GDP growth in the final quarter of 2012 – below 1%YoY. The first quarter of 2013 will most likely show further slowdown, yet we think the growth will remain above zero.

Further deterioration of labour market

In December the employment in corporate sector declined by 0.5%YoY, slightly more than our and market expectations (-0.4%YoY). On monthly terms the number of employed plunged by 23k, which was the biggest decline since March 2009. Since January the employment in corporate sector declined by 77k and past year was one of weakest for a few last years. In our opinion demand for labour will continue to fade. In 1Q jobs reductions in autos sector are likely, just like in construction sector that is clearly sluggish. Furthermore, the economic slowdown has started to take its toll on retail trade. In our opinion the situation on the labour market is likely to stabilize in 2H2013 at the earliest.

Wages advanced in December by 2.4%YoY, more than our and market forecasts (1.9%YoY and 2.0%YoY, respectively). In our opinion, the upward surprise might

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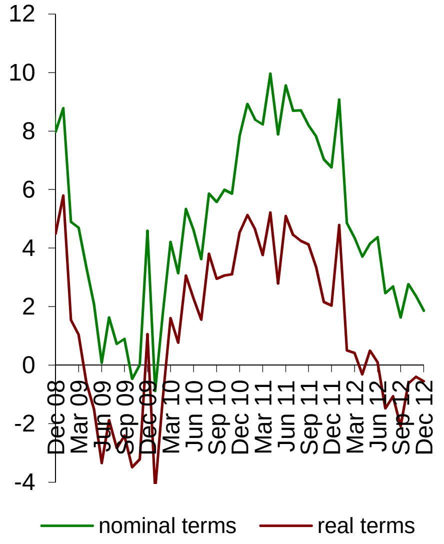
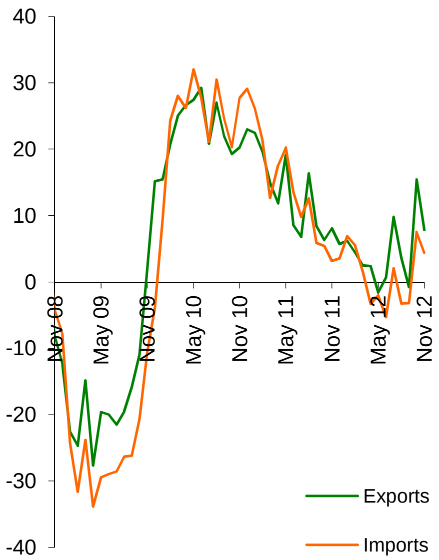
Wage bill in corporate sector, %YoY



Foreign trade turnover, % YoY



have been due to the value of bonus payments in mining sector. Details will be visible in Statistical Bulletin released at the end of the month. The average pace of wage growth in whole 2012 reached 3.5%YoY, the weakest result since 2005. After adjustment for inflation, real pace of wages growth was negative. This year wages will probably not grow by more than 2-3%, but clear decline of inflation (that we expect to be continued) should increase the real disposable income.

The wage bill in corporate sector increased by 1.9%YoY in nominal terms and declined by 0.6%YoY in real terms. This supports our forecast of weak pace of growth of private consumption in 4Q2012. We expect the wage bill to rise in 2013 in nominal terms even slower than in 2012 (2.0% versus 3.6% in 2012), but in real terms some acceleration may be recorded due to lower inflation. Additionally, households' income will be supported by high indexation of social benefits.

Considerable deflation of PPI

PPI inflation slowed to -1.1%YoY, i.e. much more than expected (-0.6%YoY). The data show weakness of cost inflationary pressure on enterpreneurs. We are expecting that growth rate of prices in industry will be oscillating close to zero throughout 2013.

Trade balance again in negative territory

Balance of payment data for November were worse than expected. Current account deficit increased to €1.49bn (versus market prediction at €0.8bn and our forecast at €0.73bn), was nearly two times higher than in previous month and reached the highest level since February. This was an effect of deterioration in trade balance (-€394m vs surplus at €221m in October) and in income balance (-€1529m vs -€1397m in previous month). Surpluses in services (€381m, similar to previous months) and in current transfers (€52m) were more or less in line with expectations.

This quite considerable deficit in trade after two months of trade surplus resulted from deeper-than-forecasted weakening of exports and higher-than-predicted growth of imports. Export declined by ca. 8%MoM after the record level reached in October, albeit still was clearly above the level achieved year before (+7.8%YoY), while its volume was the second highest in the history. Import decreased by 3.6%MoM, while in annual terms rose by 4.42%. One should notice that in November the number of working days was still higher in comparison with the same period of 2011, which strongly affected the annual pace of trade growth. It is likely that in December, when the number of working days was 2 days lower than year ago and industrial production fell sharply, trade data might deteriorate significantly. However, we expect that in 2013 Polish exports should improve gradually, in line with rebound in economic activity in our main trading partners and due to increasing share of Polish exporters in the global market (Polish exports have strongly diversified geographically).

On the financial side, in November another strong inflow of foreign portfolio investment on the Polish debt market was registered (€1.7bn), as well as inflow of the foreign direct investment (€1.6bn). In the same time we noted significant outflow of Polish direct investments abroad (-€1.3bn). The 12-month cumulative current account deficit was covered by long-term capital inflow (both direct net investments and funds from the EU) in 110%, at a similar level as in previous month.

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