

Instant comment

Nothing special in today's data

18 April 2013

Today's data on output brought nothing special to the overall picture of the Polish economy. In line with expectations the industrial output declined slightly on annual basis (by 2.9%), inched up after seasonal adjustment (by 0.6%) while construction and assembly output plunged again (by 18.5%YoY). Surely there will be some MPC members willing to cut rates in May, but we do not expect such a motion to be accepted. March data only confirmed the well-known situation in the economy in 1Q and to make a judgment on the medium-term outlook for inflation the MPC will need to see data for next month(s). Our forecast of industrial output indicates slight rebound in April and in whole 2Q.

Producer prices declined in March by 0.2%MoM (just like we expected) and after the revision of February's data the annual pace of growth reached -0.6%YoY last month.

Slight decline in industry, sharp in construction

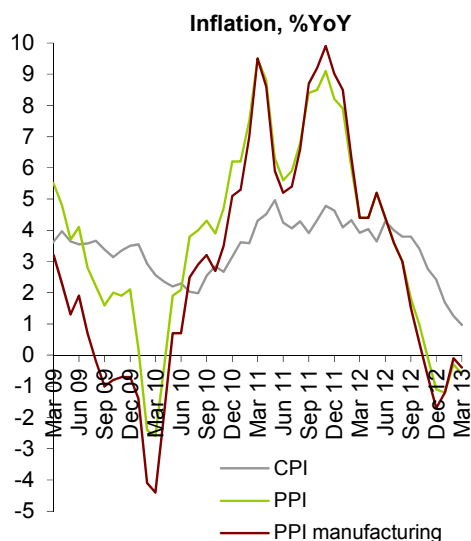
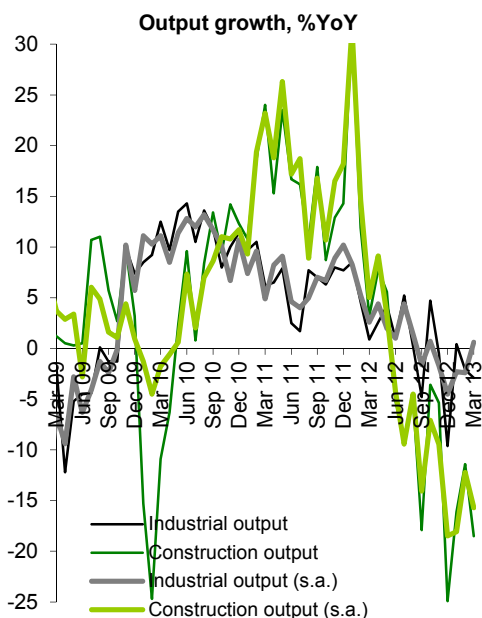
In March the industrial output declined by 2.9%YoY (after a monthly increase by 9.2%), slightly more than we and market expected (-1.4%YoY and -2.4YoY, respectively). One of factors driving this decline was the statistical effect of one working day less than in March 2012. After seasonal adjustment, the industrial output increased by 0.6%YoY (and 0.7%MoM). Construction and assembly output plunged 10th month in a row, this time by 18.5%YoY (after a monthly increase by 20.9%).

Industrial production data for Q1 2013 showed that output decreased by 1.6%YoY, more or less at the same pace as observed in Q4 2012 (1.7%). Situation is significantly worse in the construction sector. In January-March period construction was by 15.7% lower than in the same period of previous year, which means intensification of deterioration as compared to Q4 2012 (from -12.7%YoY). These data confirm our baseline scenario, assuming bottoming of economic activity in Q1 2013. We expect that upcoming quarters will bring gradual, but still very slow improvement in economic activity. It will result mostly from exports, thanks to which industrial output should rebound (we expect growth in April and in Q2 2013).

Today's information was one more (after labour market data) surprising to the downside (yet slightly). These may be used as arguments for doves in the MPC, supporting further cuts (such view was expressed by Andrzej Bratkowski, who made motion for cut by 50bps at the upcoming meeting in May conditional on these numbers). In our view, March's data will not convince majority of MPC members, thus we do not expect that a motion for a cut will pass in May. Following decisions will depend on upcoming data, including GDP for Q1.

Decrease of PPI inflation

12M PPI inflation declined in March to -0.6%YoY from -0.3%YoY (upward revision from -0.4%YoY), which was more or less with line with our and market expectations. As compared with last month, producer prices fell by 0.2%, which was mainly due to strengthening of the zloty versus the euro and falling commodity prices on global markets. We are expecting that PPI will remain in deflationary territory or close to zero until the year-end.



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