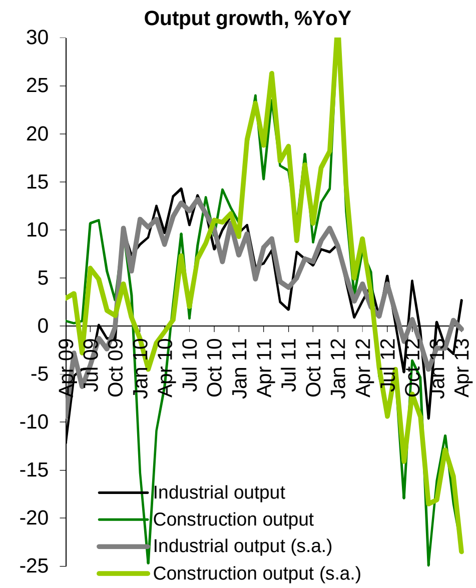
Bank Zachodni WBK

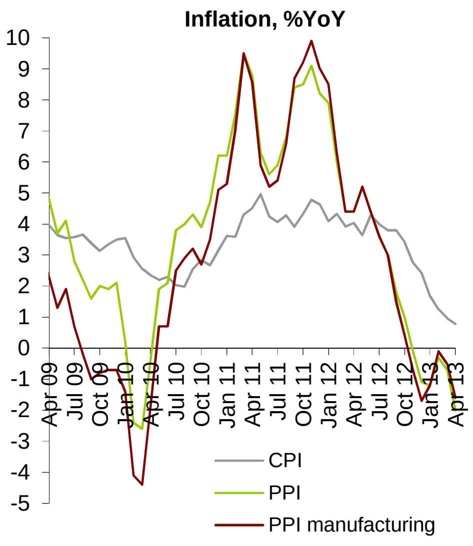
Instant comment

No breakthrough in industry

21 May 2013

In April industrial output expanded by 2.7%YoY and was slightly higher than our forecasts, but below market consensus. April's results were affected by higher number of working days, and data adjusted for these effects still show no revival in Polish manufacturing sector. At the same time, construction recorded a deeper-than-expected decline by 23.1%YoY, which is likely to undermine fixed investments in Q2. Producer prices fell more than expected, mainly due to cheaper commodities, showing a lack of underlying cost pressure on producers. These data surely will not discourage the MPC from another rate cut.





Not too good in industrial sector, disaster in construction

Industrial output increased in April by 2.7%YoY after two consecutive months of negative annual growth in February and March (-2.1%YoY and -2.9%YoY, respectively). Our forecast showed an increase by 2.0%YoY while market consensus expected +2.9%YoY. One should remember that in April 2013 there was one working day more than a year ago while in two previous months the situation was reversed. That is why these – seemingly positive – data do not indicate in our opinion any actual improvement in Polish manufacturing. Pace of industrial growth after seasonal adjustment (including working days effect) reported by the CSO showed a contraction by 0.3%YoY after an increase by 0.6%YoY in March. Thus, we still observe stagnation in domestic manufacturing, which was confirmed by earlier Markit's data on PMI.

Construction sector recorded sharp deterioration, as production fell by 23.1%YoY, by most since December (seasonally adjusted output fell by 23.5%YoY, which is the biggest drop since we have comparable data, i.e. mid-90.). It cannot be excluded that weather conditions contributed to this result – although there was a considerable improvement of weather in April, the first days of the month were still snowy. Nevertheless, poor construction data did not give reason to be optimistic about investment growth in the second quarter.

PPI lower thanks to commodities

PPI inflation surprised to the downside in April, posting a decline to -2.0%YoY (as compared to our expectations at -1.6% and market expectations at -1.4%), which is the lowest level in three years. In monthly terms producer prices fell by 0.6% with the most considerable reductions in mining of metallic ores (by 8.3%) and in manufacture of coke and refined petroleum products (by 4.5%). These numbers show that decline of the headline index was up to a considerable extent caused by falling commodity prices on the global market. Still, this does not change the fact that prices are cut in most branches, and underlying cost pressure is minimal. We are expecting that PPI will remain below or close to zero at least until the year-end.

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