

Instant comment

Still no improvement in industry

19 June 2013

Industrial output declined in May by 1.8%YoY, which was more or less in line with expectations. Weakening versus April was mainly due to working-day effects. The sector is still in stagnation and no significant signs of revival are visible. On the other hand, situation in construction deteriorated further (plunge by 27.5%YoY, more than expected) and even despite improvement of weather in May. Nothing is heralding a recovery in this sector. PPI inflation declined in May to -2.5%YoY, which was in line with market expectations. These figures support our forecasts of cut of NBP interest rates by 25bps in July and weak GDP in Q2 (ca. 0.7%YoY). Market did not react to these releases.

Stagnation in manufacturing, further deterioration in construction sector

Industrial output contracted in May by 1.8%YoY, roughly in line with our and market expectations (-2.1% and -1.9%, respectively). Clear deceleration as compared to April (when industrial output expanded by 2.7%YoY) was mainly due to statistical effect: in May there was one working day less than a year ago, in April it was one day more. Nevertheless, data after seasonal and calendar effects adjustment showed a contraction by 1.5%YoY in May vs. -0.3%YoY in April. The annual pace of growth of industrial output has hovered around zero for a few quarters, this sector remains in stagnation and so far data do not show any change of this tendency. However, it is worth to remind that PMI index for Polish manufacturing and CSO's economic indexes picked up slightly and this may suggest the economic revival is coming. Additionally, increase of production in some export-oriented sectors like furniture (+6.7%YoY) and autos (+4.3%YoY) can be interpreted as a small positive sign in today's data.

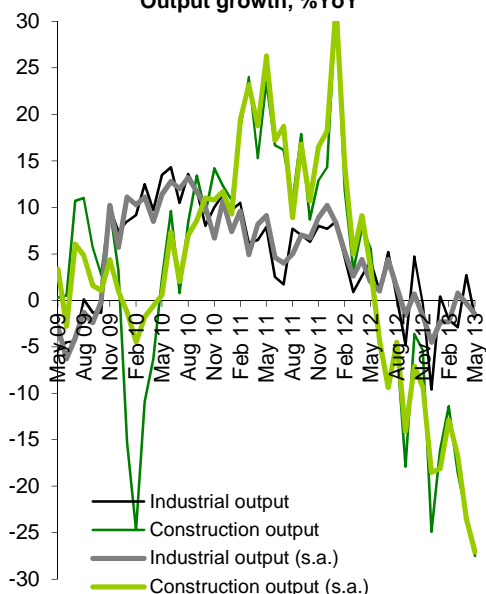
Construction and assembly output continued to deteriorate quite significantly, plunging by 27.5%YoY (we expected -23.3% while the market -21.7%). We thought that after April, when pace of contraction of the construction and assembly output was reaching all-time high, the improvement of weather conditions in May will support this sector. However, after the seasonal adjustment, output plunged by 27.1%YoY, which is the weakest performance since comparable data is available (1996). There are no signs of upcoming improvement in this sector, we expect the annual pace of growth to remain deep in negative territory at least until the end of the year.

Deflation in producer prices has continued

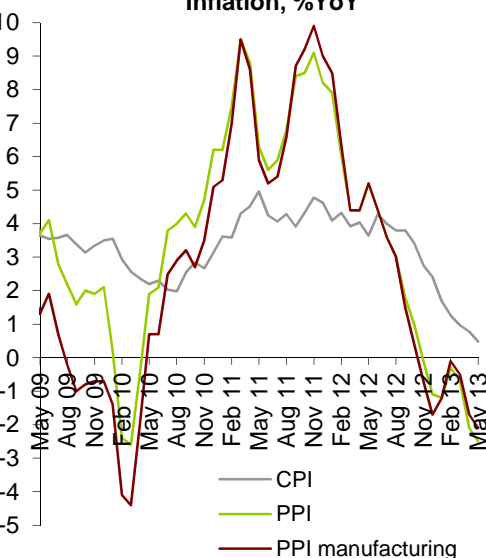
In May producer prices increased by 0.1%MoM due to price growth in water supply (by 0.4%) and in electricity, gas, steam and air conditioning supply and manufacturing (by 0.1% each). In comparison with our prediction (we expected PPI growth by 0.2%MoM) surprise was delivered by mining and quarrying – prices declined by 0.1%MoM vs our forecast, assuming increase by 0.5%MoM. In annual terms a deflation trend in inflation PPI has continued (-2.5% vs -2.1% in April, data after revision), for the 7th month in a row.

Today's PPI reading does not change our expectations on PPI path in coming months. We expect inflation PPI to stay in negative territory, however the pace of decline in prices should be halted.

Output growth, %YoY



Inflation, %YoY



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