

# Instant comment

## Moderate growth in production

17 October 2013

In September industrial output growth accelerated to 6.2%YoY, slightly less than expected. At the same time a decline in construction output slowed to -4.8%YoY. In whole 3Q pace of growth in both sectors improved significantly, confirming our expectations that Polish economy has been recovering gradually (probably towards 1.3%YoY in 3Q 2013). On the other hand PPI growth is still negative, suggesting lack of cost pressure in the economy. Market reaction to releases was very muted.

### Industry in moderate upward trend

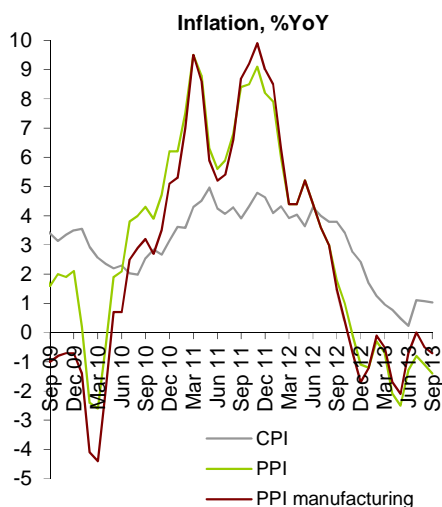
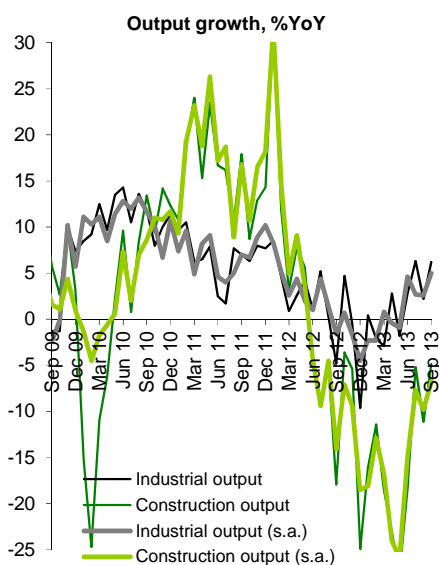
Industrial output growth accelerated in September to 6.2%YoY, up by 4 pp versus August. However, the result was weaker than expected (our forecast 7.9%YoY, market consensus 7.1%YoY), even though the high PMI index (53.1) have seemed to suggest a strengthening of positive trends in manufacturing. Please note that the annual growth rate of production in September was boosted by the effect of higher number of working days – the effect was the opposite of the one observed in the previous month, as in September 2013 there was one working day more than in September 2012, while in August 2013 there was one working day less. Nevertheless, the production growth adjusted for seasonal effects and differences in working time according to CSO accelerated to 5.0%YoY, which is the highest growth for 20 months. Similarly as in previous months, the highest output growth rates were recorded in traditionally export-oriented branches (including manufacturing of motor vehicles, furniture, pharmaceuticals, electrical equipment). This shows that external demand is still a key driver of economic recovery in Poland.

Drop in construction output decelerated in September to -4.8%YoY, which is below our forecast (-3.4%YoY) but above market consensus (-6%YoY). Seasonally adjusted growth reached -6.7%YoY, which is the best result for over a year.

In total, September's production data seem to confirm realisation of scenario of moderate economic recovery. In the entire third quarter the growth in industrial output reached ca. 5%YoY, and in construction ca. -7%YoY, which is a clear improvement as compared to two previous quarters (in Q2 it was correspondingly 1.2%YoY and -22.9%YoY).

### Slightly deeper PPI deflation

PPI inflation declined in September to -1.4%YoY from -1.1%YoY in August, after increase in prices by 0.2%MoM. The highest growth of prices was recorded in mining and quarrying (by 0.4%MoM) and manufacturing (by 0.2%MoM). As regards manufacturing significant increase in prices was in categories: manufacture of coke and refined petroleum products and manufacture of leather and related products (by 1.3%MoM). In our opinion, PPI data still suggest lack of cost pressure in Polish economy, while price growth in monthly terms resulted from zloty weakening and increase in commodity prices on international stocks. We expect PPI to stay in the negative territory in coming months, while in 2014 it should increase above zero.



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