

# INSTANT COMMENT

18 December 2013

## Strong data from industry and construction, PPI still in the red

Industrial production increased by 2.9%YoY in November, while construction fell by 2.9%YoY. In the both cases results were considerably better than forecasted, suggesting that the pace of growth of Polish economy still accelerates significantly in 4Q13. At the same time, inflation pressure remains low, what is confirmed by PPI figure (-1.5%YoY). From the Monetary Policy Council side, the most crucial will be the answer for the question about domestic demand contribution to faster and faster growth of GDP. Rebound in construction sector and leading indicators clearly suggest that the role of domestic demand strengthens.

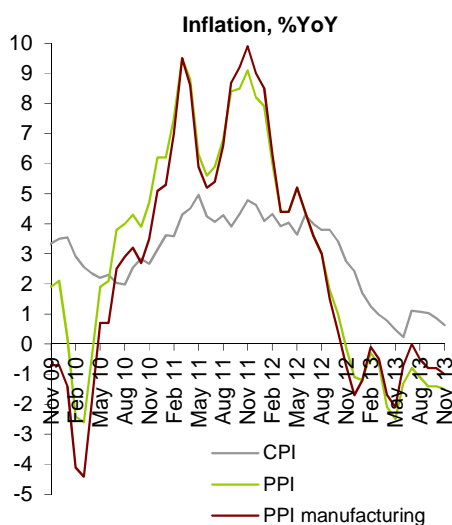
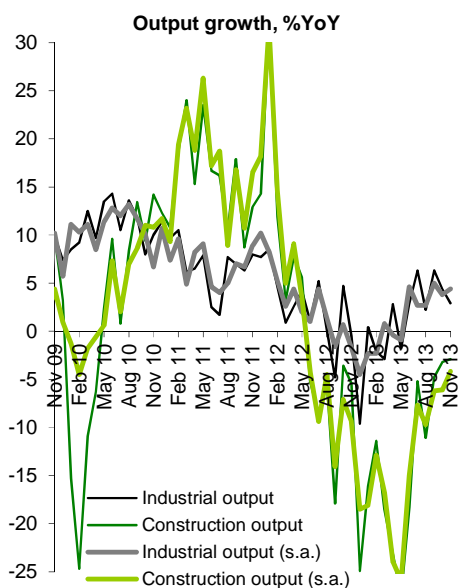
### Strong data from manufacturing, visible improvement in construction

November's data on industrial and construction output surprised clearly to the upside. Industrial production increased by 2.9%YoY, obviously above our (0.4%YoY) and market (1.7%YoY) expectations. Pace of growth was lower than in October (4.4%YoY), but it is worth to remember that in November we had two working days less than in the same month a year ago. Taking this under accounts, today's release should be perceived quite positively. According to the CSO, pace of growth of industrial output after seasonal (and time worked) adjustment reached 4.4%YoY (vs. 3.8%YoY in October). Sectors exposed to external markets continued to perform better than others. Still, we suspect that the positive developments in output rely more and more on faster than we anticipated revival of the domestic demand. This was visible, among others, in recent PMI data when the increase of new orders subindex was driven mainly by improvement of domestic orders. Data on construction also confirm this conclusions. Production in this sector declined in November only by 2.9%YoY versus our forecast at -11.6%YoY and market consensus at -7.9%YoY, which is the best result since May 2012. Probably, to some extent, this improvement was supported by convenient weather conditions. Nevertheless, signals of a recovery in this sector are getting more and more obvious for already several months. Interestingly, higher output on annual terms was recorded in construction of buildings (by 4.8%YoY) and specialized construction activities (by 7.4%YoY) while deep contraction continued in civil engineering (-14.4%YoY). It seems that this reflects a rebound in private sector investment activity and still deceleration of public investments.

### Deeper than expected decline in PPI

Producer prices declined in November by 0.3%MoM and by 1.5%YoY, deeper drop than we (-1.3%YoY) and the market (-1.2%YoY) anticipated. On monthly terms, bigger than we expected decline of prices was recorded in mining and quarrying (by 0.4%) and in manufacturing (by 0.3%). Regarding the first category, most visible decline of prices was recorded in case of metal ores (by 1.1%) while in the second category in metal (1.4%) and manufacturing of coke and refined petroleum products (1%). This might have been due to lower commodities prices on the international market.

We expect PPI to stay in the negative territory in coming months. Our base scenario assumes PPI rising above zero level in April 2014 (mainly due to low statistical base). Deflation of producer prices together with slow growth of consumer prices clearly show low inflation pressure. This supports the MPC's declaration to keep interest rates stable at least until mid-2014.



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