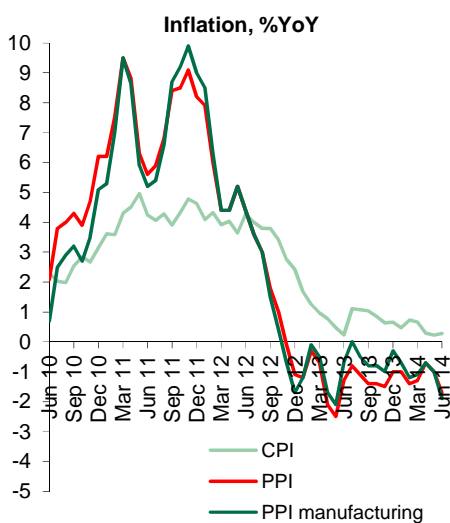
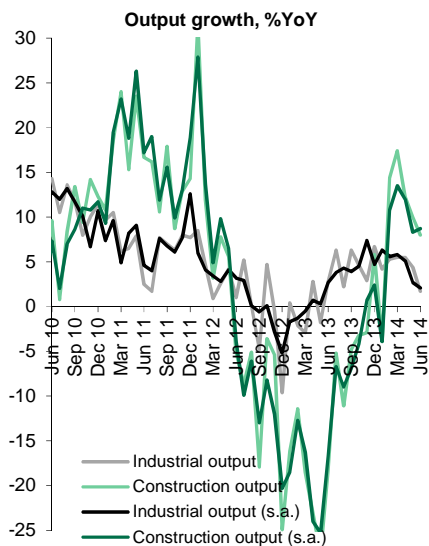


# INSTANT COMMENT

17 July 2014

## Weak in industry, strong in construction

Industrial output expanded in June by a mere 1.7%YoY, considerably below our forecast (4.4%YoY) and market consensus (4.0%YoY). Result of the construction and assembly sector did not surprise – increase by 8%YoY. This means that average rise of industrial output in last three months was by 1 percentage point lower than in Q1. On the other hand, results of the construction sector improved somewhat in Q2. We are still awaiting results of June's retail sales, but it seems that Q2 will show a slightly lower GDP growth. In our view, however, it will stay above 3%. We do not change our forecast that the MPC will keep interest rates unchanged for a longer time. Continuation of economic slowdown in Q3 is the main risk factor, but this is not our baseline scenario.



### Industrial output significantly below expectations

In the last month of the second quarter the industrial production growth amounted to only 1.7%YoY. This was significantly below our forecast (4.4%) and market consensus (4%) and the result was close to the lowest forecast on the market. As compared to June last year the growth in production was recorded in 20 (out of 34) industrial sectors. According to the statistical office, the slowdown could have been connected with worsening of production directed for export. This view is supported by a weak result of manufacturing sector – growth by a mere 2.1%YoY, which is the worst result in more than a year. To some extent this was driven by the sector of production of coke and refinery products (fall by 6.9%YoY), but even when excluding this sector, the growth in manufacturing amounted to just 3%YoY. According to the statistical office, the seasonally adjusted industrial production increased by 2.1%, which is a bit lower than in the previous month (2.7%). The average growth of production in Q2 was slightly below 4% (with downward tendency month by month), which was around 1pp below the average result in the first three months of the year.

On the other hand, results of construction sector were quite decent, as it showed production increase of 8%YoY. This means that output in the second quarters rose by nearly 10%, slightly better than in the first quarter. In June, just like in the previous month, rapid production growth was recorded in entities specializing in civil engineering (24.7%YoY) and in entities dealing mainly with specialised construction activities (14.2%YoY), while in entities whose basic type of activity is the construction of buildings there was a clear drop of production (-12.1%YoY).

We are still waiting for results of June's retail sales, but it seems that Q2 will show a slightly lower GDP growth. In our view, however, it will stay above 3%. We maintain our forecast of return to faster economic growth in the second half of the year. We do not change our forecast that the MPC will keep interest rates unchanged for a longer time. Continuation of economic slowdown in Q3 is the main risk factor.

### PPI deflation lower than expected

PPI inflation reached in June -1.7%YoY, i.e. more than market expectations (-1.8%) and our forecast (-2.0%). In monthly terms producer prices were flat, and stabilisation in manufacturing prices surprised us the most, as these were also flat flat in MoM terms despite quite strong strengthening of the zloty. We predict inflation PPI to stay below zero at least till year-end.

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