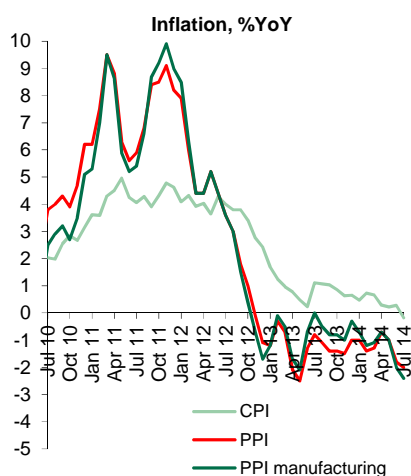
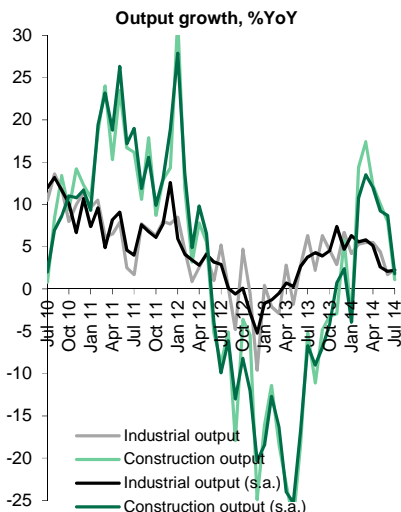


INSTANT COMMENT

20 August 2014

Weak construction, deep PPI deflation

After two months of disappointments, industrial output for July was roughly in line with median market forecast, showing growth of slightly above 2%YoY. It confirms weaker growth of industrial sector at the turn of Q2 and Q3 and the outlook for the following months is not bright given external factors. What is more, output in construction sector in July was a very negative surprise. Our forecast and market consensus pointed to increase by above 5%, while it was at merely 1.1%YoY. It looks like GDP growth slowdown to c3% was not only temporary phenomenon observed in Q2, but is continued also in Q3 and may persist in the next few quarters. Together with the environment of no inflation (CPI below zero for months, today's PPI below expectations again at -2% r/r), this gives room for manoeuvre for the MPC.



No surprise in manufacturing, disappointing construction sector

Industrial production growth in July was roughly consistent with market expectations. Although it was below our forecast, we did see a downward risk for the data after disappointing PMI index released earlier this month. Output increased by 2.3%YoY (vs. 1.7%YoY in the previous month). Obviously, the result was much below average for the first five months of the year (5%). Seasonally adjusted output growth reached 2.2%YoY and was similar as in previous two months, but still considerably lower than in the first four months of 2014 and at the end of 2013.

Data confirm slowdown of industrial output growth at the 2Q/3Q turn. This is largely driven by weaker performance in manufacturing although falling output in mining and energy sectors does not help either. We do not expect any noticeable improvement in the following months and August may show even deeper deterioration due to seasonal factors (one working day less). September may bring a rebound – but this will be also a statistical issue. All in all, given the external situation (crisis in the East and signs of slowdown in the West), industrial output may grow at the pace close to one recorded in July in the following months of the year.

Unfortunately, the data concerning construction sector was very disappointing (growth by 1.1%YoY, while the market and our expectations were above 5%). It is worth reminding that average growth in the recent five months was over 12%. According to data published by the CSO, construction output rose in units dealing with civil engineering (2.7%YoY) and specialist construction (5.9%YoY). It is worth mentioning that results are much worse than in previous months – then growths by 24.7% and 14.2%YoY were recorded. Taking into consideration already planned infrastructural investments, the slowdown in this area seems to be only temporary. Meanwhile, units constructing buildings experienced decline in July by 3.7%YoY (smaller than -12.1% in previous month). It is hard to explicitly say what was the reason for the decline, especially taking into account data from housing market (growing number of building permits, quite decent results of house starts).

Already 2% PPI deflation

Producer price index dropped in July by 2%YoY, below expectations, again. Prices stayed unchanged on monthly basis as the 2% increase in mining was neutralized by another drop of prices in manufacturing. Prices in manufacturing decline each month so far this year and the 12-month deflation is already at 2.4%. Interestingly, this is happening even despite roughly stable zloty exchange rate. Obviously, there is no sign of a price pressure on Polish producers for already some time.

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