

INSTANT COMMENT

17 October 2014

Output rebounded (seasonally)

Industrial output increased in September by 4.2%YoY and the construction output increased by 5.6%YoY. While we were slightly more optimistic about industrial sector figure (4.7% against consensus 3.1%), construction surprised significantly to the upside (our forecast 2.2%, consensus close to zero). One should remember that today's data were positively affected by the number of working days, so the situation is not as positive as the rebound from the previous month may be suggesting (nor the economic situation was that bad as shown in headline August's figures, as seasonal factors worked in the opposite direction). Overall, the data suggest GDP growth below 3% in Q3, which, given no-inflation environment justifies continuation of monetary policy easing (we see 25bp cut in November).

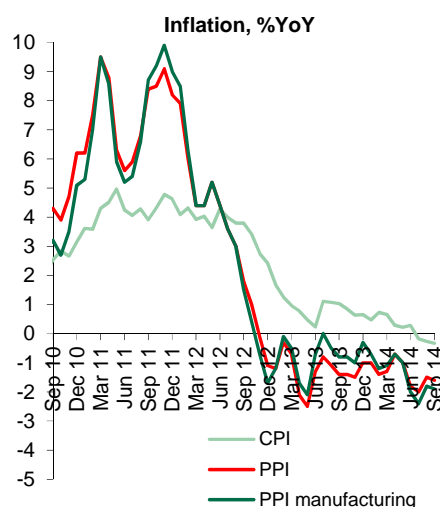
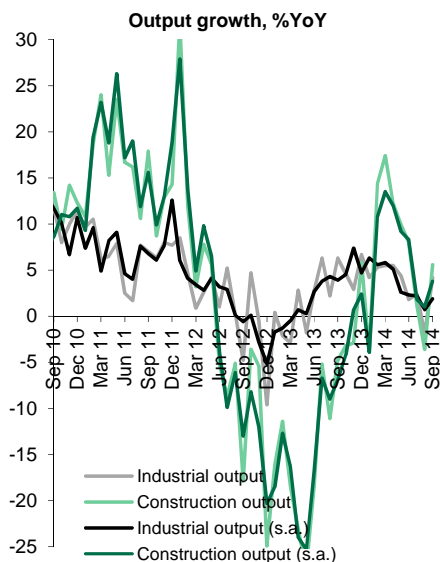
Positive data on industrial and construction production

In September industrial output increased by 4.2%YoY, which was slightly below our optimistic forecast of 4.7% (against consensus at 3.1%). One should remember that the data released today were positively affected by the number of working days, so the situation is not as positive as the rebound from the previous month may be suggesting (-1.9%YoY for August). Nor the economic situation in August was as bad as shown in the headline figure, as seasonal factors worked in the opposite direction. The seasonally adjusted growth of industrial production showed 1.9%YoY as compared to only 0.7%YoY in the previous month. For comparison, the average growth in May-July period was at 2.4%YoY.

The second positive piece of information today was the figure for construction output, which increased by 5.6%YoY. This surprised significantly to the upside (our forecast 2.2%, not to mention close-to-zero consensus). Overall, the data suggest GDP growth below 3% in Q3, and we maintain our forecast at 2.8%YoY. Together with no-inflation environment this justifies a continuation of monetary policy easing (we see 25bp cut in November).

PPI inched down

PPI inflation declined in September to -1.6%YoY from -1.5%YoY in August, in line with our expectations and below market consensus, which expected a reading the same as in August. In monthly terms prices increased by 0.1%MoM, mostly on the back of rising prices in coal mining (1.2%MoM), which were pushed higher by a considerable depreciation of the zloty versus the US dollar (average USDPLN jumped to 3.24 in September from 3.15 in August). Prices in industrial manufacturing were flat in monthly terms. We are expecting the PPI inflation to rise in the upcoming months, driven by the PLN depreciation. Yet, PPI is likely to stay negative until the year-end.



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