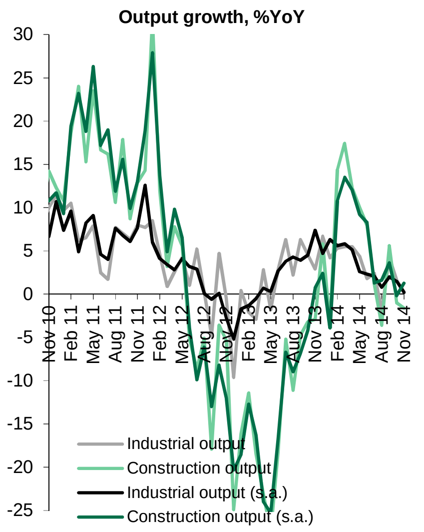
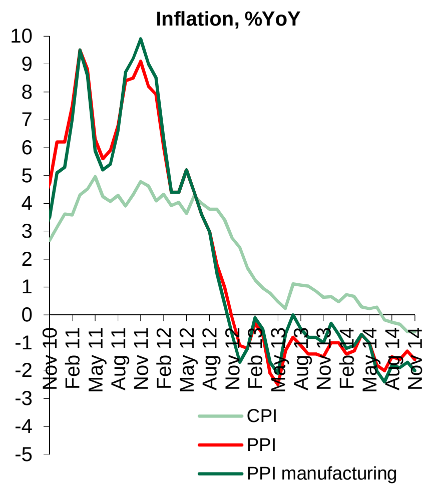
# INSTANT COMMENT

17 December 2014

## New data confirm slowdown in 4Q2014

**In November industrial output decelerated to a mere 0.3%YoY (below consensus at 1.0%YoY) while construction and assembly output contracted by 1.6%YoY (market expected a 3.5%YoY-drop). After the seasonal adjustment, industrial output grew by 0.2%YoY, which was the weakest performance since May 2013. At the same time, producer prices inflation dropped to -1.6%YoY and this might have been due to the falling commodity prices in the global market. In our view, these data confirm a slight deceleration in the pace of the economic growth in the final quarter of 2014. This is in line with our scenario assuming a deceleration in pace of the GDP growth to slightly below 3% in 4Q14. The expected by us weakening in the economic activity together with inflation data (CPI and PPI deflation may last even until the end of 3Q15) should convince the MPC to cut rates in 1Q15.**




### The weakest seasonally-adjusted growth of industrial output this year

November brought a deceleration of industrial output growth to 0.3%YoY (after adding 1.6%YoY in October). The data proved better than we expected (-1.4%YoY) but worse than the market hoped (1.0%YoY). Seasonally adjusted numbers showed an increase by 0.2%YoY. This was the weakest growth this year (output climbed by 3.4%YoY on average in January-October) and since May 2013. The most considerable increase was recorded in industrial branches strongly dependent on exports, like output of computers, electronic and optical devices (13%YoY) or furniture (11.1%YoY).

Construction and assembly output contracted in November by 1.6%YoY (after a 1%YoY-drop in the previous month), significantly less than we and the market expected (-11.5%YoY and -3.5%YoY, respectively). After the seasonal adjustment, the output declined by 1.1%YoY.

To sum up, monthly industrial output data confirm some deceleration in the economic activity in 4Q14 vs. previous quarter. We anticipate that in the final quarter of 2014 GDP growth could drop below 3% but we expect this to be only a temporary phenomenon (lasting no more than six months). Next quarters should bring a recovery due to, among others, rebound in the euro zone.

### Producer prices have continued to decline

In November producer prices fell significantly, by 1.6%YoY (vs. decline by 1.3%YoY in October – data after revision) after decline in prices by 0.5%MoM (vs -0.4% – revised data – in the previous month). In annual terms, the most considerable decline was posted by manufacturing (2%), in particular by prices of coke and refined petroleum products. It mainly came from fall of commodity prices on international markets.

In our opinion, PPI inflation is likely to remain well below zero until the end of 3Q15, and then to gradually increase towards 1%YoY at the end of 2015.

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