INSTANT COMMENT

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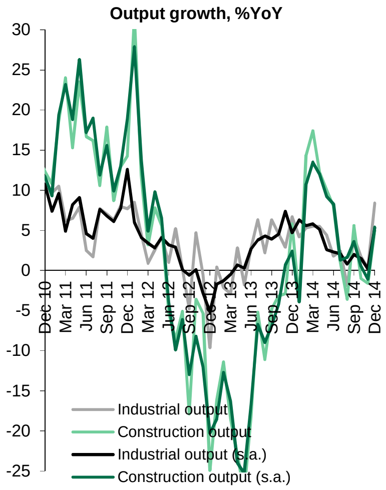
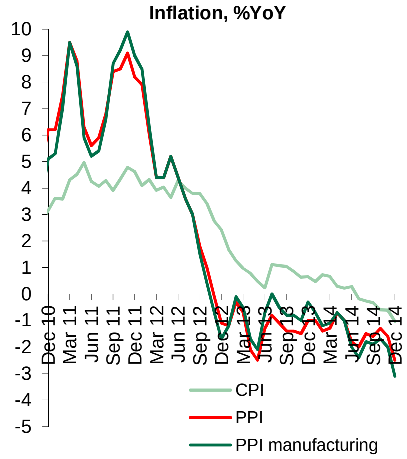
Industry surprised to the upside

Industrial output added 8.4%YoY in December 2014, above market consensus (4.8%YoY) and even above our optimistic forecast (6.1%YoY). Construction and assembly output increased by 5.0%YoY, slightly better than expected by the market (3.4%YoY) but below our forecast (10.1%YoY). Acceleration of industrial output growth was strongly supported by positive working day effect and statistical base effect. Still, it was astonishing and can be used by the MPC as an argument to postpone interest rate cuts. We do not expect such a high growth rate to maintain in the upcoming months, but a strong revival in export-oriented sectors is a positive signal (let us remind that foreign trade data for last months showed some improvement of growth rates to some EU countries). The data had a positive yet temporary effect on the Polish currency and triggered some rise of rates in the Polish interest rate market.

PPI inflation amounted to -2.5%YoY, below expectations, which was mostly due to a strong decline in oil price in the international markets.





Industrial output well above market expectations

In December 2014 industrial output increased by 8.4%YoY, exceeding not only market consensus (4.8%YoY), but also our very optimistic forecast (6.1%YoY). Seasonally adjusted output climbed by 5.3%YoY, at the highest pace since March and by 2.3%MoM at the highest pace since January.

We were expecting a strong acceleration of industrial output as compared with November (0.3%YoY), due to statistical effects: base effect – industrial output reading in December 2013 was low as a consequence of mild winter, which negatively affected production of electricity, gas and steam as well asd working days effect – in 2014 the number of working days was by 1 day higher than in December 2013. However, the final reading of industrial output was also better than the highest market forecast and a healthy growth was recorded in manufacturing (by 9.1%YoY), mainly in export-oriented sectors: manufacture of computer, electronic and optical products (30.0%), manufacture of machinery and equipment (27.9%), manufacture of electrical equipment (20.1%) and manufacture of furniture (19.0%). It is worth noting that also base effect also was positive for some of these sectors: for example manufacture of computer, electronic and optical products fell by 3.7%YoY in December 2013. We do not expect such sharp growth of production to maintain in the upcoming months. Moreover, the rebound recorded in exporting sectors was in line with PMI data, but the strong acceleration is still surprising, taking into account weak state of the euro zone economy. On the other hand, we would like to recall that trade data for October and for November suggested that exports to some EU countries improved quite visibly.

The construction and assembly output increased 5.0%YoY in December 2014, more than the market expected (3.4%YoY), but below our forecast (10.1%YoY). After the seasonal adjustment, the growth amounted to 5.4%YoY and 1.0%MoM. Construction and assembly was supported by favourable weather conditions in December.

In the whole 4Q industrial output increased 3.3%YoY vs. 1.7%YoY in 3Q. In the case of construction and assembly, growth reached 1% YoY in 4Q, close to 3Q result. After today's output data our optimism regarding the 4Q14 GDP growth increased and the slowdown vs. 3Q might have been only marginal. More surprisingly strong data support our view that the MPC will rather not rush to cut rates, particularly if the volatility in the global market does not abate in the coming weeks.

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PPI goes deeper below zero

In December, the producer price index dropped by 2.5%YoY (and 0.1%MoM) vs. -1.6%YoY in November and reached its lowest level since May 2013. The biggest drop in prices was recorded in manufacturing (by 3.1% YoY) where coke and refined petroleum products dropped by most (23.1%). This was surely due to falling oil prices in the global market.

In 2014, the average PPI reached -1.5% (with mining and extraction falling most – by 4.7%YoY) vs. -1.3% in 2013. We expect the PPI to stay below zero in the months to come.

Additional information is available on request. Please contact Bank Zachodni WBK S.A. Rates Area, Economic Analysis Department, al. Jana Pawła II 17, 00-854, Warsaw, Poland, phone +48 22 534 18 88, email ekonomia@bzwbk.pl, http://www.bzwbk.pl.