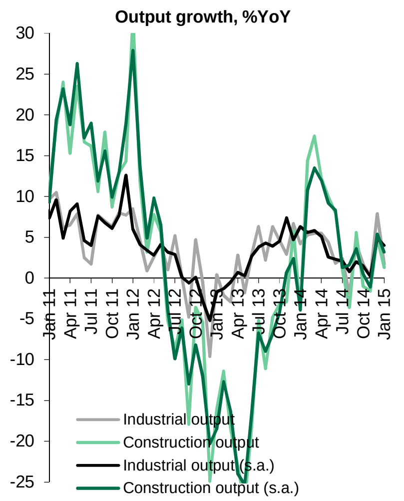
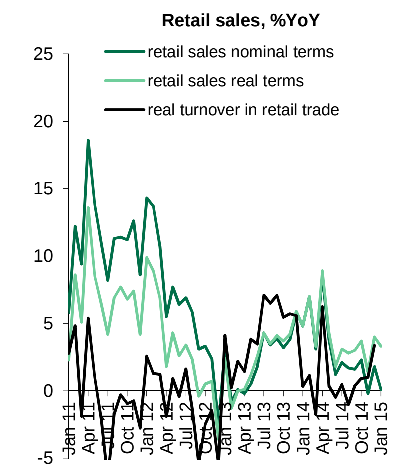
INSTANT COMMENT

18 February 2015

A lot of new data, but picture barely changed

A bunch of Polish macroeconomic data were released today, but they did not change much the overall economic picture. As expected, at the beginning of the year the economic activity was rather limited with no signs of inflation pressure. Industrial output increased by 1.7%YoY, which was in line with the consensus and above our forecast (though we indicated the upside risk after car production data). Construction output growth was at 1.3%YoY, which was below median expectations and in line with our forecast. The most surprising element was retail sales growth, which was a notch above zero (0.1%YoY in nominal terms, 3.3%YoY in real terms). On inflation front, it is worth to notice that sales deflator fell by 1pp on monthly basis to the level of -3.1%YoY. Also, producer prices fell again (0.2%MoM) and the 12M index shows -2.9%YoY figure. Overall, January's set of economic data justifies a continuation monetary easing. Just to remind, already after the previous MPC meeting, the NBP Governor suggested that majority for cutting rates is already there, but market volatility called for one more month of waiting. Though market uncertainty continues (Greece's issue still unsolved), we see a small rate cut already next month (25bp) with another step of the same quantity in Q2.





No major surprise in output, very low nominal sales growth

Industrial output increased in January 1.7%YoY, roughly in line with the market consensus and above our forecast pointing to an annual contraction in output (though we have already pointed we see an upward risk to our estimate after the cars production data). After the seasonal adjustment, growth reached 4%YoY, that is only marginally less than in the previous month (this year in January there was one working day less than in January 2014). In the case of the construction output, our forecast has actually materialised (output grew 1.3% YoY vs. our estimate at 1.1% YoY) and this was slightly below the market consensus. All in all, there was no significant surprise as regards the January's production data.

Retail sales surprised significantly to the downside, showing only a mere 0.1%YoY growth in nominal terms in January as compared to 1.8% in December. In real terms, however, sales increased by 3.3%YoY (4% last month). the slowdown in nominal terms was more significant, which implies that deflator played a key role. We estimate that sales deflator fell by one percentage point to -3.1%YoY in January.

Sales figure was driven, to a large extent by the category of fuel, which decreased by as much as 16.5%YoY (the lowest result in 15 years). This was obviously due to lower fuel prices, which dropped at a similar scale. Also, a disappointing result was observed in "others" category (-12.4%YoY), while the remaining categories of sales were roughly in line with forecasts. The only positive surprise was in books/press category (up 17.1%YoY, the strongest growth since 2008).

Despite the weak nominal number, real pace of sales growth still remains moderate and this supports our forecast for private consumption growth at c3%YoY in 1Q15. In our view, January's data did not change significantly the picture of the Polish economy. The following months are likely to bring a higher pace of output growth. At the same time, a moderate, though temporary slowdown of the GDP growth below 3%YoY is still likely for 1Q15.

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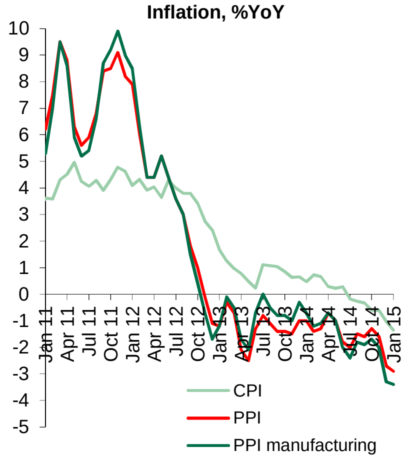

PPI inflation deeper in the red

In January producer prices (PPI) declined by 0.2%MoM and were lower by 2.9% as compared with the same period of previous year. January reading of PPI was in line with market consensus, but higher than our forecast (-3.4%YoY). PPI inflation reached its lowest level in history, and this rate has been below zero for more than two years. The biggest impact on PPI decline in annual terms was exerted by drop in prices of mining and quarrying (by 4.8%) and manufacturing (by 3.4%, the highest since the publication of the data), which in part was due to lower oil prices on the international markets. As a consequence prices of manufacture of coke and refined petroleum products fell by 8.3%MoM. In our opinion, upcoming months should not bring further decline in PPI inflation, but the rate will stay below zero till year-end.