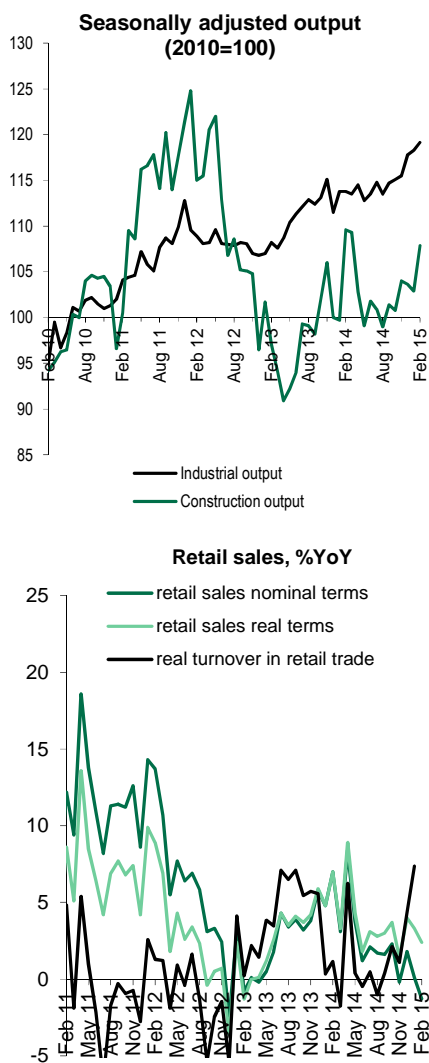


INSTANT COMMENT

18 March 2015

Strong manufacturing, weak retail sales

Industrial output grew 4.9% YoY in February, above the consensus (4.1% YoY) and somewhat below our expectations (5.6% YoY). At the same time, construction and assembly output contracted 0.3% YoY vs. -0.6% anticipated by the market and our estimate at -0.1%. In contrast to the previous months, the annual change in output was distorted neither by different number of working days nor by different weather conditions. We find data on the industrial output as positive and indicating that recovery trend is being sustained, partly thanks to revival in Europe. Nominal retail sales contracted 1.3% YoY and this release was quite disappointing (we expected +1.0%, consensus was at 0.0%). In our view, this is only a temporary slowdown in sales and decent situation in the labour market and positive consumer sentiment should support consumption growth in the coming months. This is in line with our forecast pointing to slight deceleration of the economic growth in 1Q15 and acceleration in the coming quarters. The data did not have a meaningful impact on the Polish market and are neutral for the monetary policy outlook.



Industrial output growing faster

Industrial output grew in February by 4.9%YoY vs increase by 1.7%YoY in January. The final figure was better than market consensus (4.1%YoY), but lower than our forecast (5.6%YoY). At the same time, construction output in February fell by 0.3%YoY versus market expectations at -0.6%YoY and our prediction of -0.1%YoY. This time, contrary to previous months, annual growth of production was not distorted by changes in number of working days or a significant difference in weather conditions compared to the situation a year ago. According to the Polish Statistic Office seasonally adjusted industrial production growth amounted to 4.7%YoY, while construction growth was negative and reached -1.6%YoY.

It is worth to notice that total industrial output growth was negatively affected by a significant drop of production in mining and extraction (-11.3% YoY) and by a moderate decrease in energy production (-1.8% YoY). Meanwhile, output in manufacturing expanded 6.6% YoY, which we think was a very good result.

All in all, we find data on the industrial output quite positive and indicating that recovery trend is being sustained, partly thanks to the revival in Europe – recall that recent data on foreign trade showed surprisingly strong exports, mainly to the biggest euro zone countries. Even in construction and assembly output the situation seems to be improving. Although the annual production change in February was negative again, a noticeable rebound was recorded in the seasonal adjustment index.

Retail sales disappointed

Retail sales contracted 1.4% YoY in nominal terms in February and this was well below market and our expectations (0.0% and 1.0% respectively). Pace of growth decelerated in nominal terms (from 0.1% YoY in January) and in real terms (to 2.4% YoY from 3.3% YoY). Weaker growth was recorded in the majority of categories and the strongest occurred in the case of clothing (to 3.0% from 12.5%) and other sales in nonspecialized stores (to 6% from 10.4%). Note, that although nominal deceleration was largely driven by falling prices (-3.6% YoY, biggest drop since the comparable data is available, that is since 1997), sales growth slowed down also in real terms.

The retail sales data certainly do not look impressive, but we have some doubts whether the data properly reflect current trends in private consumption demand. We would like to recall that in January the Eurostat's data on retail trade (which include sales in small shops, but omit car sales) showed a much better result than the headline of retail sales presented by the Polish Statistic Office, and suggested very strong rebound. We recall also that the pace of retail sales is not a good predictor of private consumption growth since the beginning of

ECONOMIC ANALYSIS DEPARTMENT:

al. Jana Pawła II 17, 00-854, Warszawa fax +48 22 586 83 40

email: ekonomia@bzwbk.pl Web site: <http://www.bzwbk.pl>

Maciej Reluga (Chief Economist) +48 22 534 18 88

Piotr Bielski +48 22 534 18 87

Agnieszka Decewicz +48 22 534 18 86

Marcin Luzziński +48 22 534 18 85

Marcin Sulewski +48 22 534 18 84

TREASURY SERVICES:

Poznań +48 61 856 5814/30

Warszawa +48 22 586 8320/38

Wrocław +48 71 369 9400

2014. In a situation where unemployment is falling, household incomes are rising, consumer confidence is improving, interest rates and energy prices are declining, slowdown in consumption would seem highly surprising. We will continue to monitor the situation in consumer demand, but in our opinion the outlook in this case is still quite optimistic.

This publication has been prepared by Bank Zachodni WBK S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Bank Zachodni WBK S.A., its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Bank Zachodni WBK S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Bank Zachodni WBK S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication. 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>.