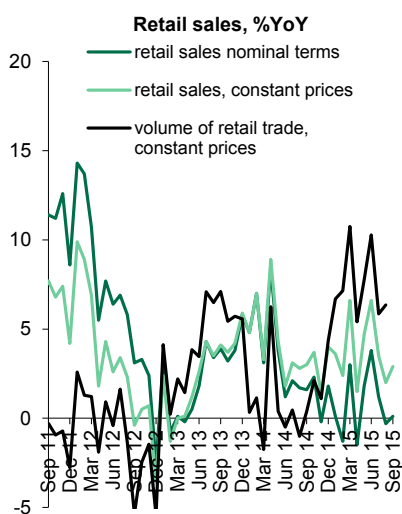
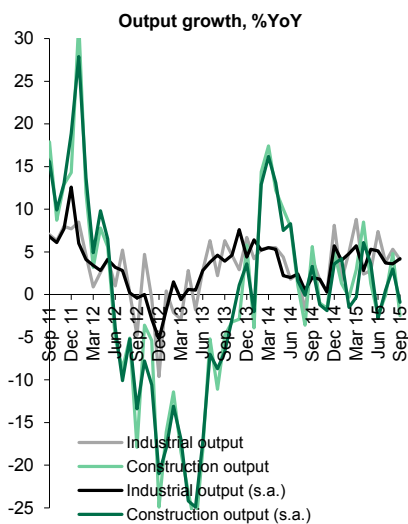


INSTANT COMMENT

19 October 2015

Construction under water at the end of third quarter

Industrial output rose by 4.1%YoY in September, in line with expectations. On the other hand, construction output (-2.5%YoY) and retail sales (2.9%YoY in constant prices) disappointed again. In general, real growth of industrial output accelerated in the third quarter (to 4.4%YoY from 3.9%YoY), while construction and retail sales decelerated (to 0.6%YoY from 1.9%YoY and to 2.8%YoY from 3.5%YoY, respectively). In our view, this means a slight downward risk for our forecasts assuming a slight acceleration of GDP growth in the second year-half. Another risk factor for GDP forecast is the revision of GDP data for 2010-2014, shown by the stat office last week – we do not know exactly at this point what will be its impact on the quarterly GDP growth path, as revised quarterly data will be released by the end of November.



Industry in line with expectation, while construction decelerated

In September industrial production increased by 4.1% YoY, close to market (4.0% YoY) and our (3.9% YoY) expectations. Seasonally adjusted industrial output growth amounted to 4.2% YoY, slightly below the average level from previous months (4.4% YoY). Similarly to previous months, decent growth was recorded in export-oriented sectors (metal products, motor vehicles, electrical equipment) and generally in manufacturing (4.6% YoY).

Data from industry did not confirm the worrying signals coming from the PMI survey, which suggested a strong slowdown in production in September. It seems that the growth in industrial production is stabilizing at around 4% YoY and for the time being, there is no hard evidence suggesting a slowdown.

At the same time, construction and assembly output disappointed as it fell 2.5% YoY while the market and we expected c1% YoY growth. After the seasonal adjustment, 0.9% YoY contraction was recorded and this was the worst result since February and well below this year's average (c1.5% YoY). Detailed data showed that building raising was particularly underperforming (8% YoY plunge) but it is worth to notice that the recent stat office data on the building permits suggest some improvement may take place in this sector.

Retail sales disappointed

Retail sales in constant prices accelerated in September to 2.9%YoY from 2.0%YoY one month ago. Still, the result was considerably below average from the first half of the year (4.2%YoY). Growth in current prices reached 0.1%YoY versus -0.3%YoY in August and market expectations at 1.4%YoY (our forecast in line with the consensus). Thus, the data may be viewed as a major disappointment. Apart from car sales (17.3%YoY), pharmaceuticals (4.1%YoY) and press (16.6%YoY), growth rates in most other categories were significantly worse than we expected, questioning our earlier assumptions that hot summer may have temporarily undermined sales in August. Still, we stick to our observations that growth rate of retail sales is not a good forecaster of consumer demand, and that the data on the volume of retail trade (taking into account also small shops) show much more positive tendencies (rise by more than 6%YoY in August). Taking into account the ongoing labour market improvement and quite fast rise of real incomes, we expect a robust rise of consumption spending in the upcoming quarters.

PPI in line with our forecasts

In September PPI inflation fell to -2.9% YoY (from -2.7 %YoY), in line with our forecast. On monthly basis producer prices fell 0.1% vs. -0.7% in the previous month and only in mining and extraction prices rose since August (by 0.7%), mainly due to metal ores extraction (+5%

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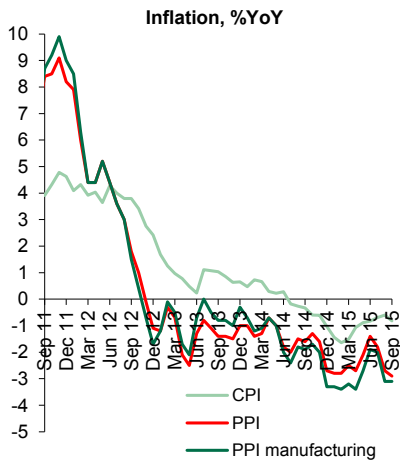
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MoM). As regards changes in the remaining categories, prices in manufacturing fell 0.1% MoM, largely on the back of a decline in coke and refined petroleum products prices (3.1% MoM).

September PPI inflation data confirm that there is no inflation pressure in Poland's economy. As compared to previous month, deflation in producer prices slightly deepened, but in our view it will be only in the short run and PPI inflation will return to gradual upward move in upcoming months. We think that producer prices will remain below zero until the end of the year.

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