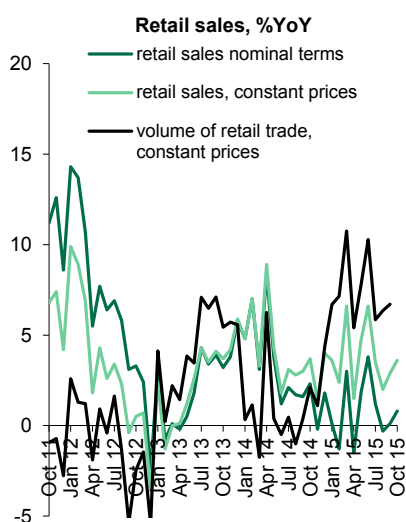
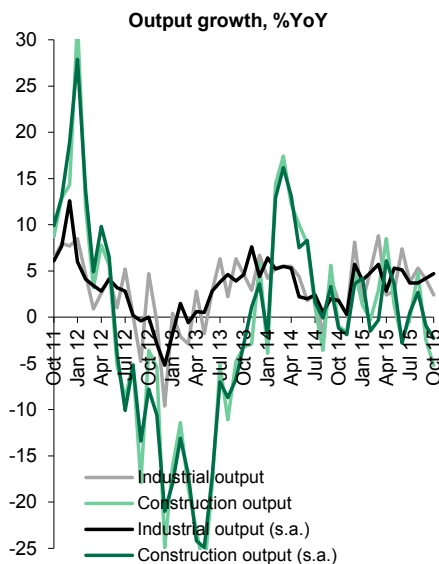


# INSTANT COMMENT

19 November 2015

## Industrial output and retail sales surprise to the upside

Industrial output rose 2.4% YoY in October, slower than 4.1% YoY a month earlier, mainly due to lower number of the working days. After the seasonal adjustment, output rose 4.7% YoY, above the average growth seen earlier this year at 4.4% YoY. Also the retail sales data surprised to the upside as it rose 0.8% YoY in nominal terms and 3.6% YoY in real terms while the construction and assembly output disappointed again as it contracted 5.2% YoY, much more than we and the market expected. Overall, October data from industry and retail sales seem to be a quite good omen for the economic activity in 4Q. Pace of growth of industrial output stays sound while still strong labour market and rising real disposable incomes should stabilize private consumption at c3% YoY.



### Industrial output still sound, construction output disappoints again

Industrial output growth decelerated to 2.4% YoY (after a 2% monthly rise), vs. 4.1% YoY in September. Number proved better than expected (1.4% YoY) but close to the consensus (2.5% YoY). Some slowdown in annual terms should have been expected due to the adverse impact of the number of working days effect. After the seasonal adjustment, output rose 4.7% YoY, above the this year's average at 4.4% YoY.

In annual terms, 23 out of 34 categories rose and these were mainly those exposed to the foreign markets, like computers, electronic and optical products, motor vehicles, trailers, semi-trailers and metal products.

At the same time, October was yet another month of a contracting construction and assembly output. In annual terms, output dropped 5.2% YoY (after a monthly increase by 4.2%) and was much lower than we (-3.5% YoY) and the market (-1.3% YoY) expected. The most significant deterioration was recorded for rising buildings (-7.3% YoY).

All in all, industrial output growth after the seasonal adjustment remains above 4% YoY, faster than the 3.3% YoY 2014 average. In our view, this is a good omen for economic activity at the beginning of the 4Q.

### Retail sales surprises to the upside

Retail sales rose 0.8% YoY in nominal terms and 3.6% YoY in real terms, beating the consensus (0.4% and 3%, respectively) and our already more optimistic forecasts (0.5% and 3.2%). Sales accelerated in both cases from September's 0.1% YoY nominal and 2.9% YoY real growth.

In nominal terms, we have underestimated mainly sales of footwear and clothing (+12.7% YoY, strongest since August 2014, we expected 8.5% YoY), food beverages and tobacco (+4.6% YoY, second biggest rise after the January's +5% YoY while we assumed stabilization at 3.1% YoY) and press and books (+16.6% YoY vs. our forecast at 15.2% YoY). Only three out of nine categories recorded slowdown in the annual growth vs. September: motor vehicles, furniture and household appliances and others. However, growth in the first category stayed at a sound twodigit level (12.5% YoY in nominal terms, 15.6% YoY in real terms), only slightly below 3Q average (13.1% and 16.9%, respectively). In the remaining two categories, October's numbers also did not deviate much from what was recorded in the past months and fitted the observed trends.

Today's data on retail sales support our expectations for private consumption, assuming that in the last three months of the year the pace of consumption growth will be similar to the level reached in 3Q15 (c3% YoY), contributing significantly to keeping the GDP growth above 3%. Strength of the consumer demand could be assessed deeper next week, when

#### 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

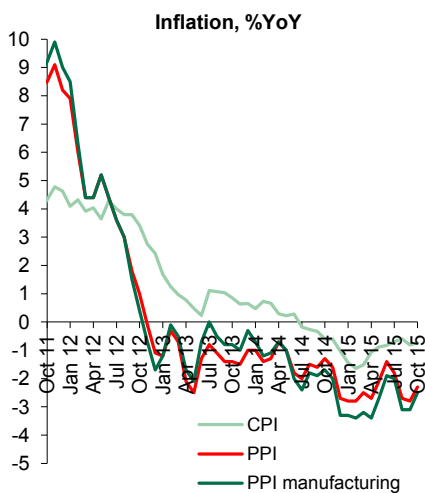
Marcin Sulewski +48 22 534 18 84

#### TREASURY SERVICES:

Poznań +48 61 856 5814/30

Warszawa +48 22 586 8320/38

Wrocław +48 71 369 9400



Poland's statistical office publishes "Monthly Statistical Bulletin", and the data on turnover in retail trade (taking into account the sale in small shops) could confirm solid growth YoY as in the previous months.

#### Producer prices moving up gradually

In October PPI declined by 2.3% YoY, which reflected a stronger increase than we and market expected (-2.4% YoY and -2.5% YoY, respectively). In monthly basis producer prices climbed by 0.1%, with the highest increase in mining and quarrying (by 1.7%). Prices in manufacturing also raised in October (by 0.1% MoM). At the same time prices of construction and assembly production fell by 0.7% YoY, after a decline of 0.6% YoY in September.

The October data on producer prices, as well as earlier data on consumer prices indicate a very slow rebound. In our view, producer prices will continue to rise gradually in coming months, although the PPI will remain below zero for about a year .

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