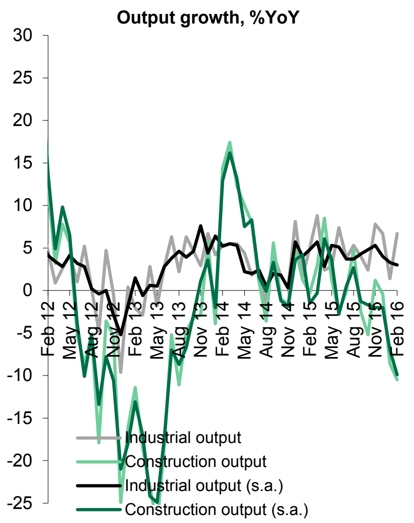
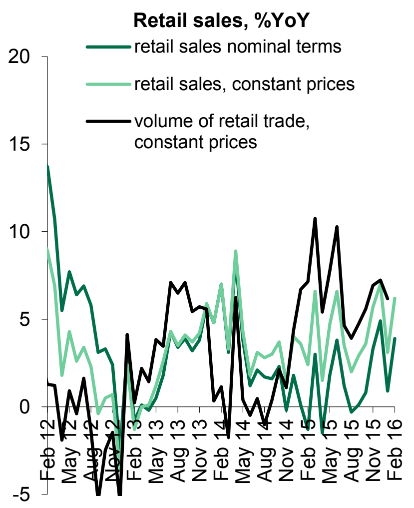
INSTANT COMMENT

17 March 2016

Output and sales above expectations

February data on industrial output (6.7% y/y) and retail sales (6.2% y/y in constant prices) surprised to the upside, boosted to some extent by calendar effect (more working days than in 2015). However, seasonally adjusted production looks much less impressive: only 3.0% y/y. Moreover, construction output is in free fall (-10.5 y/y), which seems to reflect a slowdown in public investments. On balance, it seems that economic activity in Poland remains decent, but GDP growth in 1Q16 will probably slow down from 3.9% y/y recorded in 4Q15. Worsening outlook for the global economy implies a risk of slowdown in Polish exports and production growth later this year. However, consumption growth will be boosted by strong labour income and generous child benefits (500+) to be launched in April. All in all, we still expect GDP to rise 3.5% on average in 2016.





Industrial output above forecasts, but no reason for euphoria

Industrial output growth accelerated to 6.7% y/y in February, well above our forecast and market consensus (both at 5.3% y/y). The result could have been even much more impressive if the energy output did not fall significantly (probably due to good weather), as manufacturing output alone expanded by as much as 8.1% y/y. Nothe that in January and February industrial output growth was affected by the calendar effects – in January there was one working day less and in February one working day more than in corresponding period of 2015. Average output growth for these two months reached 4.1% y/y, nearly 1pp less than on average in 2H15. Furthermore, according to statistical office, after seasonal adjustment industrial output rose merely 3.0% y/y, which is the slowest pace since April 2015. All in all, today's data show in our view a moderate expansion in Polish industry at the start of the year. At the same time, concerns about the global economy are on the rise and this generates risk that foreign demand for Polish goods could rise slower later in the year and this will have a negative impact on industrial output growth.

Construction and assembly output clearly disappointed as it fell in February by 10.5% y/y (and by 9.9% y/y after seasonal adjustment), which is the strongest contraction since 2013. This slowdown was probably to a large extent driven by falling public investments, including spending on infrastructure. Output in companies specialized in civil engineering plummeted by over 20% y/y.

Retail sales up thanks to durables

Retail sales went up in February by 6.2% y/y in real terms as compared to 3.1% y/y, exceeding our and market expectations (5.5% y/y). All sales categories, excluding fuels, accelerated in y/y terms, with most considerable change in: car (14.6% y/y in February vs 4.6% y/y in January), furniture and household appliances (15.1% y/y vs 5.5% y/y), ie durable goods.

We are expecting a continuation of positive tendencies observed in February, which will be supported by a positive labour market situation and payments due to the 500+ program. Growth rate of private consumption, which stabilized near 3% y/y over the last quarters, can accelerate to almost 5% y/y at the year-end.

February PPI outcome in line with expectations

In February inflation PPI decreased by 1.4% y/y and by 0.3% m/m. The outcome was in line with our forecast, showing gradually deeper fall than market consensus (-1.3% y/y). In annual basis prices increased only in category of water supply; sewerage, waste management and remediation activities (by 0.8%), while in other PPI categories prices

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dropped, with the highest fall in mining and quarrying (by 8.7%). Prices in manufacturing fell by 1% y/y, with the highest decline in manufacture of coke and refined petroleum products, mainly due to changes on oil prices on the international market.

Today's data confirmed earlier signals on trends in producer prices from the PMI report for the Polish industry. Sub-index of prices in the PMI showed not only a decrease in average purchase costs linked to declining prices for metals and oil-related inputs, but also a decline in prices of finished products for the seventh month running. Deflation in producer prices has been going on for over three years and we believe that the negative dynamics of PPI will continue until the end of the year.

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