INSTANT COMMENT

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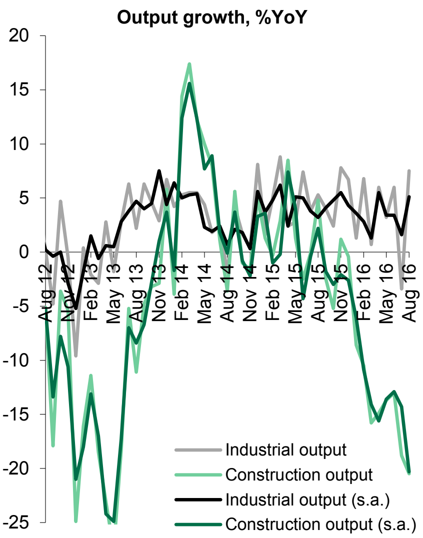
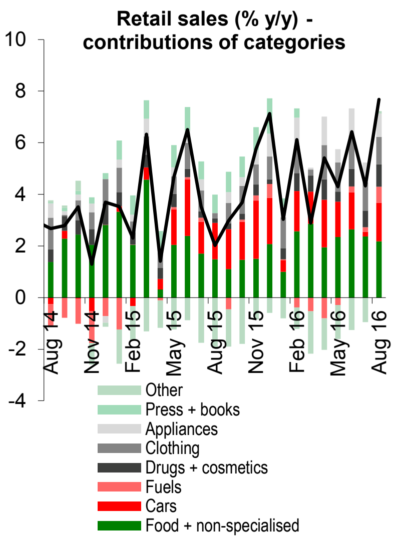
Disaster in construction, quite well in industry

Data about industrial production growth (7.5% y/y) and retail sales growth (7.8% y/y in constant prices) were clearly above expectations, while construction output (-20.5% y/y) strongly disappointed in August. It is still too early to say whether a rebound in retail sales can be attributed to the '500+' programme, but we expect that private consumption will accelerate markedly in 2H16. However, it will be not enough to speed up Polish GDP growth if investments keep falling (deepening slump in construction suggests it may be the case) and if export growth falters. As regards the latter, weakening production and export growth in Germany are suggesting that demand for Polish goods may be slowing in coming months (additionally, August's result was temporarily boosted by calendar effect, which will be on balance negative in the remaining months of this year). All in all, we still expect that Polish economic growth will not accelerate much in the coming quarters, remaining close to 3%.





Industry up, but construction at the bottom

Industrial output rose in August by 7.5% y/y, clearly above the consensus (5.2% y/y) and our forecast (6.9% y/y). Let us remind, that improvement versus disastrous July (-3.4% y/y) was caused partly by the calendar effect (in July, there were 2 working days less than a year before, in August 1 day more). However, even when we take this effect into account, August show an improvement of situation in industry. According to the Statistics Office, industrial output after seasonal adjustment rose by 5.1% y/y in August (versus average growth in H1 at 3.3% y/y). In industrial manufacturing, output climbed by 9.4% y/y, which is the best result since March 2015. However, outlook for the upcoming months is not bright due to negative tendencies in international trade and deceleration of economic growth in Germany. Moveover, in the following months of the year, there will be no more positive working day effects (one day less than in 2015 in October and December). To sum up, we expect to see a slowdown in Polish industry, amid weakening external demand.

Construction and assembly output disappointed again as it plummeted 20.5% y/y (our forecast was at -14.1% y/y, market consensus at -13.4% y/y). The pace of contraction is the biggest since mid-2013 and according to our estimates the value of construction output (after seasonal adjustment) has returned to the levels seen in early 2007. Sharp fall was recorded in all sectors of construction. In our view, this is a very bad signal for 3Q investments.

Retail sales growing at the fastest pace for two years

In August retail sales in constant prices surged 7.8% y/y (vs 4.4% y/y in July) growing at the fastest pace for two years and well above forecasts (we expected 6.0% y/y, market consensus was at 6.5% y/y). Improvement vs July was driven mainly by two categories – sales of autos (+17.6% y/y) that picked up after +1.9% y/y and returned to the trend seen earlier in the year and "others" that turned positive (+0.9% y/y) for the first time since October 2014. Acceleration was recorded also for fuels (+3.6% y/y, fastest pace this year) while the remaining categories continued the trend seen in the previous months.

Can we see effects of '500+' programme in August data? The annual sales growth may suggest such conclusion. However, please bear in mind that retail sales growth in August 2015 was extremely weak (the worst August since 2009), so this year's reading was boosted by low base effect. Moreover, the structure of growth acceleration is quite puzzling – the only categories that experienced significant change of trend were fuels (strong increases since May) and 'others' (up by over 9 pp. in August). The latter includes, among other things, also construction materials, so it cannot be ruled out that Poles rushed to redecorate

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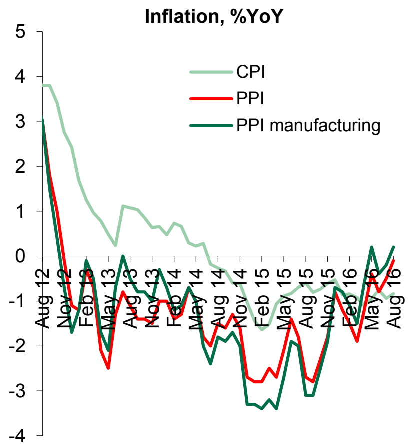

their houses. Hovewer, it also cannot be ruled out that a revival in this category was temporary, and so we have to keep observing the data in the following months. Anyway, decent retail sales reading in August suggests that private consumption growth should accelerate in 3Q16.

PPI is closer to exit deflation

In August 2016 inflation PPI has continued rebound – PPI was at -0.1% y/y (vs. -0.5% y/y in July - data after revision), after the drop in prices by 0.3% m/m . These figures were higher than our expectations (-0.4% y/y), which was the result of a stronger rebound in prices in mining and quarrying (-0.3% y/y after falling by 1% y/y in previous month) and growth in manufacturing prices (by 0.2% y/y). In manufacturing, on a monthly basis prices decreased by 0.3%, mainly due to falling prices in the production of coke and refined petroleum products (by 1.6%), which resulted from the decline in Brent prices on international markets (in August this prices fell by 1.8% m/m on average).

In our opinion, in September producer prices might exit a deflationary period for the first time since October 2012, and at the end of the year PPI will amount to c1% y/y.