

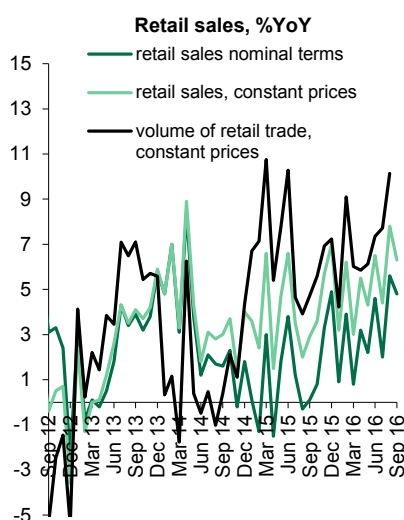
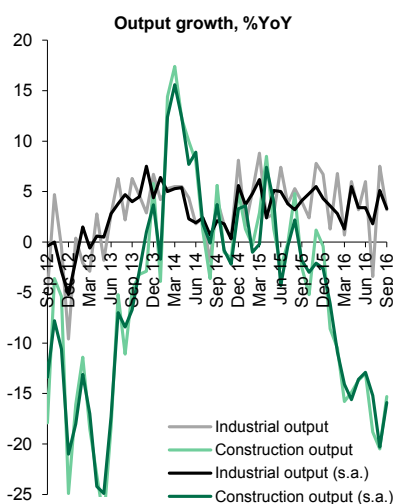
INSTANT COMMENT

19 October 2016

Production and sales below forecast

Industrial production in September rose 3.2% y/y, construction output fell 15.9% y/y, while retail sales rose 6.3% y/y (in constant prices). Despite slight rebound in construction, we think that on balance the data were disappointing and confirmed that the GDP growth in 3Q16 was probably below 3% y/y. However, it has to be noted that the forecast error is bigger than usually as the stat office informed earlier today about upward revision of GDP growth in 2015, without providing the revised quarterly time series.

Amid investments falling and export growth slowing down, the private consumption is now the main engine of economic growth in Poland. However, its pace of growth also seems to be disappointing, in our view, taking into account solid growth of households' revenue (from both labour and family subsidies). We maintain the view that next quarters are unlikely to see an acceleration of economic growth above 3% y/y.



Disappointing industrial output growth

Pace of industrial output growth decelerated in September to 3.2% y/y (3.3% y/y after seasonal adjustment) which was below our forecast (4.6% y/y) and market consensus (3.5% y/y). Slower growth vs impressive +7.8% y/y seen in August was partly due to the fact that the latter was boosted by the calendar effect. However, even taking this factor into account, we still view September's result as rather disappointing, signaling weaker economic activity in Polish manufacturing despite the recent German data pointing to a revival in foreign trade and output. Polish manufacturing output rose 4.1% y/y in September vs 4.9% y/y average for Jan-Aug period (when the total number of working days was the same as in the corresponding period of the previous year).

Construction and assembly output fell 15.3% y/y in September while we expected 20.9% y/y contraction and the market consensus was at -18.8% y/y. This result looks to be a good news after an even sharper decline seen in the previous months. Still, it is too early to say if this heralds a more persistent recovery or was it only a temporary rebound after a significant drop in August. The level of construction output (after seasonal adjustment) is still at its lowest since mid-2007.

In whole 3Q16 industrial output grew 2.3% y/y, the slowest pace for two years, while construction contracted 18.1% y/y, at the fastest pace of decline since mid-2013.

Retail sales not bad, but could have been better

In September, retail sales in constant prices rose 6.3% y/y, below consensus (7.8% y/y) and our forecast (8% y/y). In monthly terms sales contracted for the first time since May (by 1.4% y/y). Average sales growth in 3Q (5.9% y/y) was the highest since 1Q12 and in nominal terms (4.1% y/y) the highest since 2Q14.

In our view, sales of autos, clothing, furniture and electronics was particularly disappointing while sales in other nonspecialized stores, sales of cosmetics/drugs and fuels was growing at the fastest pace for months. However, we would expect even higher retail sales growth (particularly of durable goods) given the robust wages growth and constant inflow of cash from the 500+ child benefit program. Interestingly, survey data released by the stat office showed a deterioration of consumer confidence in October amid lower optimism regarding future financial situation and future unemployment.

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