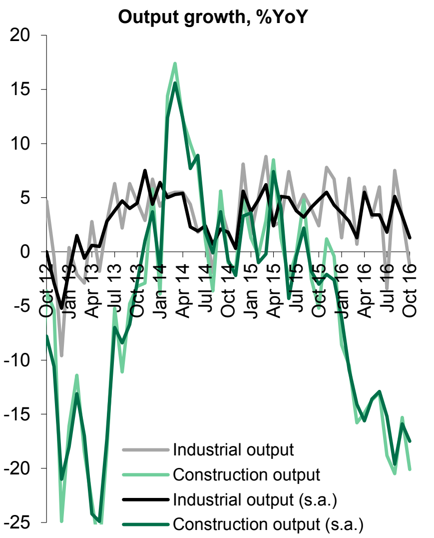
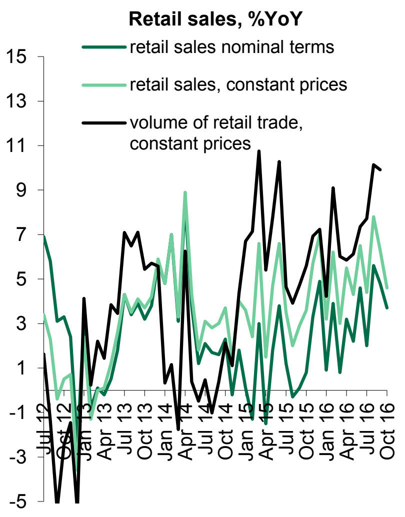
INSTANT COMMENT

21 November 2016

Weak data again, Q4 GDP might be below 2% y/y

Industrial production fell by 1.3% y/y in October, which was below our forecast of a more moderate fall (market consensus at c+1%). Construction output fell by more than 20% y/y again, which was deeper contraction as compared to consensus (-16%) and our forecast (-17%). Even if October's lower output readings were under influence of lower number of working days, they show also some overall weakness of economic growth amid export and investments deceleration. Consumption will remain the main driver of economic growth, but retail sales figure also disappointed today - growth in real terms by 4.6% y/y (both our forecast and consensus at c5.5%). Forecasting of quarterly GDP path is challenging amid no detailed data for Q3 nor previous quarters figures (after significant revisions of 2015 data by the stat office). Nevertheless, it seems that the 4Q16 reading is likely to be below 3Q GDP, possibly even below 2% y/y.





Very weak output data

Industrial production fell by 1.3% y/y in October, which was below our forecast of a less significant fall (market consensus at c+1%). The manufacturing sector showed a decrease by 0.5% y/y. The seasonally adjusted growth in industrial production was at 1.3% y/y, as compared to above 3% in September or the average from the third quarter.

Construction output fell by more than 20%YoY again, which was a deeper contraction as compared to consensus (-16%) and our forecast (-17%).

Even if October's lower output readings were under influence of lower number of working days (one less than a year ago), they show also some overall weakness of economic growth amid export and investments deceleration. What is more, in December we have another unfavourable working day effect, so production will probably fall again on annual basis. Even if some recovery is possible in November's data, it is quite likely that the fourth quarter as a whole will be negative.

As regards fixed investment, the stat office published data for big companies (employing more than 49 people), which showed deepening of negative tendencies – fall by 12% y/y in Q3 in real terms against -6% in Q2. Data from local governments also showed a deep slump in investment: -36.8% y/y in nominal terms in Q3 (vs -52.0% y/y in Q2). Clearly, there is no rebound in investment yet.

Retail sales also below forecasts

Retail sales rose by 4.6% y/y in real terms in October, below our forecast (6.0%) and consensus (5.5%). Weak car sales were the main factor behind the disappointing reading, as they fell by 2.5% y/y and this was the first negative growth in this category since February 2015. Also fuel sales disappointed, as they rose by a mere 0.1% m/m (bringing the annual growth rate down to 0.9% from 6.0% in September). Changes in other categories were more or less in line with our forecasts.

Retail sales are rising at a moderate rate, in line with consumption at 3-4% y/y, which will remain the main driver of the economic growth. However, this number shows that the positive impact of 500+ child benefit programme is not as strong as expected previously.

As we wrote in the recent monthly report MACROscope, forecasting of quarterly GDP path is chalenging amid no detailed data for Q3 nor previous quarters figures (after significant revisions of 2015 data by the stat office). Nevertheless, it seems that the 4Q16 reading is likely to be below 3Q GDP, possibly even below 2% y/y.

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