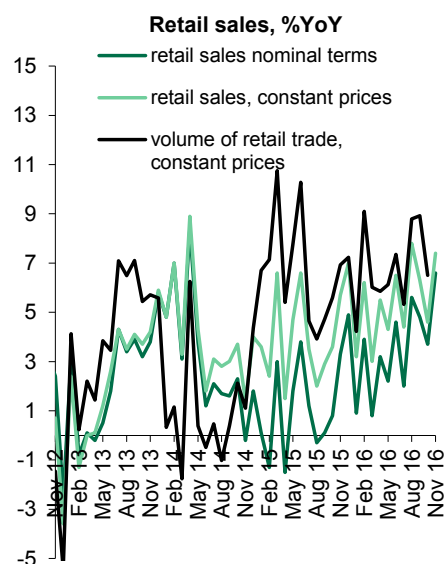
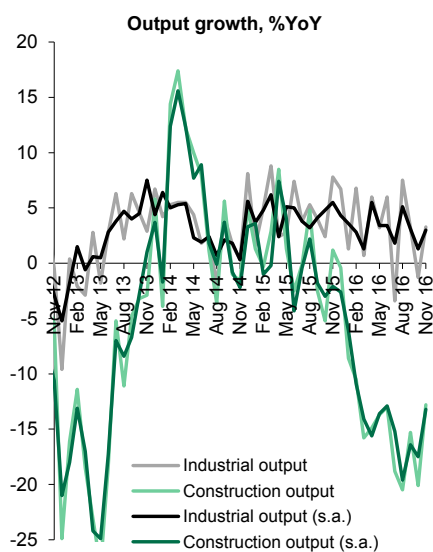


# INSTANT COMMENT

19 December 2016

## November surprised to the upside

Industrial output rose in November by 3.3% y/y, construction output fell by 12.8% y/y, retail sales added 7.4% y/y, while PPI inflation accelerated to 1.7% y/y. All four statistics were above expectations, while rebound in output was mostly due to statistical effects, which also undermined results in October. We expect that December will show weaker growth figures than November. Nevertheless, November's data seem to show that economic situation is not that poor as one might have thought watching October numbers. After November's readings, we see an upside rise for our 4Q16 GDP forecast. Reading at about 2% y/y is possible.



### Output above forecasts

In November, industrial output rose 3.3% y/y, much stronger than we and the market expected (0.5% y/y and 1.7% y/y, respectively). Rebound from very weak October figure (-2.3% y/y) was driven by the working day effect (neutral in November, negative in October). Interestingly, the rebound was recorded in output for all main categories, e.g. in metal products (to 9% y/y from -0.9% y/y), foods (to 8.8% y/y from 4.8% y/y), rubber and plastic products (to 4.6% y/y from 0.9% y/y), chemicals and chemical products (to 4.8% y/y from -3.9% y/y). Mining and quarrying saw a rebound to -0.5% y/y from -7.5% y/y and water supply to 6.9% y/y from 3.9% y/y.

Construction and assembly output also surprised to the upside as it contracted by only 12.8% y/y while -18.9% y/y was expected by consensus. This sector has also faced an improvement in its three main categories.

We think that such a broad improvement is not a result of a sudden boost in economic activity but is rather driven by a statistical effect. Interestingly, November's monthly rise in output (1.9% for industry and 5.4% for construction and assembly) was the biggest for that month since comparable data are available (that is for more than 20 years and for construction it was positive for the first time ever). It is possible that November's holidays have also contributed to this rebound, next to pure number of working days. November 1st was on Tuesday and November 11th (Poland's Independence Day) on Friday which did not encourage to take additional free days. Additionally, part of households might have celebrated November 1st the previous day and that weighed on the October's economic activity.

We expect that December will show weaker growth figures than November. Nevertheless, November's data seem to show that economic situation is not that poor as one might have thought watching October numbers. After November's readings, we see an upside rise for our 4Q16 GDP forecast. Reading at about 2% y/y is possible.

### Retail sales also rebounded

In November, real retail sales climbed by 7.4% y/y, visibly above forecasts (we: 5.0% y/y, consensus: 4.8% y/y).

As compared to our forecasts, the upward surprise was mostly created by car sales (7.3% y/y versus -2.5% y/y in October) and fuels (7.5% y/y versus 0.9% y/y in October). Other categories were more or less in line with our expectations, with sales of food accelerating to 13.0% y/y from 3.7% y/y in October and other sales in non-specialised stores decelerated to -2.7% y/y from +14.2% y/y. The sudden change of growth rates in these two categories is mostly attributable to a temporary organisational change in enterprises, which happened

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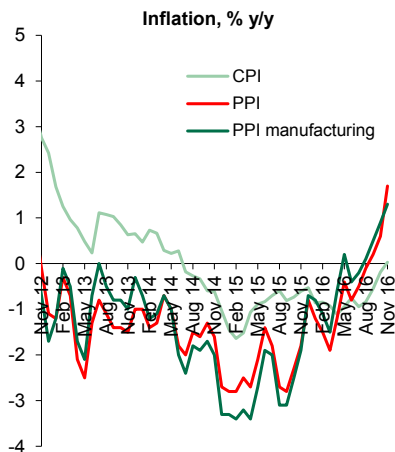
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one year ago. Growth rates in both categories will normalise in January.

In our view, similarly as in case of output, retail sales were supported by the working day effect, while October's result was undermined by one-off effects.

### PPI inflation strongly up due to rising commodity prices

PPI inflation jumped to 1.7% y/y in November, way above expectations (consensus: 1.0% y/y, we: 1.1% y/y). In monthly terms, prices climbed by 1.1% m/m, mostly due to strong price hikes in coal mining (24.3% m/m) and metallic ores (18.0% m/m), which was triggered by rising commodities on the global markets. Producer prices in industrial manufacturing climbed by 0.4% m/m, on line with our expectations and mostly under impact of weaker zloty.

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