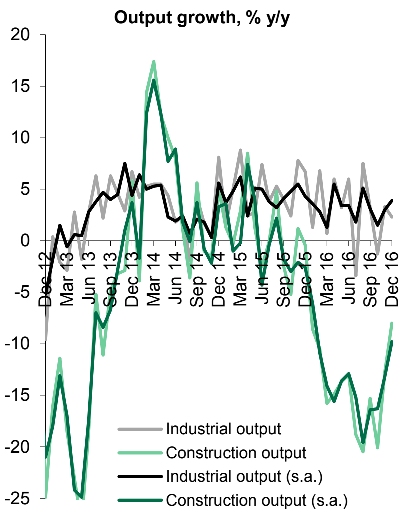
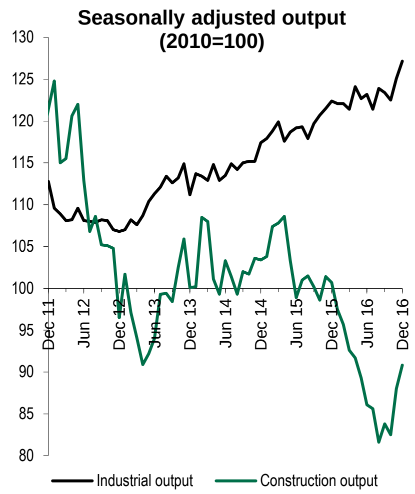
INSTANT COMMENT

19 January 2017

Production better than expected again

Production in manufacturing (2.3% y/y) and in construction (-8% y/y) in December clearly better than we expected, while retail sales (6.1% y/y) below forecast. On balance, the data look good, as they suggest that the revival of economic activity in Germany and the rest of euro zone is already triggering a recovery in Polish manufacturing, while investment collapse is probably losing momentum (construction). Consumption growth was not as strong as we expected, but it is decent enough to be the main driver of economic growth in 1H17. After December's data we think that GDP growth in 4Q16 was probably slightly above 2% y/y (earlier we thought it could be slightly below 2%). 4Q16 was probably the bottom of the mini-cycle, and we expect economic growth to accelerate gradually in 2017. PPI inflation surged to 3% y/y in December, its highest since August 2012, mainly due to the pressure from the rising commodity prices. Despite rising inflation and signs of picking up economic activity we do not expect the Polish central bank to start thinking about interest rate hikes anytime soon.





Production above forecasts

Industrial output expanded in December by 2.3% y/y, i.e. above our (-0.3% y/y) and market (1.6% y/y) expectations. Growth rate was a bit weaker than in November (3.3% y/y), but this was mostly due to calendar effect (lower number of working days). After seasonal adjustment, growth amounted to 3.9% y/y versus 3.3% y/y in November. This was the second better-then-expected result in industry in a row, which in our view can be a signal of recovery in this sector, most likely generated by higher economic activity in Germany and the rest of the euro zone. Especially high growth rate was recoded in export-oriented sectors (e.g. machinery 17.9% y/y, metal products 15.4% y/y), supporting our claim that impulse for revival in industry comes from abroad.

Construction output also surprised to the upside and fell only by 8.0% y/y vs market expectations -12.5% y/y and our forecasts -14.6% y/y and versus -12.8% y/y in November. Seasonally-adjusted data suggest that construction output finally started rebounding, after a year of slump. The most considerable improvement was recorded in civil engineering (-5.0% y/y in December vs -11.4% y/y in November). In our view, this may be a sign of reviving investment, especially in the public sector.

In the entire 4Q16, industrial output rose by 1.5% y/y vs 2.3% y/y in Q3, while construction saw a contraction of 13.2% y/y (-18.1% y/y in Q3). We are expecting a further improvement of situation in industry and construction in the upcoming months.

Retail sales slightly below forecasts

In December retail sales rose 6.1% y/y in real terms, below our and market expectations (7.1% y/y and 6.9% y/y, respectively) and vs 7.4% y/y in November. Acceleration was recorded for the sales of autos (to 10.1% y/y from 7.3% y/y) while sales of furniture and household appliance slowed (to 5.4% y/y from 7.9% y/y). In whole 4Q16 retail sales grew c6% y/y vs 6.2% y/y for 3Q16 suggesting no acceleration of consumption in late 2016. Interestingly, deflator of retail sales reached 0.3% y/y and was in positive territory for the first time since March 2013. The deflator rose mainly on higher fuel and food prices.

We expect that in the coming months retails sales will grow at a similar pace like in late 2016. Sales will be supported by sound situation on the labour market and cash injection from 500+ program.

ECONOMIC ANALYSIS DEPARTMENT:

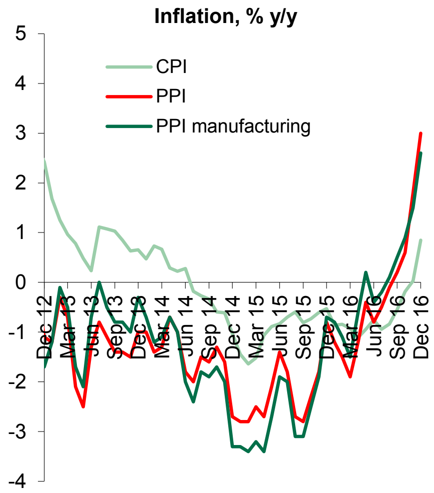
al. Jana Pawła II 17, 00-854, Warszawa fax +48 22 586 83 40

email: ekonomia@bzwbk.pl Web site: http://www.bzwbk.pl

Maciej Reluga (Chief Economist)	+48 22 534 18 88
Piotr Bielski	+48 22 534 18 87
Agnieszka Decewicz	+48 22 534 18 86
Marcin Luziński	+48 22 534 18 85
Marcin Sulewski	+48 22 534 18 84

TREASURY SERVICES:

Poznań	+48 61 856 5814/30
Warszawa	+48 22 586 8320/38
Wrocław	+48 71 369 9400



Highest PPI growth since 2012

In December producer prices rose 3% y/y, in line with our forecast, after rising 1.8% y/y (revised) in November. PPI growth was the highest since August 2012. Its acceleration was triggered by sharp price hikes in mining (24.1% y/y, most since 2011) but also by faster price growth in: water supply, sewage management (3.1% y/y) and manufacturing (2.6% y/y). Commodity prices had important impact on PPI – prices of coke and oil products went up 27.3% y/y. The data confirmed signals from business climate surveys, which suggested building cost pressure in manufacturing.

We expect that the start of 2017 will see a further rise of PPI to c.4% y/y in March. Later on, the price growth should slow, due to high base effect, among other things.