INSTANT COMMENT

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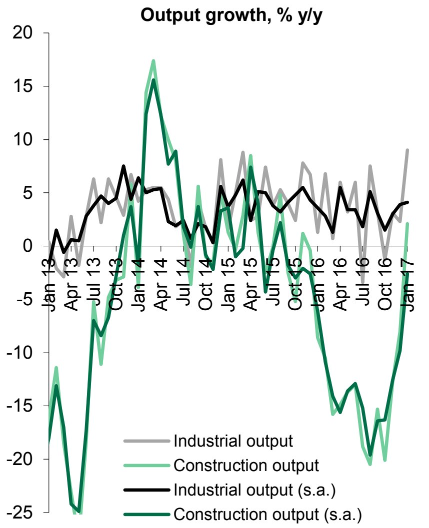
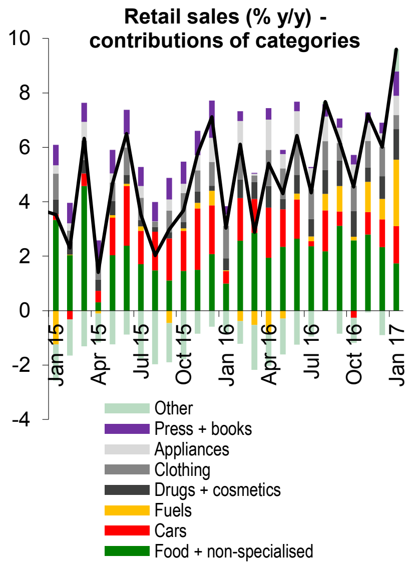
Production and sales surprised positively in January

Data about economic activity in January were very good – growth in industrial production (9% y/y), construction output (2.1% y/y), as well as retail sales (9.6% y/y in constant prices) have clearly accelerated, exceeding market forecasts. While to some extent the improvement resulted from the statistical effect (higher number of working days), the surprise is big enough to suggest that the economic recovery at the start of 2017 is stronger than we have thought. What is important, the data suggest improvement in all main components of growth: consumption (strong retail sales), investments (construction) and exports (manufacturing output). At the same time, producer prices surged above 4% y/y, reflecting the growing cost pressure on companies. The data may fuel market speculation about the timing of interest rates in Poland, pushing the short end of the curve up, in our view.





Production better than forecasts

Industrial production rose in January by 9.0% y/y, exceeding our forecast and market consensus by as much as 1pp. It was the fastest growth of production since February 2011, however, to a large extent such a significant growth may be explained by the calendar effect – in January 2017 the number of working days was by 2 higher than one year ago, which happens very rarely. Even after taking into account this factor data show increase in activity in Polish industry sector in January – seasonally adjusted industrial output grew in January by 4.1% y/y, its highest since August 2016. Additional factor, which partly added to faster production growth was cold winter in January, which resulted in increase of energy output. Nevertheless, the growth in manufacturing also improved and amounted to 10.2% y/y, which may be resulting from recovery in foreign demand for Polish goods.

Construction output brought an even more positive surprise as it grew in January by 2.1% y/y (our forecast was at -1.9% y/y, consensus -1.7% y/y). Here the effect of working days played the main role as well, but on the other hand, one would expect a negative impact of weather conditions. Seasonally adjusted construction output growth amounted to -2.6% y/y, the highest since December 2015.

In February both industrial and construction output are likely to slow down as this time the calendar day effect will be negative. Still, the favourable outcome of January production increases optimism about GDP growth in 1Q17.

Retail sales grow at the fastest pace for five years

In January retail sales rose 9.6% y/y in real terms, the fastest pace since January 2012 and much faster than we and the market expected (6.4% y/y and 7.2% y/y, respectively).

The biggest surprise came from strong sales of fuels (+17.2% y/y) that added as much as 2.4pp to the headline sales figure. In our view, this might have been due to introducing the “fuel package” that resulted in higher fuel sales from legal sources. Nevertheless, retail sales excluding fuels accelerated as well, to 8.3% y/y from 6.0% y/y in December. The second source of retail sales boost were “others” that surprisingly jumped by 8.8% y/y after staying in negative territory during the last two years. Some improvement, although not that noticeable as in the abovementioned categories, was recorded for books and newspapers, autos, furniture and drugs. Sales of food and in the other nonspecialized stores returned to average levels after some distortions related to changes in classification done in late 2015. Still, these two categories provided a negative contribution to the headline figure, just like sales of clothes. Retail sales data point to an acceleration of the consumption demand in early 2017.

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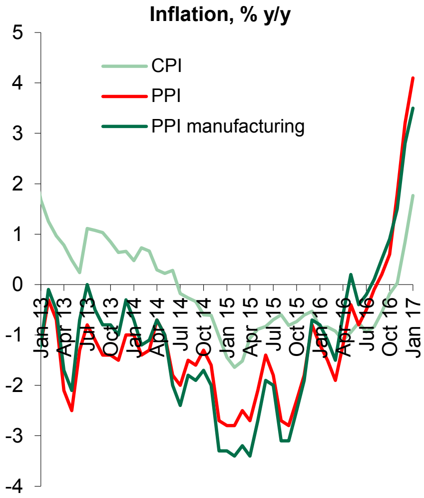

Dynamic rise of producer prices

In January, producer prices rose by 4.1% y/y after advancing by 3.2% in December (data were revised upwards by 0.2pp). This reading was markedly above our (3.3% y/y) and market (3.7% y/y) forecasts. In monthly terms, producer prices climbed by 0.3% and this was the most considerable rise in January since 2011. Industrial manufacturing was the main contributor (0.4% m/m after rising 1.1% m/m in December), with the most considerable rises in metals (3.0% m/m), coke and petroleum refining (2.9% m/m). In other categories, price changes were in line with our forecast. Let us stress that these data confirm tendencies suggested by PMI survey, showing rising output prices (second strongest since May 2011).

This considerable acceleration of PPI in January pushed our path for the upcoming months. In our view, in Q1 the PPI inflation may reach its maximum at 5% y/y.

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