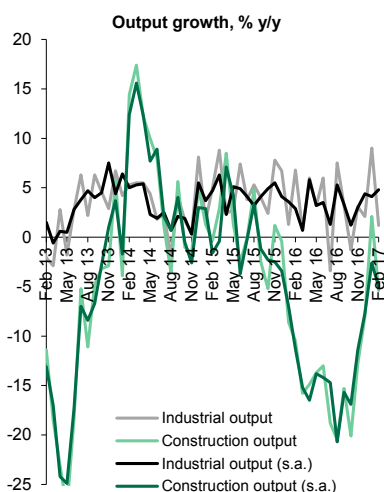


INSTANT COMMENT

17 March 2017

Production and retail sales support moderate optimism

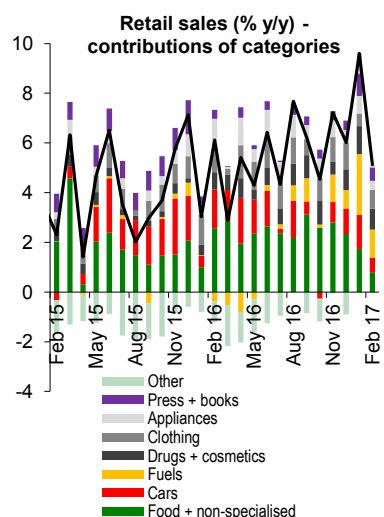
Industrial output growth slowed in February to 1.2% y/y and construction output fell by 5.4% y/y. The results were weaker than in January and below market consensus. However, one should remember that slowdown versus January resulted mainly from the calendar effect. The data are not reason for concern, in our view, but they suggest that one should not be overly optimistic about the outlook for Polish economic growth this year. Especially that the retail sales growth (5.2% y/y in constant prices) also disappointed, signalling that the private consumption growth is stabilising at the start of the year, not accelerating further. We keep our view that the economic growth revival this year will be quite slow. From the central bank's point of view, today's data should be neutral, in our opinion.



Weaker production growth due to calendar effect

In February, the pace of industrial output growth decelerated to 1.2% y/y and construction and assembly output contracted by 5.4% y/y. Both figures were below January readings (9.0% y/y and 2.1% y/y, correspondingly) and below the market consensus (2.7% y/y and -0.1% y/y). However, it should be noticed that slowdown of output growth versus January was largely due to the calendar effect – in January there were two working days more than last year, while in February there was one day less than a year ago. According to the stat office estimate, industrial output after the seasonal adjustment rose in February by 4.8% y/y (highest since August 2016) and construction and assembly output fell 5% y/y.

We think that these data are not a reason for concern. Improving economic activity in the euro zone and revival in German exports should fuel Polish industrial production growth in the months to come. On the other hand, we think one should not get too optimistic about the Poland's economic outlook. The construction sector has probably left the period of its biggest collapse behind, but in our view the pace of its improvement should be rather moderate this year. The same applies to the expected rebound in investments, as the improvement in absorption of the EU funds will not trigger a rapid surge in investment activity, but rather a gradual recovery, in our view.



Retail sales below expectations

Retail sales increased in February by 5.2% y/y in constant prices, less than our (7.1% y/y) and market (6.4% y/y) expectations. The slowdown as compared to very strong January's figure (9.6% y/y) resulted from some decrease in pace of fuel sales (to 8.5% y/y from 17.2% y/y in January) and car sales (to 5.2% y/y vs 13.9% y/y in January), which to some extent resulted from the high base effect. Sales in other categories also slowed, but in our view, this could stem from, among others, lower number of working days. The increase in retail sales of food amounted to only 0.7% y/y and it was the lowest reading in over a year. The total increase in food sales and sales in non-specialized stores slowed down for the fourth month in a row and amounted to 2.0% y/y in real terms (the lowest since April 2015).

We believe that later this year the retail sales growth may be slightly higher, though March is unlikely to be very impressive due to Easter-related base effect (this year Easter holiday is in April, while last year it was in March). Overall, retail sales data support our forecast of private consumption growth stabilizing near 4.0% y/y.

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>

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

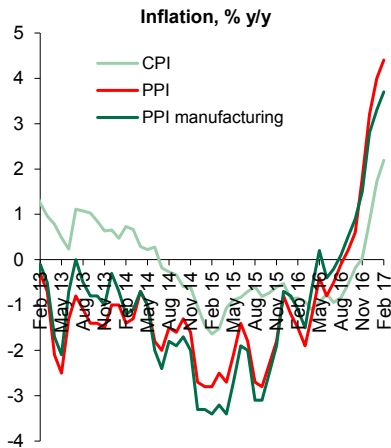
TREASURY SERVICES:

Poznań +48 61 856 5814/30

Warszawa +48 22 586 8320/38

Wrocław +48 71 369 9400

PPI still in upward trend



February brought a continuation of upward trend in producer prices; PPI increased to 4.4% y/y from 4.0% y/y in the previous month (data revised down by 0.1pp as compared to the previous numbers). This increase was lower than our and market expectations (4.6% y/y each). On monthly basis the headline PPI was flat versus previous month, but prices of mining and quarrying grew sharply by 1.4% m/m and it was the highest monthly increase since 2008. On the other hand prices in manufacturing fell by 0.1% m/m, with the strongest drop in category in manufacture of motor vehicles, trailers and semi-trailers (by 0.6%).

In our opinion, the upward trend in PPI inflation will continue in the next two months, mainly as a result of statistical effects (low base last year). In the following months we expect a gradual slowdown in producer prices.

This publication has been prepared by Bank Zachodni WBK S.A. for information purposes only. It is not an offer or solicitation for the purchase or sale of any financial instrument. Information presented in the publication is not an investment advice. All reasonable care has been taken to ensure that the information contained herein is not untrue or misleading. But no representation is made as to its accuracy or completeness. No reliance should be placed on it and no liability is accepted for any loss arising from reliance on it. Forecasts or data related to the past do not guarantee future prices of financial instruments or financial results. Bank Zachodni WBK S.A., its affiliates and any of its or their officers may be interested in any transactions, securities or commodities referred to herein. Bank Zachodni WBK S.A. or its affiliates may perform services for or solicit business from any company referred to herein. This publication is not intended for the use of private investors. Clients should contact analysts at and execute transactions through a Bank Zachodni WBK S.A. entity in their home jurisdiction unless governing law permits otherwise. Copyright and database rights protection exists in this publication. Additional information is available on request. Please contact Bank Zachodni WBK S.A. Financial Management Division, Economic Analysis Department, al. Jana Pawła II 17, 00-854, Warsaw, Poland, phone +48 22 534 18 87, email ekonomia@bzwbk.pl, <http://www.bzwbk.pl>.