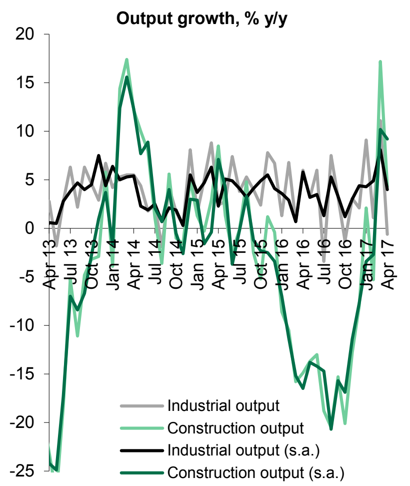
Bank Zachodni WBK
Grupa Santander

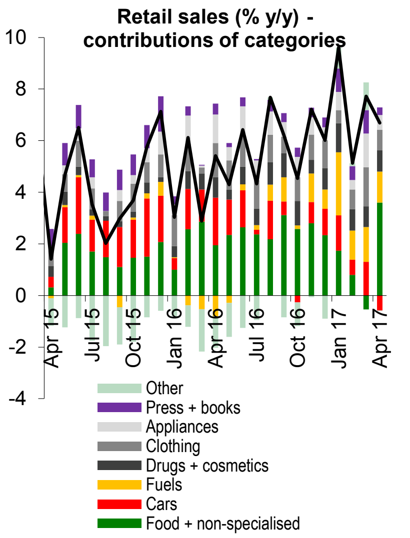
INSTANT COMMENT

19 May 2017

Output and sales below expectations

In April industrial output fell by 0.6% y/y with our forecast for -0.2% y/y and market consensus at +1.9% y/y. Significant slowdown with respect to 11.1% y/y recorded in March was a result of a negative working days effect (-2 y/y). Seasonally adjusted data showed a growth of 4.0% y/y. Although it is significantly less than in March (+8.1% y/y), the reading is close to the ones from January and February. Data suggested decreases of output in many export-oriented sectors, but lack of signals of worse economic climate in the euro zone makes us believe this was only a temporary weakness. Construction and assembly output was also lower than expected and grew by 4.3% y/y (we expected 6.6% y/y, market 6.8% y/y). Seasonally adjusted result was strong and similar to the one recorded in March. Retail sales figure disappointed as well as it rose 6.7% y/y in real terms vs 7.9% y/y seen in March, market consensus at 7.3% y/y and our forecasts at 8.8% y/y. Households' income still rises at a high rate, which makes us expect better readings in the months to come.





Output lower than expected

In April industrial output fell by 0.6% y/y with our forecast for -0.2% y/y and market consensus at +1.9% y/y. Significant slowdown with respect to 11.1% y/y recorded in March was a result of a negative working days effect (-2 y/y). Seasonally adjusted data showed a growth of 4.0% y/y. Although it is significantly less than in March (+8.1% y/y), the reading is close to the ones from January and February. April data suggest that the situation in industry is not as optimistic as one might have concluded from March reading. Data suggested decreases of output in many export-oriented sectors, which in our opinion will result with weak exports results in April. We expect the output dynamics to rebound in the months to come.

Construction and assembly output was also lower than expected and grew by 4.3% y/y (we expected 6.6% y/y, market 6.8% y/y). Seasonally adjusted result was strong and amounted to 9.2% y/y vs. 10.2% y/y in March. The production increase was recorded in entities performing specialised construction activities (14.0% y/y) and in civil engineering (7.8% y/y), while the construction of buildings decreased by 5.5%. It is likely that the latter figure is a result of the situation in the housing market, where in April there was a decrease in the number of dwellings completed (-22.8% y/y) and house starts (-14.0% y/y). This growth breakdown can, in our view, indicate that public investment is, for the time being, a more important contribution to the recovery of the construction than the private sector. We expect an acceleration of construction output in the coming months and a return to double-digit dynamics.

In general, although production data were slightly worse than expected, they support our view that GDP growth will be close to 4% y/y this year.

Retail sales weaker due to Easter and autos

Retail sales figure disappointed as well as it rose 6.7% y/y in real terms versus 7.9% y/y seen in March, market consensus at 7.3% y/y and our forecasts at 8.8% y/y. It is hard to point any circumstances on the consumer incomes side that might have led to slower retail sales growth. Real wage bill calculated from the corporate sector data rose 8.8% y/y in April and consumer sentiment indexes are at their multi-year highs.

Taking a closer look at the retail sales data, we see that auto sales have significantly weighed on the headline reading but this does not have to mean that consumer confidence has deteriorated. Sales of autos plummeted 18.6% m/m, much more than -10% expected by us. If

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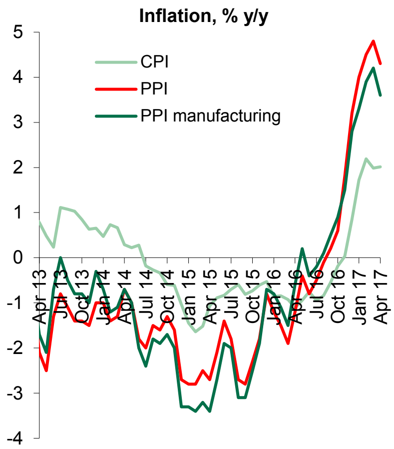

we exclude this category, then the headline retail sales figure would have risen above the readings from the last two months. If we additionally omit the 1% decline in real fuel sales, we will arrive at the highest growth rate in two years. Let us remind, however, that in 2017 Easter was scheduled in April and in 2016 in March, so some additional distortions in the data were quite obvious. Indeed, food sales and sales in other non-specialised stores rose by 9.3% y/y in real terms.

In our view, the upcoming months will show the strength of the consumer demand, we see no signs of its weakening in the April's data.

PPI inflation slightly down

PPI inflation went down in April to 4.3% y/y from 4.8% y/y in March (we expected 4.2% y/y, consensus was at 4.5% y/y). In monthly terms, producer prices fell by 0.2%, mainly due to lower prices in industrial manufacturing (-0.2% m/m, in our view mostly because of the stronger PLN). We expect further declines of PPI inflation in the upcoming months, mostly due to high base effect from 2016.

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