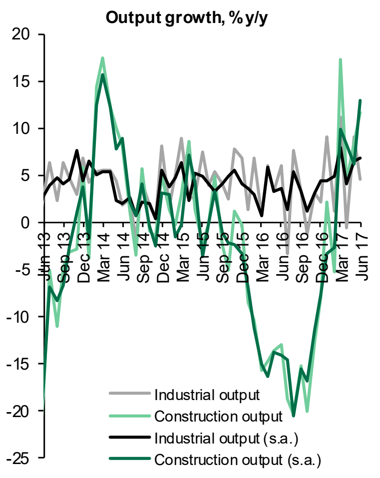
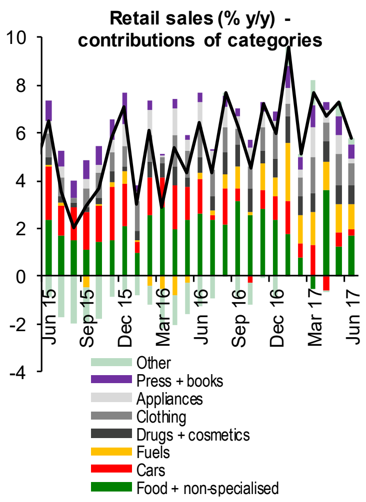
INSTANT COMMENT

19 July 2017

Solid end of the second quarter

In June industrial output growth slowed to 4.5% y/y and real retail sales to 5.8% y/y mainly due to the negative working days effect. However, aside from the calendar effects, trends in industry and retail trade are still positive, in our view. Construction output is also showing a gradual recovery (in June 11.6% y/y), which may signal a growing investment activity. Summing up production and sales growth for the whole 2Q17, we think that they signal a very slight slowdown in GDP growth in this quarter to 3.8-3.9% y/y. Throughout the year, the economy is likely to grow at a rate close to 4%, as long as investment growth accelerates in 2H, as expected. The data should be neutral for the financial market and for the monetary policy outlook.





Industry and construction in upward trend

Industrial output growth slowed down in June to 4.5% y/y from 9.1% y/y a month earlier, mainly due to a calendar effect. In June this year, the number of working days was lower by one than a year ago, while in May we had the opposite situation. The production growth was slightly better than our forecast and market consensus (both at 3.9% y/y). Seasonally adjusted industrial output grew by 6.7% y/y in June, the highest since March. In our view, the released data suggest maintaining favourable trends in the Polish industry, mainly due to the continuation of economic recovery in the Euro area, which results in a large inflow of export orders for Polish companies. Traditionally, the largest increases in production have been recorded by industry sectors heavily dependent on exports.

Construction and assembly output added 11.6% y/y in June, also slightly above expectations. Data adjusted for seasonal factors accelerated to 12.9% y/y – the fastest growth since March 2014. The most considerable rise in output was recorded in civil engineering, which in our view is a signal of a revival in EU-funded infrastructural investment.

In general, in 2Q17 industrial output rose by 4.2% y/y (vs 7.3% y/y in 1Q), while construction accelerated to 8.4% y/y from 5.6% y/y in 1Q. In the upcoming months, the positive tendencies in industry and construction should hold, in our view. In July and August the working day effect will be neutral for the first time this year and this should be supportive for moderately positive readings.

No surprise from retail sales

Real retail sales rose 5.8% y/y in June, roughly in line with our forecast (5.5% y/y) and market consensus at (6.0%). Slowdown vs May (7.4% y/y) was caused mainly by the lower number working days in June compared to the previous year.

The data did not surprise and performance of particular categories was fairly in line with our assumptions. It is worth to notice slowdown in furniture and household appliance – to 2.5% y/y from 9.5% y/y in May. Looking at monthly changes, June was a third month of stagnation in this sector (sales was falling by c0.5% m/m).

In our view, the upside trend of retail sales is here to stay but some slowdown may take place later in the year due to high base effect caused by purchases funded by the "500+" child benefit programme and higher official sales of fuels after the introduction of "fuel package".

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PPI lower

PPI inflation decreased in June to 1.8% y/y from (revised) 2.4% in May. As compared to May the prices fell by 0.4%, mainly due to drop of commodity prices and zloty strengthening versus dollar. In our view, the PPI will rebound slightly in the nearest months, but it seems likely that the June's result was not the lowest reading this year.

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