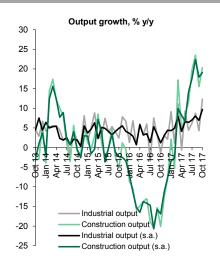


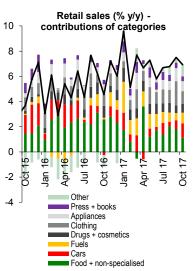
# **INSTANT COMMENT**

20 November 2017

## Good start of the fourth quarter

Industrial output growth accelerated to 12.3% y/y (9.7% after seasonal adjustment), beating market consensus at 9.9%. Manufacturing output rose by as much as 14% y/y, which was the best result since Dec 2010. The data confirm that solid expansion of Polish industrial sector continues, driven by a strong economic growth in the euro zone. Meanwhile, construction production rose 20.3% y/y, which is a bit less than expected (market consensus 23.9%), but still a decent result. Retail sales rose 7.1% y/y in constant prices (BBG consensus 7.5% y/y). In general, the data suggest that the economic growth at the start of 4Q17 remains solid, and may be even similar to the impressive 4.7% y/y recorded in 3Q. The data should be neutral from the MPC's point of view





## Industry sector in expansion phase

In October industrial production rose by 12.3% y/y, strongly above the market expectations (9.9% y/y) and our forecast (11.3% y/y). The result was lowered by weak mining and quarrying results (-1,5% y/y). Manufacturing sector increased by 14.0% y/y, the fastest pace since December 2010. The strong October's results were supported by positive calendar effect (+1 working day y/y). Despite the additional support from calendar effect we still see a strong underlying trend in Industrial data. In October the seasonality adjusted industrial production growth reached 9.7% y/y, last seen in 2011. Strong Polish industry sector condition it was a result economy recovery in Europe, which feeds the demand for Polish export.

Construction and assembly output rose 20.3% y/y, less than we and the market expected (25.7%, 23.9%, respectively). Seasonally-adjusted growth was at 19.1% y/y which is a pretty good result. However, one should note that high double-digit growth seen in the recent months is to a large extent driven by low-base effect from the previous year. For the time being, data do not suggest we could see any sharp investment revival at the end of the year.

## Improving retail sales of durable goods

October retail sales surprised to the downside growing 7.1% y/y in real terms vs market consensus at 7.5% y/y. Still, scale of disappointment is not that big, and does not put into question the scenario of high contribution of consumption to the economic growth. Pace of private consumption growth could still reach c5% y/y in 4Q17. Looking into details, the seasonal effect related to clothing/footwear ceased and sales of food and in 'other sales in nonspecialized stores' underperformed as well. On the other hand, sales of autos and fuel contributed relatively strongly to the headline figure as retail sales after excluding these two categories decelerated to 7.6% y/y from 9.4% y/y. After excluding food, retail sales eased to 8.4% y/y from 8.8% y/y. Sales of autos added as much as 1.1pp to the headline figure, the highest contribution this year. Contribution of household appliances and furniture sales fell from 1pp to 0.8pp, a similar level as in July/August. However, if we consider the high-base effect in this category, we could still see its sales result (9.6% y/y) as a sign of growing propensity to consume durable goods. Stat office consumer survey has been showing already for several months that consumers' disposition to make large purchases is record high. Retail sales deflator stayed low in October (0.8% y/y vs 1.0% y/y in September) and deviated down from CPI even more than in the previous months.

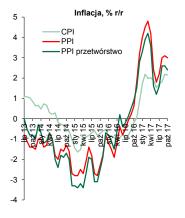
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### **Energy commodities supported PPI inflation**

PPI rose in October by 3.0% y/y and 0.3% m/m vs. 3.2% y/y and 0.5% m/m in the previous month. The market expected 2.9% y/y. The main driver of PPI growth were priceas in mining and quarrying, which rose by 23.8% y/y. Manufacturing production prices increased by 2.4% y/y, mainly fueled by the fast growth of prices in categories 'manufacture of coke and refined petroleum products', 'manufacture of chemicals and chemical products' and 'manufacture of basic metals', all of which depend on energy commodities and metal prices. Despite the fact that growth of energy commodities prices were faster than we expected, we still assume gradual decrease of y/y PPI growth until the end of the year.

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