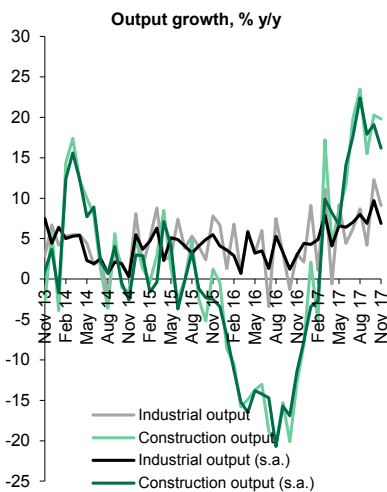


INSTANT COMMENT

19 December 2017

Strong data on real economic activity

Polish industrial output rose in November by 9.1% y/y, slightly below expectations (market consensus at 9.6% y/y, our forecast at 10.1% y/y). Most considerable growth was recorded in export-oriented sectors as strong momentum in industry is driven by strong demand from Germany and European Union in general and we expect it to continue its upward trend in the months to come, given positive economic outlook for Europe. Construction rose by 19.8% y/y in November, strongly beating the consensus at 14.1% y/y and our forecast at 11.2% y/y. Strong rebound in civil engineering (24.6% y/y) may be a proof of a further rebound in investments in 4Q17. Retail sales rose in November by 8.8% y/y, way above market expectations (6.4% y/y) and our forecast (7.1% y/y). The upward surprise was delivered by a spike in sales of durables: cars (15.9% y/y) and electronic home appliances and furniture (14.8% y/y). These numbers support our forecast that the economic growth will remain rapid in the quarters to come, at c4.8% y/y in 4Q17 and 4.0% in 2018, driven by strong consumption, exports and recovering investment. Data supports also our forecast of accelerating consumption of durable goods.



Industry maintaining strong momentum

Polish industrial output rose by 9.1% y/y in November, slightly below expectations (market consensus at 9.6% y/y, our forecast at 10.1% y/y). Most considerable growth was recorded in export-oriented sectors, like pharmaceuticals and machinery (whopping 23.7% y/y and 23.5% y/y, respectively), cars and metallic products (both 17.4% y/y). Some negative contribution was delivered by mining and quarrying (-14.8% y/y, -0.5pp to the headline). Strong momentum in industry is driven by strong demand from Germany and European Union in general and we expect it to continue its upward trend in the months to come, given positive economic outlook for Europe.

Construction gaining strength

Construction rose by 19.8% y/y in November, strongly beating the consensus at 14.1% y/y and our forecast at 11.2% y/y. Breakdown by sectors clearly shows a strong rebound in civil engineering (24.6% y/y) and this may be a proof of a further rebound in investments in 4Q17. In our view, construction is close to its capacity constraints and we expect a more pronounced slowdown in this sector in 2H18. Still, 1H18 is likely to show double-digit growth rates.

Retail sales driven by durables

Retail sales rose in November by 8.8% y/y, way above market expectations (6.4% y/y) and our forecast (7.1% y/y). The upward surprise was delivered by a spike in sales of durables: cars (15.9% y/y) and electronic home appliances and furniture (14.8% y/y). Durables added as much as 3.0pp to total sales growth and this is the highest contribution since December 2013. Also clothes surprised to the upside, with a 26.4% y/y growth.

The positive retail sales data were consistent with information about wages (6.5% y/y in November) and stat office consumer survey (record high in October).

These numbers support our forecast that the economic growth will remain rapid in the quarters to come, at c4.8% y/y in 4Q17 and 4.0% in 2018, driven by strong consumption, exports and recovering investment. Data support also our forecast of accelerating consumption of durable goods.

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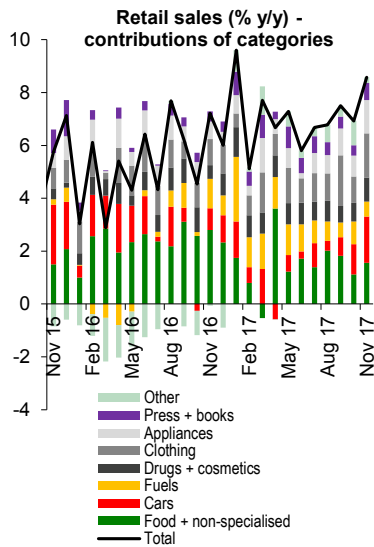
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PPI down

Producer prices rose by 1.8% y/y and 0.1% m/m in November as compared to 3.0% y/y in October. Prices rose mostly due to higher oil prices, which increased PPI in oil-related industries by 4.3% m/m. Tendencies in other categories were weak, and generally the stronger zloty put a cap on price growth. We expect PPI to go further down in the months to come.

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