

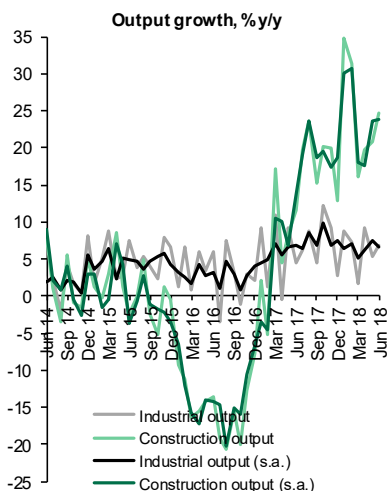
ECONOMIC COMMENT

18 July 2018

Production consistent with 5% GDP growth in 2Q18

In June the industrial production rose 6.8% y/y and construction output soared by 24.7% y/y. Both readings were above market expectations and support our view that GDP growth in 2Q18 was again near 5% y/y. Consumer sentiment worsened in July, but we see it as a temporary weakness in the generally positive trend, which is driven by exceptionally good situation on the labour market. The producer's price growth jumped to 3.7% y/y reflecting growing cost pressure on firms. In the past, such strong rebound of PPI was accompanied by faster increase in consumer prices, but in the nearest months the CPI growth will be under strong influence of high base in fuel and food prices, which will be dragging it down. Meanwhile, the core inflation should gradually rising. Still, in our opinion, it will not generate a headache for the Monetary Policy Council, which – after seeing the new NBP projection still pointing to inflation getting close to 3% in 2019 – remains confident that interest rates should remain stable for a long time (in the opinion of NBP Governor even until the end of 2020).

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Industry doing well, construction very well

Industrial output accelerated in June to 6.8% y/y as compared to 5.4% y/y in May, market consensus at 6.4% y/y and our forecast 7.0% y/y. Seasonally-adjusted numbers showed growth by 6.6% y/y, i.e. slower than in May (7.4% y/y), but in line with the average for the last 6 months. Data show no major change in trend in industrial output. Interestingly, production was supported not only by the calendar effect but also by the energy sector, where output advanced by 13.6% y/y in June. Meanwhile, production in manufacturing rose slower than in the entire industry and expanded by 6.5% y/y. This shows that so far the Polish manufacturing still does not seem to feel a rebound of economic activity in the euro area after the temporary soft path at the start of the year.

Construction and assembly output rose 24.7% y/y (and 23.9% y/y after seasonal adjustment) which surprised to the upside (our forecasts and market consensus were near 20%). The fastest growth was recorded in companies raising buildings (33.6% y/y) and in civil engineering (26.9% y/y). Business sentiment surveys point to strong labour shortages in construction sector and we think that the pace of construction output growth will decelerate in 2H18 owing to limited room to increase production capacity and high base effect. So far, however, releases suggest that investment growth remained at a decent level in 2Q18.

Overall, the June output data confirm, in our view, that 2Q18 GDP growth was near 5% again.

PPI growth at one-year high

In June PPI rose by 3.7% y/y compare to 3.0% y/y in May (after revision from 2.8% y/y) and above the market estimates (3.6% y/y). Producer prices rose mainly due to the rising prices of commodities and depreciation of zloty in June (in July we observed reversal of this trend). Usually, so fast acceleration of PPI y/y dynamic is associated with higher CPI y/y dynamic. We think that the CPI reading in July will be close to 2.0% y/y. However, in the next months, we will see the strong negative base effect in the fuel and food prices, which will translate into the lower CPI y/y reading. The core inflation will likely climb in the 2H18, however. In our opinion it is highly unlikely that expected CPI rebound could affect Polish MPC, which has just seen the new projection of inflation and said that it justified further interest rate stabilisation.

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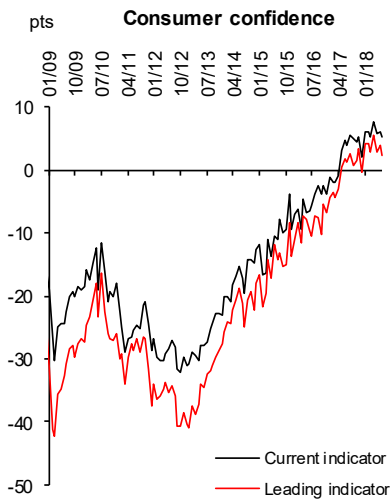
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Weaker consumer sentiment not a worry

Current and leading indicators of consumer sentiment fell in July and both were the lowest this year. The declines were mainly caused by worse assessment of ability to save money and to make major purchases. Despite the drop in sentiment we are not worried about private consumption outlook for this year because: (1) the optimism albeit a tad lower, is still close to all-time highs; (2) wages are rising fast and unemployment is record low. In the coming months we expect further acceleration of wages, which should improve consumers' mood. What is more, we cannot exclude that the worse sentiment in July was caused by the worse-than-expected performance of the Polish team in the FIFA World Cup (at least we felt our sentiment go down because of this).



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