

INSTANT COMMENT

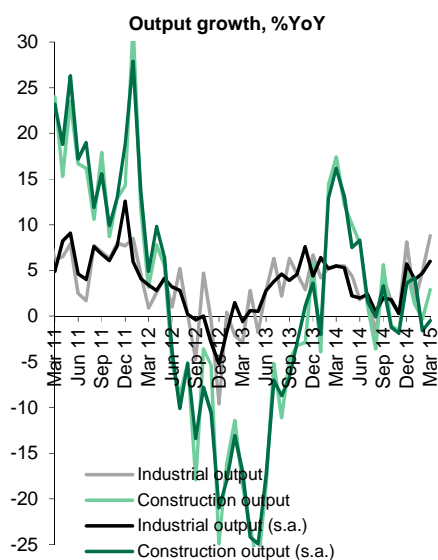
20 April 2015

Output and sales above expectations

March output and retail sales surprised to the upside. Industrial output grew 8.8% YoY, construction and assembly 2.9% YoY and real retail sales 6.6% YoY. Growth in manufacturing was strongest for over four years and the result was boosted by the positive effect of the number working days and by probably only a one-off rebound in mining and quarrying. However, even taking these factors into account the result is quite robust. As regards the retail sales, the time of Easter has pushed the growth up but even though the number confirms the rebound in the consumer demand.

Overall, these data confirm that Polish economy is reviving and solid output growth in export branches as well as in retail sales show that the growth is being fuelled both by the internal and external demand. The recent decent euro zone and German data suggest that foreign demand for the Polish goods is strengthening while good shape of the labour market supports outlook for the domestic consumption. That is why we expect these positive trends to continue in the coming months and the GDP to accelerate to 4% YoY in 4Q15.

The release of these data supported the zloty and weighed on the Polish interest rate market.



Industrial output higher than forecast

Industrial production growth accelerated in March to 8.8%YoY, exceeding our prediction and median market forecast (8.3% and 7.2%, correspondingly) and showing the strongest result since January 2011. The output growth was supported by higher number of working days, but the seasonally adjusted data also showed a decent rise - by 6%YoY, the highest since January 2014.

Production growth in YoY terms was recorded in 30 out of 34 industrial branches, with the strongest gains in export-oriented areas, such as production of computers, cars, or electrical equipment. Production growth in industrial manufacturing reached 9.6%YoY, and was the highest since January 2012. Mining and quarrying also posted a decent growth (15.6%YoY), which could have improved the headline production figure by 0.5 pp. It was a surprise, given that it was the second positive reading in this sector in the last 15 months. Probably, such good result of mining was driven by one-off factors.

Construction and assembly output also surprised to the upside (2.9%YoY versus 2.1% market median forecast), but the seasonally adjusted data showed decline by 0.5%YoY, so it is hard to call it a revival. Total construction results were negatively affected by falling construction of buildings (-3.5%YoY). Specialized construction activities and civil engineering, i.e. sectors more closely connected with public investment, soared by 8.7%YoY

Higher wages drive retail sales

Pace of growth of the real retail sales accelerated in March to 6.6% YoY (fastest since April 2014) beating expectations (4.5% YoY according to Bloomberg). Some support for the sales was provided by the timing of Easter – this and the last year Easter was in April, but this time at the beginning of the month so some part of holiday-related purchases was conducted in March. Thus, pace of growth of food and beverages jumped in real terms to 14.1% vs. 4.8% in February. At the same time, significant acceleration was recorded also in other categories – among other, clothing and footwear (13% in real terms vs .8.5% in February) or households appliance (10% YoY from 3.9% YoY). This was probably the effect of stronger domestic demand amid incomes rising at a high pace (recall that March wages beat expectations noticeably), improving consumer confidence, low interest rates and lower prices of basic goods (food, fuels).

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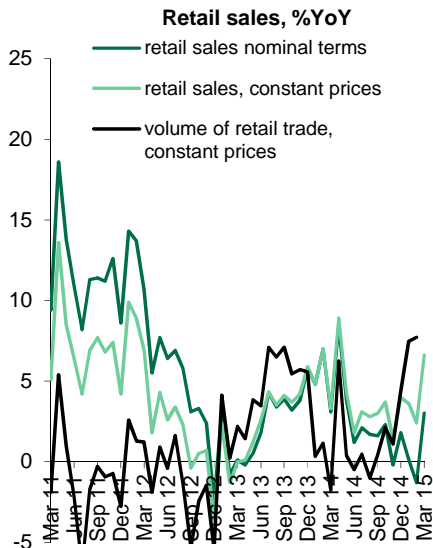
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According to our estimates, real retail sales grew 4.0% in 1Q vs. 3.1% in 4Q14. In the past months we used to point that retail sales data could underestimate the actual strength of the consumption demand, among other, because they exclude sales in small shops and this probably means that online sales is not included in the final number. This reasoning is still valid, so the scale of growth in consumer demand in early 2015 could be even larger. Recall that Eurostat data on the retail trade (also in constant prices) showed growth at 8% YoY in January and February. We assume that growing private consumption will be an important driver of the GDP growth in the coming quarters.

Overall, these data confirm that Polish economy is reviving and solid output growth in export branches as well as in retail sales show that the growth is being fuelled both by the internal and external demand. The recent decent euro zone and German data suggest that foreign demand for the Polish goods is strengthening while good shape of the labour market supports outlook for the domestic consumption. That is why we expect these positive trends to continue in the coming months and the GDP to accelerate to 4% YoY in 4Q15.

PPI inflation gradually up

In March producer prices increased by 0.2%MoM and were lower by 2.4%YoY (after decline by 2.8%YoY in previous month – data after revision). Decline in producer prices mainly resulted from fall in manufacturing by 3.1%YoY (vs -3.4%YoY in February – data after revision) due to still low commodity prices on the international market. In other categories producer prices climbed by over 1%YoY, by most in mining and quarrying (by 1.5%YoY after decline by 2.9% in previous month – data after revision).

We think that producer prices reached the bottom of deflation in February and they should start increasing gradually in upcoming months. Notwithstanding, PPI will remain below zero until the year-end, while positive growth can be seen in 2016.