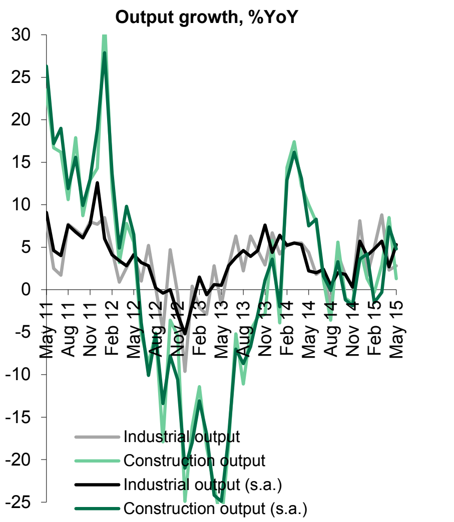
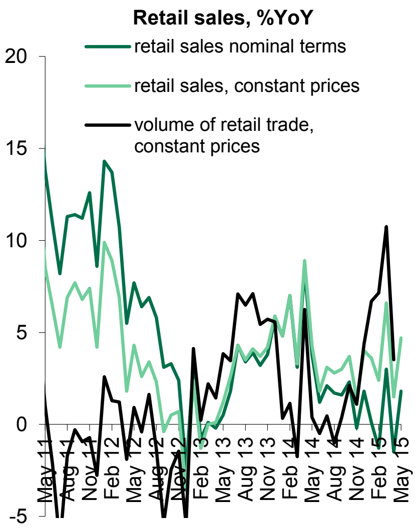
INSTANT COMMENT

18 June 2015

Output below expectations

Pace of industrial output growth disappointed for the second consecutive month (2.8%YoY). While in April this was mainly due to the timing of Easter that dragged food output down, the main culprit in May seems to have been the negative impact of the working days effect. Construction output decelerated significantly (to 1.3%YoY) after two strong months suggesting a recovery in this sector. Should the coming months do not bring a clear improvement in output and construction, we will start worrying about the recovery in the Polish economy. Some consolation today was provided by the retail sales data that was in line with our forecast and above the consensus suggesting good performance of the private consumption.





Output disappointed again

Industrial output added in May 2.8%YoY, slightly more than in April (2.3%YoY), but below market consensus (3.3%YoY according to Bloomberg) and considerably below our forecast (4.5%YoY). At the same time, according to the stat office estimates, seasonally and working-day adjusted growth amounted to 5.3%YoY, which is one of the highest readings in last dozen of months. Growth rate of manufacturing output accelerated from 2.5%YoY to 2.9%YoY.

One month ago we argued that the disappointing result of output may have been partially due to earlier Easter, which was indicated by a plunge of output in food industry in April after a dynamic rise in March. This time, the stat office did not publish results of this sector, so only Statistical Bulletin will show whether growth rate in this sector returned to the trend. We assume it did, but it seems that growth in other sectors was weaker than we expected. Partially this may have been due to the working-day effect, as there was one less working day in May 2015 than in May 2014 (this interpretation is supported by an acceleration in seasonally-adjusted statistics). If this is the case, then we should see a considerable rebound in industry in June, as calender shows a positive working-day effect in that month.

Construction output was even a bigger disappointment, as its growth rate slowed down to 1.3%YoY (as compared to 8.5%YoY in April and expectations for May above 8%). Working-day effect may also be the case here, but even data adjusted for this effect show a deceleration to 4.8%YoY from 7.4%YoY in April. Lower growth rate was primarily due to decline of output in construction of buildings (-7.2%YoY), while civil engineering and specialised works expanded decently (7.3%YoY and 5.2%YoY, respectively).

… but retail sales accelerated

Retail sales growth accelerated to 4.7%YoY in real terms in May, in line with our forecast and slightly faster than the market consensus (4.2%YoY). The rebound from 1.5%YoY seen in April confirms our thesis that the weak result for the previous month was mainly due to timing of Easter. We expect retail sales to grow 4-5% YoY in the months to come and this should be a signal of sound private consumption growth.

Sales in the particular categories were roughly in line with our expectations. Sales of autos accelerated to 16%YoY from 4.4%YoY and this was mainly due to low base effect from 2014 when purchases cumulated in early 2014 thanks to temporary tax deductions for autos registered as trucks. In the case of other segments, sales continued the trends observed so far – sales of books, press, clothing and pharmaceutical products are rising very fast (by 10%YoY or more); food, furniture and household appliances perform slightly weaker (4-5% YoY) while fuels are stable and others falling by 10%YoY. We expect these tendencies to

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continue in the coming months but the positive low base effect for autos will be fading gradually.

PPI inflation gradually up

In May PPI inflation increased to -2.2% YoY from -2.6% YoY in previous month. The pace of producer prices was lower than our forecast (-2.0% YoY), mainly due to deeper than we expected decline in prices of mining and quarrying, while in other categories our forecasts were more or less close to final readings. On monthly basis producer prices increased by 0.3% (the highest monthly growth since August 2014) and it was a result of increase in prices of manufacturing (by 0.4%, the highest growth since June 2013) due to strong growth of prices in manufacture of coke and refined petroleum products (by 4.0%) and prices of water supply, sewerage, waste management and remediation activities (by 0.5%).

We expect PPI inflation to continue bottoming out in upcoming months. This tendency should be supported by further increase in commodity prices in the international markets. In our view PPI will remain below zero till the end of the year.