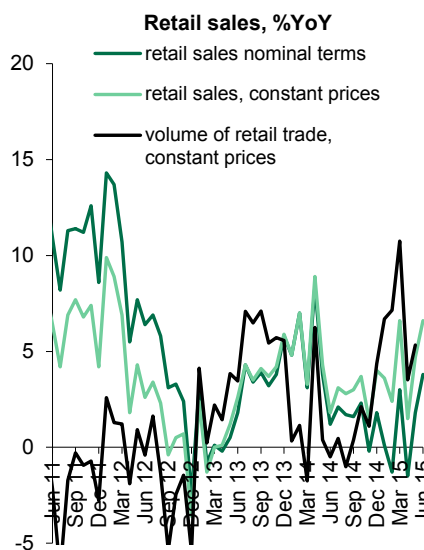
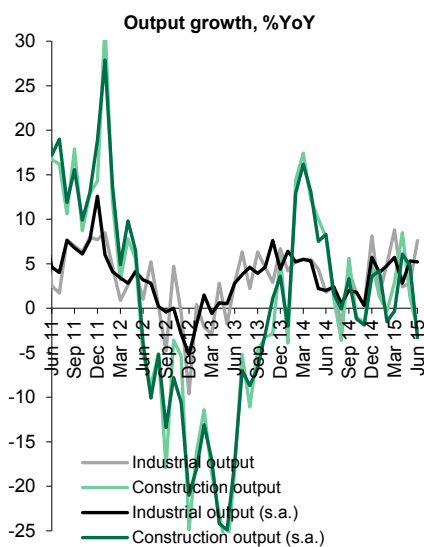


INSTANT COMMENT

17 July 2015

Economic activity is rising

Growth of industrial output accelerated in June to 7.6%YoY, and growth of retail sales in constant prices to 6.6%YoY, confirming that the economic activity is rising, and weaker results in last two months were mostly due to temporary statistical distortions. Construction output disappointed and fell by 2.5%YoY. We still assess that GDP growth in Q2 was very close to that noted in Q1 and reached c3.6%YoY. PPI deflation decreased more than expected (-1.6%YoY), but we still cannot speak about rising cost pressure on producers.



Industrial output added 7.6%YoY in June, slightly less than we expected (7.9%YoY), but above market consensus (7%YoY). The considerable acceleration of output versus April and May (with showed 2.4% and 2.8%, respectively) was partially due to a positive working-day effect, which in turn was negative in May. According to the stat office estimates, industrial output after seasonal adjustment increased by 5.2%YoY in June, almost at the same pace as one month earlier. In our view, the positive result of industry is also due to recovery in the euro zone, which is translating into rising demand for Polish goods (which is confirmed by data on foreign trade). Let us note that results of industry would have been even better if it was not for the energy sector, which showed a negative growth rate (-7.4%YoY). Industrial manufacturing expanded by 8.9%YoY. Export-oriented sectors were posting the highest growth rates (manufacture of electrical devices, machines and appliances, furniture, vehicles).

Retail sales at constant prices increased in June by 6.6%YoY - well above market expectations (5.4%YoY), but slightly below our forecast (6.9%YoY). The pace of growth in car sales (25%YoY in real terms) clearly accelerated, but significant increase was noted also in the following categories: clothing and footwear, furniture and electronics, as well as food. Good results of retail sales, in our opinion, resulted from the improving situation on the labour market, which is reflected in the financial situation of households and in the rise in consumer optimism. We expect both the retail sales and the private consumption to continue a moderate growth in the coming quarters.

Contrary to industrial output, the construction and assembly output disappointed significantly as it plunged by 2.5%YoY (we expected +3.1%YoY, consensus was at +4%YoY). After the seasonal adjustment, the drop reached 3.3%YoY and was the deepest since September 2013. All in all, the construction output rose 1.9%YoY in Q2, according to our estimates, faster than in Q1 (1.4% YoY). In the case of industrial output, Q2 growth was weaker than in Q1 (4.3% YoY vs. 5.3% YoY), just like for the real retail sales (4.2% YoY vs. 4.4% YoY). We still expect that GDP growth in Q2 was close to pace in Q1, that is 3.6% YoY.

PPI was higher than expected and reached -1.6%YoY. In monthly terms prices rose 0.4% (and 0.5% in manufacturing), probably, among others, on the back of the weaker zloty.

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ECONOMIC ANALYSIS DEPARTMENT:

al. Jana Pawła II 17, 00-854, Warszawa fax +48 22 586 83 40

email: ekonomia@bzbwbk.pl Web site: <http://www.bzbwbk.pl>

Maciej Reluga (Chief Economist) +48 22 534 18 88

Piotr Bielski +48 22 534 18 87

Agnieszka Decewicz +48 22 534 18 86

Marcin Luźniński +48 22 534 18 85

Marcin Sulewski +48 22 534 18 84

TREASURY SERVICES:

Poznań +48 61 856 5814/30

Warszawa +48 22 586 8320/38

Wrocław +48 71 369 9400