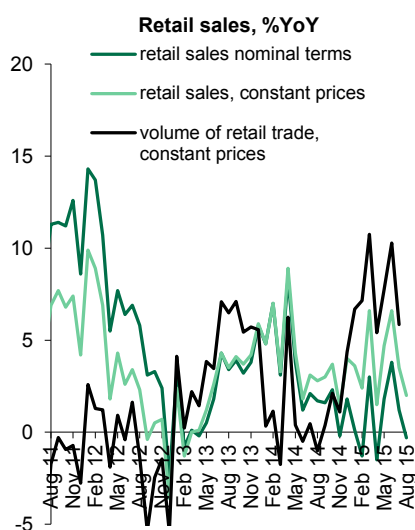
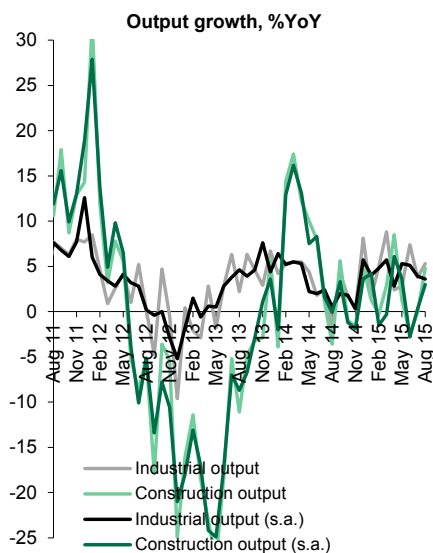


INSTANT COMMENT

16 September 2015

Production and sales below expectations

August data on industrial production and retail sales disappointed (production output increased by 5.3%YoY, while retail sale in constant prices rose by 2.0%YoY). On the other hand, construction output climbed more than expected (by 4.8%YoY). Recently published data, many of which were weaker than expected, generate greater uncertainty regarding Poland's economic outlook in the second half of the year, but they do not clearly imply, in our view, that the trend of economic growth is slowing down. We think that continuation of the economic recovery in the euro zone and positive situation on the labour market should support slight acceleration of GDP growth in Q3 and Q4.



Weak industry, not bad in construction

Industrial output grew 5.3% YoY in August, well below our forecast (7.1%) and market consensus (6.4%). Pace of growth accelerated vs. July's 3.8% but this was mainly thanks to higher number of working days than a year ago (in July this effect was neutral). According to the stat office, after the seasonal adjustment industrial output growth reached 3.9% YoY, the slowest pace since April and below the average from the first seven months of the year.

In August Poland faced closure of some power stations due to severe drought. However, we were signaling for several weeks already that the available data suggest that despite these shutdowns the total energy consumption rose in August noticeably. Today's stat office data seem to confirm our view – the annual growth of energy production and supply reached 1% YoY vs. -2% YoY in July. According to PSE (company servicing the energy transmission), the limitations in energy supply amounted to 55 GWh and we estimate the consumption in the manufacturing sector at 5k GWh vs. the total country's consumption at 13k GWh. This means that the energy shortage to manufacturing reached max 1% and in our view this is the maximum total drop in output due to the energy shutdown (but probably it was smaller).

If the weaker-than-expected result was not primarily due to power shortages, it is possible that inflow of new orders is losing strength (this was suggested by the recent PMI survey). This would be negative news for the economic growth prospects in the upcoming quarters. However, we do not find strong arguments to support such a scenario. Admittedly, the newest NBP data on balance of payments in July surprised negatively with weak exports, but according to the central bank this was mainly due to a sudden drop in exports of mobile phones – in our view this suggests rather a distortion in data (possibly due to actions aimed at curbing tax evasion), not a change of trend in the foreign trade. Economic growth in the EU (receiver of ¼ of Polish exports) is robust and PLN exchange rate provides price competitiveness. Thus, we do not expect a strong deceleration of positive tendencies.

Contrary to industry, construction surprised to the upside in August, showing a rise of output by 4.8%YoY (strongest since April). Most considerable increases were recorded in construction of buildings (9%YoY).

Hot summer stopped traffic in stores?

The increase in retail sales at constant prices in August amounted to 2.0%YoY (after growth by 3.5%YoY in July), while the volume of sales in current prices decreased by 0.3%YoY (vs +1.2%YoY in previous month). The outcome was significantly worse than expected. The sales in category of clothing and footwear and in category of furniture and electronics disappointed, in our opinion, the most. It is likely that - at least in the case of clothing - it was a side effect of exceptionally hot and dry summer. Good weather could also generally discourage Poles to visit the larger stores in the peak of holiday season. It is worth noting that retail sales data include only stores employing more than 9 people. It should also be

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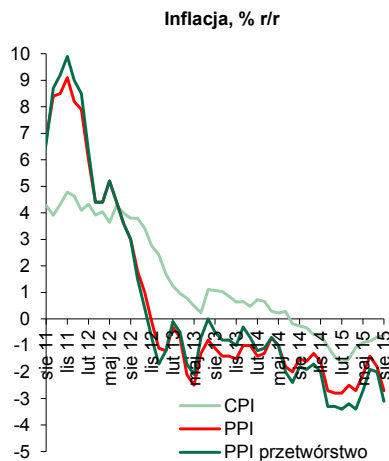
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noted that the data on turnover in retail trade, including also small shops, for a number of months are showing much higher growth than retail sales (data for August will be released in the CSO monthly bulletin next week).

Given the still good news from the labor market, steady decline in unemployment and the highest consumer confidence since the '2008 crisis, we still expect solid growth in private consumption in the coming quarters.

PPI inflation below expectations

PPI inflation declined in August to -2.7%YoY from -1.8%YoY in July, stronger than expected. In monthly terms, producer prices fell by 0.7%, mainly under impact of lower commodity prices, especially copper and oil. We expect that low commodity prices will put a negative pressure on PPI inflation also in the upcoming months, so this indicator may stay in sub-zero levels at least until the year-end.

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