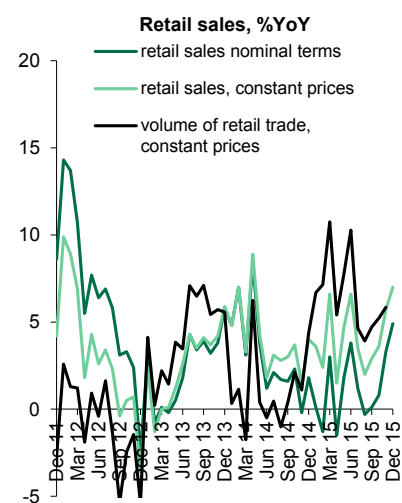
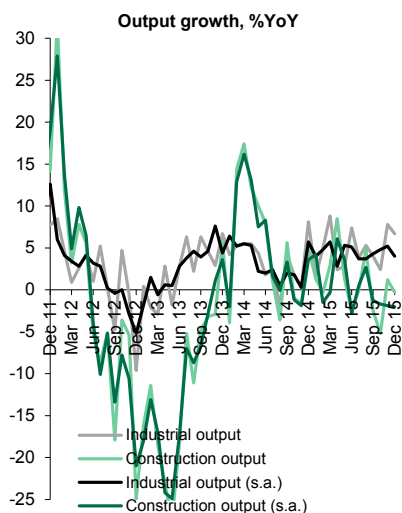


# INSTANT COMMENT

20 January 2016

## Industrial production and retail sales growing quickly

Industrial production rose 6.7%YoY in December, close to our forecast (6.8%) and above market consensus (5.5%), while retail sales in constant prices soared 7.0%YoY, well above expectations (around 5%). Total production growth would have been even higher if it had not been for a good weather (lowering energy output), and ailing mining sector – in manufacturing alone the production growth rose 9%YoY. Construction output disappointed, having fallen -0.3%YoY (vs. expected rise by 2-3%). The data confirm that in general economic activity in Poland was growing quickly at the end of 2015, being supported by both solid external demand (fuelling industrial production and exports) and accelerating households' spending (thanks to solid growth in labour income). After recent data releases we estimate that Poland's GDP growth could have accelerated in 4Q15 to 3.7%-3.8%YoY. Next week the stats office will release flash GDP data for 2015, which we think may show a solid 3.6%YoY growth for the entire year.



### Strong industrial production and retail sales in December

Sold industry production grew 6.7%YoY in December, close to our forecast and significantly above market expectations (ca. 5%). The annual growth dynamics was to some extent positively influenced, just like in November, by calendar effect, that is one working day more on the previous year. According to the Stats Office, production growth, after getting rid of seasonal factors, was 4%YoY (lowest since August). In general, we think that the December data confirm good condition of the Polish industry, which is fuelled by a growing external demand. Total industry dynamics would have been much higher, if it had not been for significant falls in mining (-3%YoY) and energy production (-5.7%YoY due to mild winter). In manufacturing alone, the growth rate was 9%YoY, similar to November.

Construction output was disappointing, having fallen -0.3%YoY (vs. consensus at 2.4%YoY and the expected 3%YoY), even despite a positive effect of working days and favourable weather conditions. This could stem from, a.o., weaker dynamics of infrastructure investment.

At the same time, retail sales surprised to the upside as the real growth amounted to 7% YoY (its highest since April 2014) while the consensus was at c5% YoY. High growth was recorded for, among others, automobiles, furniture and household appliances, clothing, books and press. Revival in the consumers' demand is being supported by the positive trends in the labour market, but also expectations for the start of the "500+" programme might have encouraged consumers to spend more. In our view, one should expect the consumption demand to perform well in the months to come.

In the whole 4Q the production output growth accelerated to 4.4% YoY and construction and assembly output decelerated to 0.5% YoY (from 4.2% and 1.9% in 3Q, respectively). At the same time, real retail sales rose 5.2% YoY vs. 2.2% in 3Q. In our view, these data – and earlier balance of payments statistics that showed high trade surplus for November – suggest that pace of the GDP growth in Poland accelerated in the final quarter of 2015 probably to 3.7-3.8%. On January 29 the stat office will release GDP data for 2015 and we expect that growth might have reached 3.6%.

### PPI inflation without surprises

In December, producer prices fell by 0.8%YoY and by 0.2%MoM. This reading was in line with our expectations and slightly higher than market consensus (-0.9%YoY). In annual terms, the biggest drop in prices was recorded in mining and quarrying (by 7.1%), in particular in mining of metal ores (13.5%). In the whole 2015 producer prices were lower by

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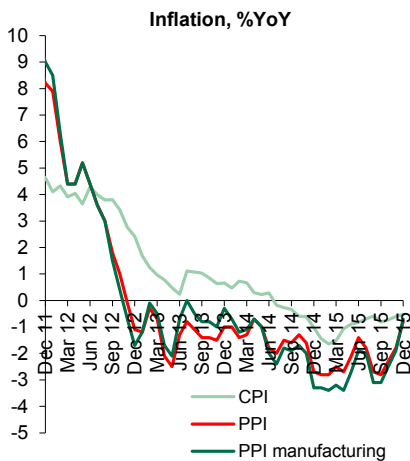
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2.2%YoY on average (after decline by 1.5%YoY in 2014.). The highest drop was related to prices in mining and quarrying (3.9%YoY) and in manufacturing (by 2.6%YoY).

Producer prices has remained below zero for the 38th consecutive month in December and deflation, in our opinion, will extend at least until June 2016. We estimate that PPI inflation will reach 1.4%YoY in December 2016.

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