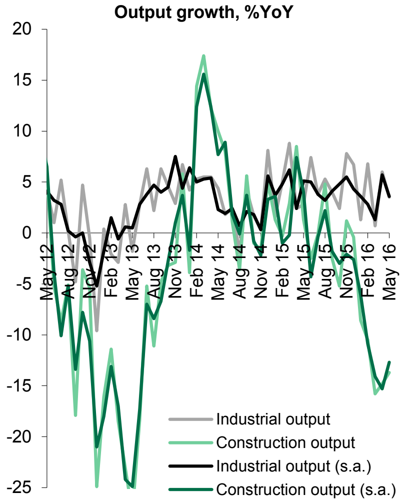
INSTANT COMMENT

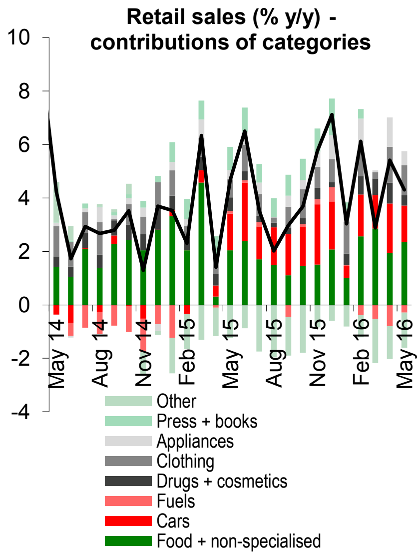
17 June 2016

Output and sales below expectations

Data on production and sales in May were weaker than expected. Industrial output rose 3.5% y/y, retail sales in constant prices rose 4.3% y/y, and construction output fell 13.7% y/y. To some extent, it could have been the result of many public holidays and 'long weekends' in May (we could have underestimated their potential impact on production and sales). However, the uncertainty about economic growth outlook has increased after today's data release. We still believe that solid economic growth in Europe and new child benefits should revive Polish GDP growth later this year, but after data for two months of 2Q16 we see that pickup in the second quarter may not be impressive.

GDP growth outlook is important for Polish central bank (maybe even more than CPI outlook, as suggested recent comments). Recently markets trimmed expectations for rate cuts in Poland, as the MPC members were very hawkish. However, if we see growing evidence of GDP growth weakness in the coming months, speculations about monetary easing may return.





Weak performance of industry and construction

Industrial output rose 3.5% y/y in May, below our forecast (5.0% y/y) and market consensus (4.6% y/y). Construction and assembly output contracted 13.7% y/y and disappointed as well – we expected -11.3% y/y while the market -9.8% y/y. After the seasonal adjustment the output in industry rose 3.6% y/y and fell 12.7% y/y in construction.

We find these numbers disappointing. On the one hand, we cannot rule out that this might have been due to the larger amount of holidays and 'long weekends' in May that we failed to take into account properly. On the other hand, however, underperformance of industry might have been due to the structural weakness of the internal demand. Pace of economic growth in Germany and the whole euro zone remains decent, which should support Polish companies with external market exposition. However, the breakdown of this growth is not convenient for us – it is based mainly on the internal demand while the foreign trade volumes remain subdued. It is worth to remember that the large share of Polish exporters are producers of intermediate goods and suppliers for exporters from the Western Europe. Nevertheless, in May sectors focused largely on exports continued to rise faster than the other categories (two-digit growth in textiles, computers, automobiles, furniture) so maybe these concerns are somewhat exaggerated and output will revive in the months to come.

Significant contraction in construction does not bode well for investments. However, we hope this sector will recover later in the year along with launching more projects co-financed from the EU funds.

Retail sales below expectations, but still solid

Retail sales in real terms rose in May by 4.3% y/y, slightly slower than expected (we and consensus: 5.6% y/y), but this was still a solid reading. We think that growth rate of sales of food (5.4% y/y) and in other non-specialised stores (8.2% y/y) returned to the underlying trend after March/April shifts connected to the Easter. Sales in other categories were weaker than our expectations and we think that this may be due to two long weekends in May, which undermined the propensity to shop in malls. Thus the slowdown in categories like furniture and household appliances (6.8% y/y) or clothing and footwear (18.6% y/y). Strong sales of fuel (+6.0% m/m versus +2.5% m/m in May 2015) suggest that this may be the case and Poles preferred to spend their time on trips than on shopping.

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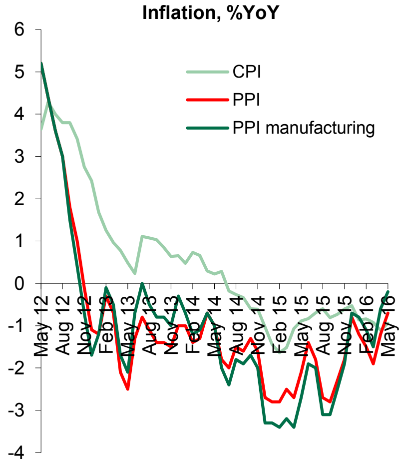

We estimate that retail sales growth will stay around 5.0% y/y, suggesting a solid growth of private consumption. This indicator may also be supported by payments of the 500+ child benefit programme.

The PPI growth accelerated significantly

According to Poland's statistics office in May producer prices were 0.7% lower than in the same period of 2015. This outcome was in line with our expectations. In monthly terms prices rose by 0.9% and it was the highest monthly increase in May from 2010 (average growth of PPI in may sat at 0.4% m/m in 2010-2015 period). This stemmed mainly from growth of prices in manufacturing (by 1.0% m/m) as a result of increasing in Brent prices – prices in manufacture of coke and refined petroleum products were higher by 8.4% m/m, but also due to the zloty weakening.

We expect the upward trend of producer prices to continue in upcoming months. In our view PPI can climb above zero in August.

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