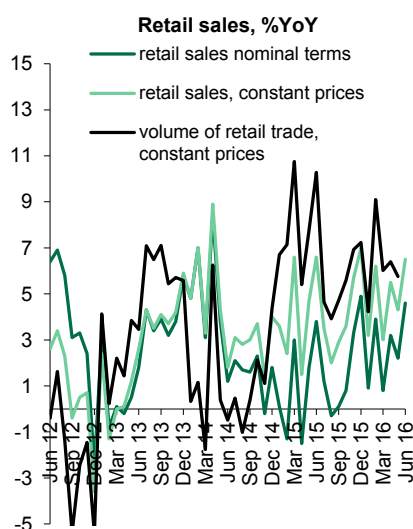
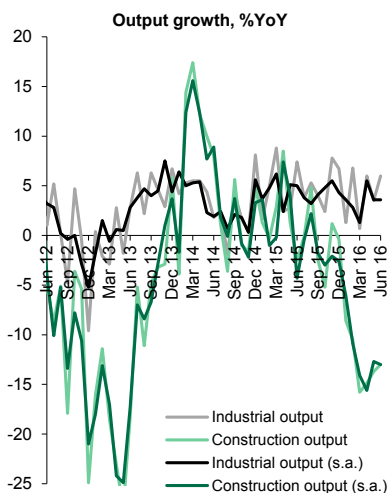


INSTANT COMMENT

19 July 2016

Output and sales suggest stabilisation of GDP growth in Q2

Industrial output rose 6.0% y/y in June, in line with market consensus, construction production disappointed again falling 13% y/y, while retail sales increased 6.5% y/y, exceeding expectations. Industrial production was affected by the calendar effect and after excluding its impact the rate of output growth remained at moderate 3.6% y/y seen in May. Construction sector remains in the free-fall, which is a bad omen for investment outlook. Admittedly, pickup in retail sales was stronger than expected, probably due to first spending financed by 500+ child benefits, however we think it will be not enough to accelerate economic growth in Poland if exports and investments disappoint (which seems likely given recent data and potential Brexit fallout). In general, the data were not too optimistic, in our view, supporting our forecast that GDP growth in the second quarter of 2016 was not significantly better than in the first one (near 3% y/y). PPI growth surprised to the upside, reaching -0.7% y/y, and May's reading was revised up from -0.7% to -0.4% y/y. We think that rising costs of labour will force producers to start gradually rising prices in the coming months.



Industrial output supported by working-day effect

Industrial output added 6.0% y/y in June, in line with the market consensus and slightly below our forecast (6.4% y/y). This acceleration was partially due to working-day effect (one day more than in June last year), so these data do not seem very optimistic. Output after seasonal adjustment rose only by 3.6% y/y, the same as in May. Moreover, the result would have been even worse should it not be for mining, which expanded strongly (8.9% m/m). Export-oriented branches still recorded high pace of growth. However, the possible economic slowdown in Europe and weaker international trade may be negative for Polish exports in the following quarters, in our view. In the whole Q2, industrial output expanded by 5.2% y/y versus 3% y/y in Q1.

Construction output disappointed again and plunged by 13% y/y. Average result for Q2 reached -14% y/y versus c.-12% y/y in Q1. This is surely not a good omen for investments. In June, the seasonally-adjusted level of construction output was the lowest since September 2007, according to our estimate.

Retail sales surprised, but 500+ effect seems modest

Retail sales in constant prices rose by 6.5% y/y in June, above expectations (our forecast 5.5% y/y, market consensus 5.9% y/y). This was the fastest rise of retail sales this year. We were expecting some acceleration versus May (4.3% y/y), among other factors thanks to a more favourable calendar of working days, holidays and long weekends. However, the final reading proved better than we forecasted.

Main culprits behind sales acceleration (and also behind surprise versus our forecast) were: furniture and household appliances, fuels and "other sales in non-specialised stores". As regards furniture and household appliances, this category may have been supported by payment of 500+ benefits and also potentially by Euro football championship. On the other hand, the annual growth rate (14.2% y/y) was lower than in February or April, so we cannot say that we see an unusually strong revival in consumer demand. Strong rise in fuel sales also took us by surprise after relatively strong May. Possibly, favourable weather is supportive for travelling. "Other sales in non-specialized stores" advanced by 12.2% y/y, i.e. at the fastest pace since April 2014 (if we exclude November and December 2015, which were distorted by shuffle in sales categories). We cannot rule out that this category (including supermarkets) shows the first signs of 500+ programme. However, on the other hand sales of food were not very different from previous months.

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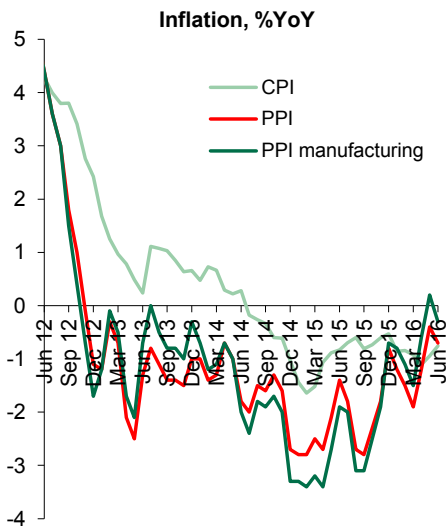
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We expect that retail sales will be accelerating in the months to come, supported by 500+ benefits. Let us note however, that the impact of this programme that we have seen so far has not been exceptionally high, despite the fact that in June saw quite strong payments (for three months).

Lower than expected decline in producer prices

In June producer prices fell by 0.7% y/y (vs -0.4% y/y in May – corrected data), less than our and market expectations (-1.1% y/y and -1.0% y/y, respectively). On monthly basis PPI inflation grew by 0.2%, as we expected (we missed the annual growth due to the revision of May's data), mainly as a result of prices growth in mining and quarrying (by 0.5%), in electricity, gas, steam and air conditioning supply (by 0.4%) and in manufacturing (by 0.2%). Among manufacturing sectors the highest increase, another month in a row, was noted in prices in category of manufacture of coke and refined petroleum products (by 3.7% m/m), as well as in the manufacture of basic metals (by 1% m/m) and in manufacture of food products (by 0.4% m/m).

We expect that the coming months will bring a gradual increase in producer prices. Already the June PMI report for Poland's manufacturing sector showed higher average input prices for the second month running in June. In our view, in the third quarter we expect the positive annual growth of PPI for the first time since end-2012.

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