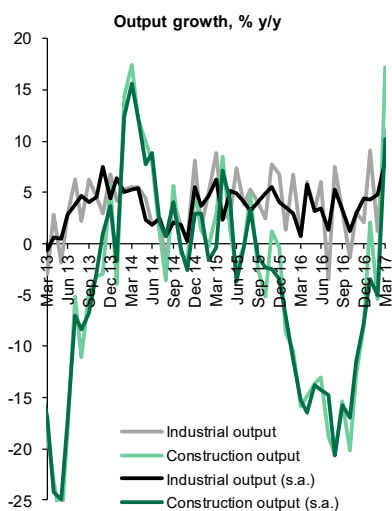


# INSTANT COMMENT

20 April 2017

## March data suggest strong GDP growth in 1Q17

Industrial production growth accelerated in March to 11.1% y/y, and construction output to 17.2% y/y – both figures were much higher than expected. Retail sales rose 7.9% y/y in real terms, slightly above forecasts. The data for March suggested that the revival of economic activity in Poland at the start of the year was stronger than we had expected. Possibly, the pace of GDP growth in 1Q17 could have even exceeded 3.5% y/y. Today's release should be supportive for the zloty and potentially slightly negative for the short end of the yield curve (as some market players may renew speculation about interest rate hikes).



### Sharp revival of production growth in March

Sold industrial output increased in March by 11.1% y/y, stronger than expected (our forecast was 8.7%, market consensus was 7.4% y/y). To some extent, a significant improvement in dynamics as compared to February (when growth was merely 1.2% y/y) was due to the calendar effect - in March the number of working days was 1 more than a year ago, and in February 1 less. Nevertheless, even taking into account this effect, March results seem to be impressive. According to Statistic Office estimates, seasonally-adjusted industrial output rose 8.1% y/y, the most since December 2011. Importantly, manufacturing was the key contributor to the improvement of the production (output growth in the mining and quarrying and energy sectors was poor), with the biggest gains in branches that were traditionally export-oriented (including manufacturing of machinery, equipment, vehicles, furniture, etc.). It suggests that there was a significant increase in foreign demand for Polish goods, probably under the influence of the improving business cycle in Western Europe.

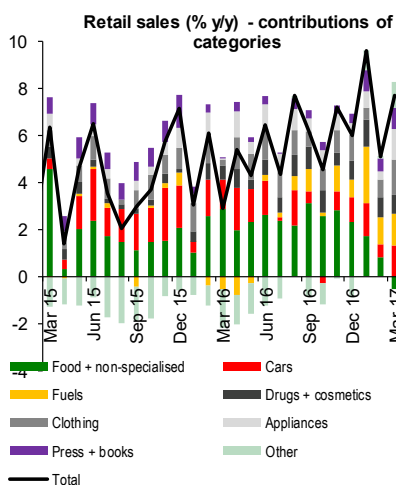
The construction output was even a bigger surprise and rose by 17.2% y/y in March (our estimate of 2.1% y/y, consensus of 1.0%) while in seasonally-adjusted terms by 10.2% y/y - the most since April 2014. Two-digit increase in production occurred in all construction sectors, which is probably a sign of revival of investment activity at the beginning of the year.

### Retail sales slightly above forecasts

After the February's increase by 5.2% y/y, in March retail sales in constant prices grew up by 7.9% y/y, slightly above our (7.2% y/y) and market (6.6% y/y) expectations. The structure of growth was in line with our expectations – acceleration was mainly observed in car, clothes, furniture and RTV sales, whereas sales of food went down due to the date of Easter. We expect the dynamics of retail sales to accelerate in April, also because of Easter and stay close to the March reading in the months to come. Good growth of retail sales supports our forecast for robust private consumption in 1Q17.

### Consumers yet more optimistic

Consumer confidence indexes rose in April. The current sentiment index reached -0.8pts vs -2.0pts in March and all components contributed to this increase (particularly the assessment of the current economic situation). The leading index rose to -3.1pts from -4.2pts with the improvement seen in all categories, particularly in future ability to save money. Both indexes reached their all-time high (survey started in 2004) and suggest further robust rise in the consumer demand.



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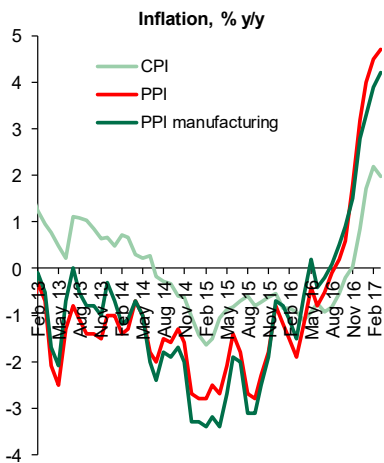
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### PPI highest since May 2012

Consumer prices also surprised to the upside, yet less considerably than output and retail sales. In March, PPI continued the upward trend and reached 4.7% y/y, highest since May 2012 and versus our forecast and market consensus at 4.6% y/y. Data for February were revised to 4.5% y/y from 4.4% y/y.

In monthly terms, producer prices fell by 0.1% m/m mostly due to fall of prices in manufacturing (also 0.1% m/m). In general, changes in particular PPI categories were not big. We assume that annual PPI growth will be slowing down in the months to come due to stronger base effect.

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