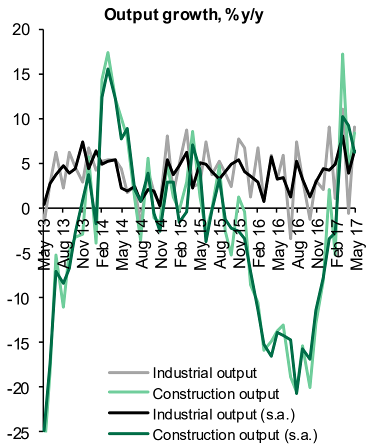
INSTANT COMMENT

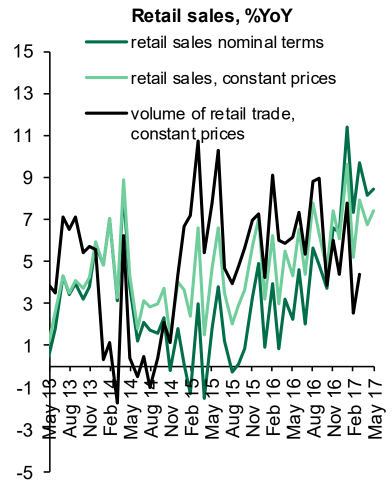
20 June 2017

Construction sector cooled down in May

After a decline by 0.6% in April, in May the manufacturing output rose by 9.1% y/y with market expectations at 8.5% and our forecast at 9.6%. Working days effect played a significant role both in case of a slump in dynamics in April and the scale of a rebound in May. Seasonally adjusted output growth reached 6.5% y/y in May, whereas in April it was 4%. Growth of construction output by 8.4% y/y was disappointing, taking into account the market consensus at 13% and our forecast at 16.2%. After removing the working days effect there was a decline by 3.2% m/m in May (the biggest since June 2016). Weak construction output is yet another signal from the economy that the revival in investment can be delayed. Retail sales grew by 7.4% y/y in real terms, which was a bit below market expectations, but in our view it confirms a continually good state of consumer demand.

In sum, May data suggest in our view that the pace of economic growth in 2Q17 might be slightly slower than in 1Q17, but we still assume that growth at nearly 4% is possible within the whole year. Such data should not change the opinion of the Monetary Council on the outlook for monetary policy.





Strong industry, disappointment in construction

Industrial output rose by 9.1% y/y in May with market consensus at 8.5% and our forecast at 9.6%. This is a firm rebound vs April when the differences in working days resulted in a drop of production by 0.6% y/y. In May working days were in favour of production growth, but it is worth mentioning that after the elimination of this type of statistical disturbance, we can see an acceleration in output. According to the Stat Office, the increase in the seasonally adjusted production amounted to 6.5% in May, while in April it was 4%. The May result is dispelling concerns that could have occurred after the publication of PMI for this month - the index retreated to the lowest level since November (down from 54.1pts to 52.7pts). The strong performance of the industry is probably to large extent driven by strong foreign demand.

Construction output, which grew by 8.4% y/y vs market expectations of 13% and our forecast of 16.2%, disappointed. Working day-adjusted data has even shown a worse picture of the situation in the construction sector: the monthly decline has been as low as 3.2%, making it the weakest month since June 2016, and the year-on-year growth significantly fell to 6.2% after jump to 10.2% in March and slight deceleration in April (9.2%). Poor construction output is another signal from the economy that the recovery in investments may be delayed.

Retail sales growing at a solid pace

In May retail sales growth in constant prices accelerated to 7.4% y/y and in current prices to 8.4% y/y, which was close to our forecasts (7.1% and 8.3% y/y respectively) and below the market consensus (7.6% and 9.2% y/y). Data confirmed that consumer demand is going up at a robust pace supported by rising job income and growing propensity to spend money from family subsidies (500+). Solid growth rates in sales of clothing (19.9% y/y in real terms), furniture and household appliance (9.5% y/y) or cars (6.0% y/y) plus record high consumer sentiment index suggest in our view that the growth of private consumption should remain solid in the coming months and some deceleration might be observed only at the end of the year.

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