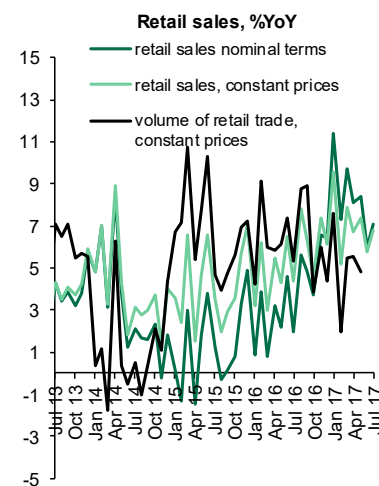
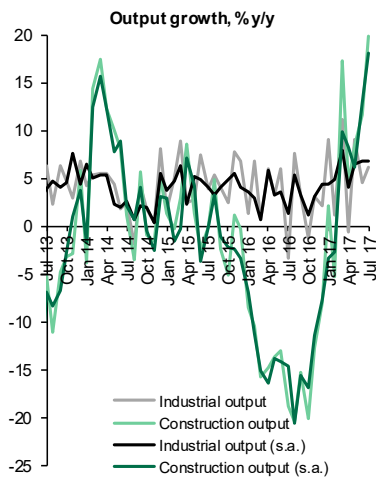


# INSTANT COMMENT

18 August 2017

## Surge in construction output

Industrial production in July rose 6.2% y/y, which was lower than expected (market consensus 8.4%) but seems to be a decent result, given that this was the first month this year, which has not been affected by calendar effects. Meanwhile, the construction output soared 19.8% y/y, much more than predicted and at fastest rate since January '12, which seems to be finally a clear sign of recovery in investments (production in engineering surged 33.7% y/y). Retail sales growth was also decent, rising 6.8% y/y in real terms and confirming that private consumption remains strong. On balance, the data show that Polish economic growth remains solid, still near 4% y/y, at the start of 3Q17.



### Not bad in manufacturing, booming construction

Industrial output rose in July by 6.2% y/y. This result was weaker than our forecast and market consensus (8.5% and 8.4% y/y, respectively), but actually it was quite a decent result and proving that business climate in manufacturing remains positive. July was the first month of this year with neutral calendar effect in annual terms, so the annual growth rate was really close to the 'underlying trend'. Seasonally adjusted number was close to the headline figure, and showed 6.7% y/y – the same as in June and the second best result this year. Strong growth rates were recorded in export-oriented branches, confirming that the positive situation in Polish manufacturing is related to economic revival in Europe.

The even bigger surprise was a construction production. Construction output surged by 19.8% y/y (median forecast 13.3% y/y), at the fastest pace since January 2012. The biggest jump was registered in civil engineering (by 33.7% y/y) and construction of buildings (by 13.1% y/y). In our opinion it suggest that the long-awaited investment recovery has finally starting materialising in 3Q17.

### Decent growth of retail sales

Retail sales grew 6.8% y/y in real terms which is a decent result showing strong demand generated by households, especially that this time the monthly result was not disturbed by calendar effects. The pace of growth in the durable goods category (like furniture, white goods and consumer electronics) returned to c9% y/y (11.7% m/m) which in our view highlights the high level of optimism expressed in survey-based indices.

### Rise of PPI

PPI inflation reached 2.2% y/y in July, up from 1.8% in June. In m/m terms this was a move by 0.3%. Producer prices rose due to more expensive commodities and the weakening of the zloty. We expect PPI to move higher in the following months, only to be hit by a strong negative base effect in December.

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