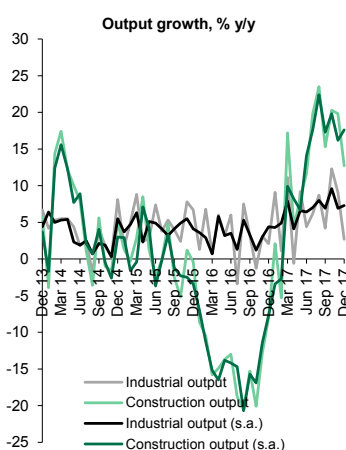
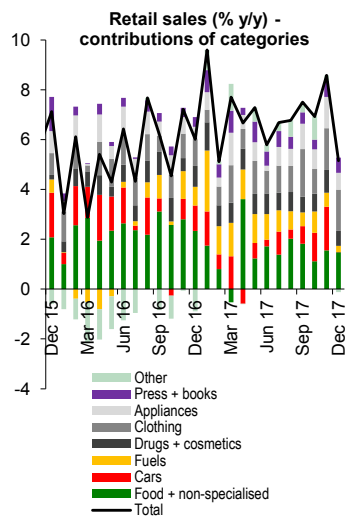


INSTANT COMMENT

19 January 2018

Firm pace of output, disappointing retail sales

Retail sales rose by 5.2% y/y in December, markedly slower than expected by us (10.0% y/y and the market 7.7% y/y). In our view, sales growth slowed down versus November (8.8% y/y) mostly due to a negative working day effect (-2 days y/y). A visible slowdown in durable goods makes us think that many consumers advanced purchases (sell-offs in November). The strong November positive contribution of car sales (+1.8 pp) has vanished completely in December. In our view the underlying trend remains strong and results of the entire 4Q (6.9% y/y) suggest a robust growth of private consumption. Industrial output came in December at 2.7% y/y, lower than the market expected (3.5%) but slightly above our forecast (2.2%). Seasonally and working day adjusted output growth was 7.3% y/y, in line with 2H average confirming solid pace of expansion. Construction output surprised on the upside with 12.7% y/y vs 11.6% market consensus and our 10.2% call. It is a confirmation of accelerating investments in 4Q. The December data support our 4.8% y/y forecast of 4Q GDP growth. PPI went down to 0.3% y/y on stronger zloty and weaker commodities.



Retail sales below expectations, weak sales of durables

Retail sales rose by 5.2% y/y in December, markedly slower than expected by us (10.0% y/y and the market 7.7% y/y). In our view, sales growth slowed down versus November (8.8% y/y) mostly due to a negative working day effect (-2 days y/y).

A visible slowdown in durable goods to 3.6% y/y from 15.4% y/y in November makes us think that many consumers decided to take advantage of 'Black Friday' sell-offs and accelerated some purchases from December to November. Especially, the strong November positive contribution of car sales (+1.8 pp) has vanished completely in December. Sales in non-durable categories, like food or clothing recorded only a small slowdown.

Still, in our view the underlying trend remains strong and result of the entire 4Q (6.9% y/y) suggests a robust growth of private consumption.

Expansion of industrial and building activity maintained in December

Industrial output came in December at 2.7% y/y, lower than the market expected (3.5%) but slightly above our forecast (2.2%). The deceleration vs November (9.1% y/y) was caused by negative working day differences, but also because the final month of 2016 had been one of the first months to see economic activity rebound, so current results now have to face an adverse base effect. The measure of output adjusted for statistical factors (working days, seasonality) showed 7.3% y/y in December, which is in line with 2H average (and above the November 6.9% reading), and confirms that a solid pace of expansion is maintained. Manufacturing output rose 3.5% y/y, mining output was down 8.4% y/y and utilities increased production by 0.7% y/y.

Construction output surprised on the upside with 12.7% y/y vs 11.6% market consensus and our 10.2% call, with seasonally and working day adjusted measure at 17.6%, so comparable to previous outcomes (16.2% in November). We treat this result as a confirmation of accelerating investments in 4Q, which we see as rising 6% y/y in real terms, up from 3.3% in 3Q. Civil engineering continued to be the strongest component of construction output, rising 20.6% y/y, while 'construction of buildings' (housing) recorded 2.3% y/y rise.

The December data on output and sales support our 4.8% y/y forecast of 4Q GDP growth.

PPI down on stronger zloty and weaker commodities

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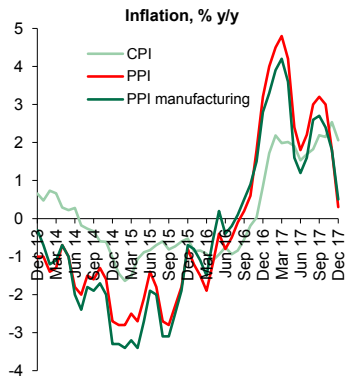
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PPI inflation fell in December to 0.3% y/y versus our and market expectations at 0.6% y/y. In monthly terms, price went down by 0.3% m/m. Manufacturing also saw a 0.3% m/m decline in prices. Low pressure on prices was mostly driven by the stronger zloty as well as falls in prices of coal and metals. We are expecting PPI to rebound to around 2% y/y in mid-2018.

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