Bank Zachodni WBK
Grupa Santander

INSTANT COMMENT

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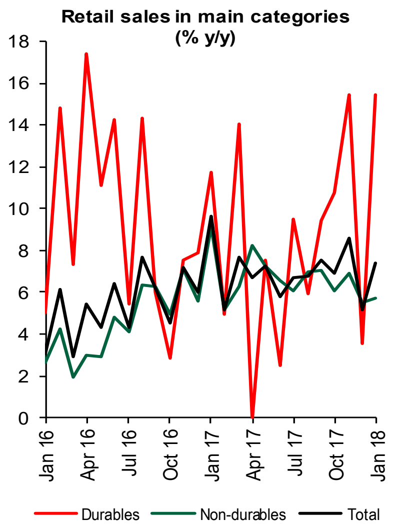
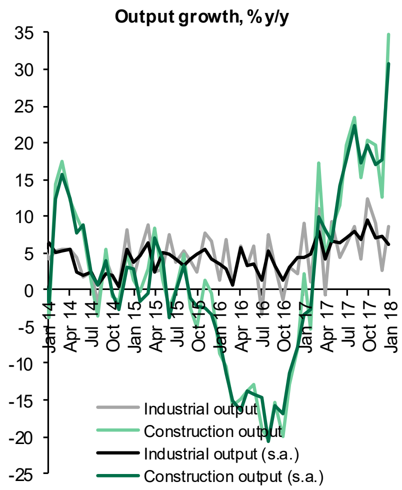
Sharp rebound in construction sector

Industrial output rose 8.6% y/y in January, but seasonally adjusted data showed a slowdown to 6.2% y/y, which is the lowest print since April 2017. Construction sector surprised strongly to the upside, showing 34.7% y/y output rise (the strongest gain since 2007). Such sharp rebound was probably caused by a strong revival of investment activity. Retail sales rose 7.7% y/y in January. As we expected, an important factor behind this pickup was improvement in durable goods sales. The data support our expectations that the pace of GDP growth in 1Q18 still remained close to 5% y/y. The data should be neutral from the Monetary Policy Council's point of view.





Retail sales above forecast, rebound in durable goods

Retail sales grew in January by 7.7% y/y, above the consensus (6.5%) and our quite optimistic forecast (7.2%). As we expected, the slowdown in the sales of durable goods in December was only temporary. Already in January, car sales rose by 17.9% y/y (vs. 0.1% y/y a month earlier) and furniture and consumer electronics sales by 12.2% y/y (7.5% in December). Durable goods sales are sensitive to working day differences, which were positive in January, and negative in December. Apart from this, we assume that some of the purchases usually made in December were made already in November due to a growing popularity of "Black Friday" special offers in Poland. Also, holiday purchases via internet required ordering in advance. Non-durables sales rose by 5.7% y/y vs. 5.5% in December. The food category was particularly disappointing – being the only one to record a y/y drop (-0.1%). On the other hand, sales of clothes went up by 21.3% y/y in January.

We assume that retail sales will stay strong in the following months, with the help of high consumer optimism and positive situation on the labour market. We think private consumption might grow at c5% y/y throughout the whole 2018.

Manufacturing output slowed a bit, construction sector booming

In January, industrial output grew 8.6% y/y vs market consensus at 8.5% y/y and our forecast at 9.3% y/y. Significant acceleration vs December was mainly thanks to calendar effect – in December there were two working days less than a year ago while in January there was one day more. After the seasonal adjustment, pace of industrial output growth was at 6.2% y/y, the lowest since April 2017. Actually, the seasonally adjusted data show that the peak cycle in industrial activity took place in October 2017 we since then there was a gradual deceleration of output growth. However, despite the growth is slowing, we think it is still pretty solid, reflecting the rising demand from abroad. Output in export-oriented branches was still growing at a two-digit pace. In January, the fastest growth was recorded in output of other nonmetallic mineral products (by nearly 23% y/y) which might have been related to strong revival in construction.

Construction output surprised well to the upside growing 34.7% y/y (30.7% y/y in seasonally adjusted terms), the fastest pace since 2007. Probably, the weather conditions have been supportive, next to the working days effect but the scale of surprise is too much to be explained only by the one-off factors, in our view. Most likely, we are observing a continuation of sharp investments revival. It is worth to mention that after the January's jump, the level of construction-assembly output is comparable to its record-high readings from 2011-2012.

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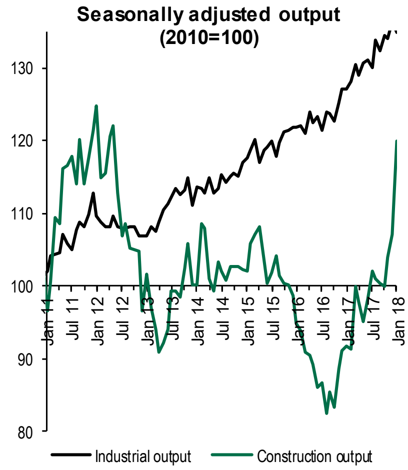

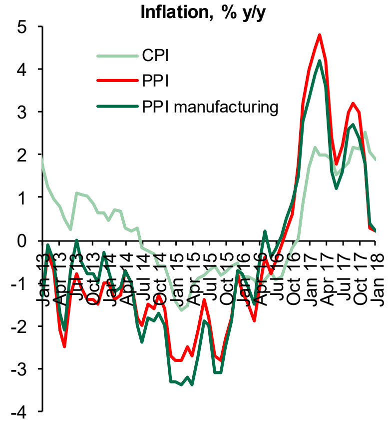

PPI drops thanks to stronger zloty and cheaper commodities

The PPI growth fell in January to 0.2% y/y from 0.3% y/y, slower than market forecasts and our forecasts (we estimated -0.2% y/y in January). The price dynamics in the manufacturing sector surprised on the positive side (0.2% y/y). It could mean that at the beginning of the new year the producers became more keen lift prices in the face of strong demand and more expensive commodities.

At the same time, prices of construction and assembly productions accelerated to 1.5% y/y from 1.4% y/y. In 2011, during the investment rush, the pace of construction prices reached 1.8% y/y. We think this is a consequence of disappearing labour market slack and rising costs of building materials – as expressed in PPI data about prices of metal production, up 4.9% y/y, and prices of other non-metallic mineral products. What is more, the demand side for the construction sector is also very strong (2018 is the year of local government elections, demand for dwellings is high).