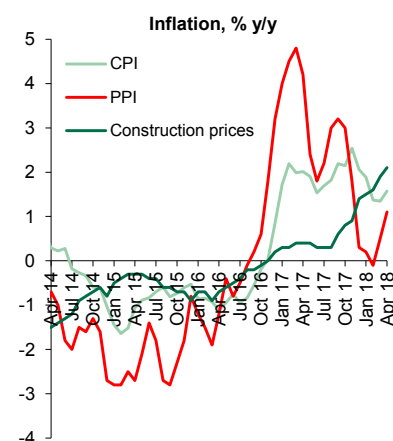
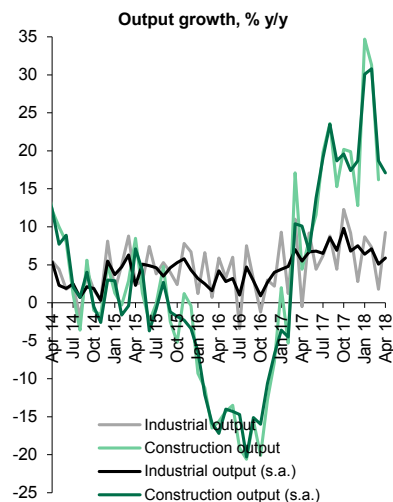


ECONOMIC COMMENT

21 May 2018

Construction: less growth in output, more in prices

Industrial output expanded in April by 9.3% y/y versus 1.8% y/y one month earlier. This result is a positive surprise (market consensus at 8.5%, our forecast at 8.1%). After seasonal adjustment, pace of output growth was at 5.9% y/y, marginally slower than 6.2% y/y seen on average in 1Q18. Construction output rose by 19.7% y/y, much lower than market estimates (24.8% y/y). It could be a sign of supply side constraints in the sector, still seeing high demand, especially that construction prices rose by 2.1% y/y and this measure was at the highest level since January 2009. April PPI inflation reached 1.1% y/y, slightly above our forecast (1.0% y/y) and market consensus (0.8% y/y). This is mostly due to rising oil prices. Overall, output data do not make us revise our Poland GDP path still assuming gradual deceleration of an economic growth this year.



Industrial output beats expectations, PPI growth accelerates

Industrial output expanded in April by 9.3% y/y versus 1.8% y/y one month earlier. This result is a positive surprise (market consensus at 8.5%, our forecast at 8.1%), despite weaker business sentiments in the Euro zone in 1Q18. Let us remind that March results of industry were strongly disappointing. In our view, April's acceleration was mostly due to a positive gap in working days and the fact that Easter was in March this year, as compared to April in 2017. The fastest output growth was recorded for „coke and petroleum products”, by as much as 24.6% y/y. Among the fastest-growing branches, there were several with big exports exposure (furniture, machines). After seasonal adjustment, pace of output growth was at 5.9% y/y, marginally slower than 6.2% y/y seen on average in 1Q18.

April PPI inflation reached 1.1% y/y, slightly above our forecast (1.0% y/y) and market consensus (0.8% y/y). On a monthly basis, prices rose 0.3% y/y mainly owing to rising price of oil that boosted prices of coke and petroleum products by as much as 5.5% m/m. We expect PPI to rise further in the months to come amid continued rise in oil price and weaker zloty.

Construction sector raises its prices

Construction output rose by 19.7% y/y, much lower than market estimates (24.8% y/y). It could be a sign of supply side constraints in the sector (shortage on the labour market). Construction companies are operating close to capacity constraints limits and it seems they no longer have limitations when it comes to hiking the prices of their services.

Construction prices rose by 2.1% y/y and this measure was at the highest level since January 2009. In our view, this is a result of strengthening supply constraints in construction, which will be affecting investment path this year.

Housing market still going up, but a stabilization is coming

The housing market is still in an upswing. In April, 12-month sum of completed dwellings amounted 184.5k, the highest level since comparable data are available (1991). The number of house start also set an all-time high at 215.1k. On the other hand, building permits have been levelling-off at 255k for a few months, suggesting an incoming stabilization on this market in the upcoming quarters.

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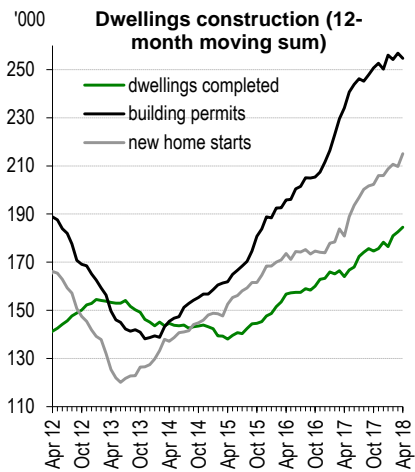
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