

# ECONOMIC COMMENT

19 April 2018

## Weaker end of the quarter

Industrial output surprised to the downside in March, expanding by a mere 1.8% y/y as compared to 7.4% y/y in February. The market was expecting 3%, our forecast was at 4.5% y/y. Output corrected for seasonal factors rose by 5.1% y/y, so was also lower than in the preceding months. The disappointing industry print showed up after a series of weak data on German economic activity. Construction output rose 16.2% y/y in March, in line with our forecast (16.1% y/y) and market consensus (17.8% y/y). We expect construction output growth to slow in the months to come as the sector is inevitably nearing its output capacity limit.

### Industry disappointed in March

Industrial output surprised to the downside in March, expanding by a mere 1.8% y/y as compared to 7.4% y/y in February. The market was expecting 3%, our forecast was at 4.5% y/y. Importantly, manufacturing was the main culprit of the slowdown, as it advanced only by 0.6% y/y. Production of energy contributed as much as 1.2pp to total output, mostly due to low temperatures in March. Output corrected for seasonal factors rose by 5.1% y/y, so was also lower than in the preceding months (7.3% in February, 6.4% in January).

The disappointing industry print showed up after a series of weak data on German economic activity, including: output, exports, new orders and leading indicators. Low output growth was recorded in many export-oriented sectors, like electronic appliances and machinery. Industry branches more concentrated on domestic market, like food or coal mining recorded much better results.

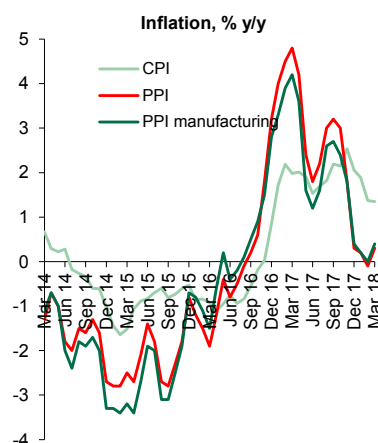
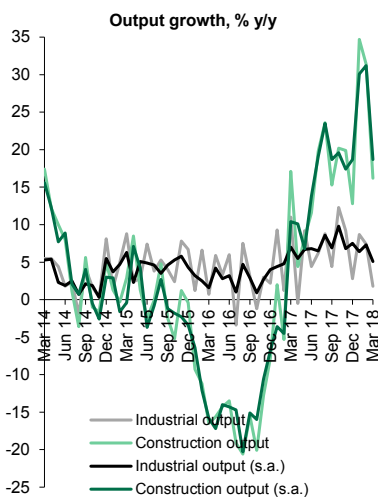
### Construction slowed down, in line with expectations

Construction output rose 16.2% y/y in March, in line with our forecast (16.1% y/y) and market consensus (17.8% y/y). After seasonal adjustment, growth amounted to 18.7% y/y. Just like we suggested earlier, high pace of growth in January and February (34.7% y/y and 31.4% y/y, respectively) were barely impossible to continue – there is generally low activity in the two first months of the year which leads to higher volatility of data. We expect construction output growth to slow in the months to come as the sector is inevitably nearing its output capacity limit.

Civil engineering output, which is mostly a reflection of public investments, recorded a rise by 34.9% y/y. Construction of buildings went up by 17.7% y/y and specialized works by 3% y/y.

### PPI above zero again

PPI inflation rebounded in March to 0.3% from -0.1% in February (after revision), the data beat consensus and our forecast (+0.1% y/y). On m/m basis PPI inflation rose by 0.4%. mainly thanks to the weaker zloty and higher commodities prices. The negative PPI readings ended after one month only, as we expected. In the upcoming months, we expect PPI to rise to 2.0% y/y.



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